GREAT LAKE TAUPŌ
Taupō District Council

ATTACHMENTS

UNDER SEPARATE COVER

Ordinary Council Meeting

24 September 2019

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TAUPO AIRPORT AUTHORITY
LAKE TAUPO · NEW ZEALAND

Annual Report 2019

DIRECTORY

Governing Body	**Taupō Airport Authority Committee** Mayor David Trewavas Councillor Rosanne Jollands (Council Representative) Councillor Christine Rankin (Council Representative) Chris Johnston (Business Representative) John Funnell (Taupō Airport User Group Representative)
Airport General Manager	Kim Gard (acting)
Bankers	Bank of New Zealand, Taupō – transactional banking
Auditors	Audit New Zealand on behalf of The Controller & Auditor General
Solicitors / Legal Advisors	Le Pine & Co, Taupō
Insurance Brokers	Aon New Zealand Limited
Joint Venture Partners	Taupō District Council 50% The Crown (Ministry of Transport) 50%
Address	Anzac Memorial Drive, TAUPŌ RD 2, TAUPŌ
Telephone	Airport Manager [07] 378-7771 Facsimile [07] 377-7776 email airport@Taupōairport.co.nz website www.Taupōairport.co.nz

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STATEMENT OF PERFORMANCE: PERFORMANCE TARGETS AND RESULTS ACHIEVED TO DATE

Non-financial performance:

Taupō Airport		
Objective: To operate a successful commercially viable business providing land and infrastructure for the safe, appropriate and efficient air transport needs of the Taupō district.		
Performance targets	**Results**	**Achievement**
To maintain facilities so as to avoid any diversion or cancellation of scheduled flights other than for weather or airline problems.	Achieved	No diversions or cancellations due to facility maintenance (2018: Achieved)
The airport will be operated in such a way as to continue to hold CAA Part 139 certification.	Achieved	The Airport is CAA Part 139 certified (2018: Achieved)
The airport will manage health and safety risks and provide a safe and healthy environment for everyone affected by the activities of TAA including employees, customers, tenants, contractors and visitors.	Achieved	Rule Part 139 Compliant Rule Part 100 Compliant This is a new measure in 2018/19. TAA worked towards certification during the year and this certification was gained on 25 June 2019.
The TAA will be self-funding in terms of its own cash flow.	Not Achieved	Operating cash flow for the year is -$67k (June 2018: $73k)

Financial performance:

Consolidated shareholder funds to total assets 90.49% (June 2018: 90.01%) against a projected 88.0%.

SUMMARY OF AIRCRAFT MOVEMENTS

For the year ended 30 June 2019

	Year to 30 June 2019	*Year to 30 June 2018*	*Year to 30 June 2017*	*Year to 30 June 2016*	*Year to 30 June 2015*
Scheduled airlines	3,012	2,992	2,914	3,334	3,462
Private operation	11,860	11,024	10,114	10,317	9,750
Parachuting	7,648	6,272	7,016	8,636	8,124
Charters	62	80	70	90	73
Military operations	52	24	30	16	66
Helicopters	5,626	5,316	5,100	4,948	4,550
	28,260	25,708	25,244	27,341	26,025

CHAIRMAN'S REPORT -TAUPŌ AIRPORT AUTHORITY

Taupo Airport Authority operates a small, regional airport, in the centre of the North Island. Taupo Airport is the second-busiest non-towered airport in New Zealand. As the Taupo district has a strong tourism element to its economy, it is imperative that the airport continues to provide the infrastructure that allows for the many tourist related aircraft operations that occur each year.

In May 2019, after 12 years of service to the Taupo airport it was with much regret we accepted the resignation of Mike Groome from his position of General Manager of Taupo Airport. In this time Mike has led Taupo Airport to be a recognised aerodrome in terms of its safety systems and processes, along with its financial stability. Kim Gard, the operations manager, has been appointed temporary general manager and is supported by Steve Petersen who is contracted to the TAA as safety manager.

The last few years saw the CAA direct all certified aviation organisations to comply with the CAA rule 100, by 2021. This Part applies to an organisation that is required by the Civil Aviation Rules to establish, implement, and maintain a system for safety management. This work was completed well before the deadline and Taupo Airport was issued with our SMS certification on the 25 June 2019. We were the first tier 3 airport and 4th overall in New Zealand to complete this work.

We were also required to complete the CAA rule 139 recertification (the airport operating certificate) which was again signed off on this date.

As discussed last year, the passenger services to Taupo continue to have growth which has put some constraints on the current terminal and car parking infrastructure. These constraints resulted in communication with our joint venture partner, the MOT, and we engaged AirBiz to work through various models to replace the, not fit for purpose, terminal and carpark with a future proofed version. Taupo District Council allocated funds in the LTP for a portion of this work with the remainder in a current application to the Provincial Growth Fund.

Whilst passenger numbers continue to grow, the GA traffic has remained static this year. Some of the factors affecting this area were weather related along with the slowing of the backpacking sector of NZ tourism that has resulted in the sky diving industry at the Taupo airport being flat.

The revenue has been on budget, however the expenditure, due to the engagement of AirBiz as a consultant, has resulted in a variance from the published SOI. The spending of this money had been signed off by our joint venture partner and came from the TAA's cash reserves.

The TAA board wish to acknowledge the staff at the airport along with the ongoing support from the Taupo District Council. This has resulted in Taupo airport achieving its vision of being a self-sustaining, vibrant asset to our district.

Chris Johnston

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Taupō Airport Authority's financial statements and performance information for the year ended 30 June 2019

The Auditor-General is the auditor of Taupō Airport Authority (the Authority). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the Authority on his behalf.

Opinion

We have audited:

- the financial statements of the Authority on pages 9 to 29, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Authority on page 3.

In our opinion:

- the financial statements of the Authority on pages 9 to 29:
    - present fairly, in all material respects:
        - its financial position as at 30 June 2019; and
        - its financial performance and cash flows for the year then ended; and
    - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards Reduced Disclosure Regime; and
- the performance information of the Authority presents fairly, in all material respects, the Authority's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Authority's objectives, for the year ended 30 June 2019.

Our audit was completed on 16 September 2019. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Responsibilities of the Committee for the financial statements and the performance information

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

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

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

The Committee's responsibilities arise from the Local Government Act 2002.

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of the internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Committee.

- We evaluate the appropriateness of the reported performance information within the company's framework for reporting performance.

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

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Committee is responsible for the other information. The other information comprises the information included on pages 1 to 2, the summary of aircraft movements on page 3, and page 4, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand

Statement of Comprehensive Revenue and Expense
For the year ended 30 June 2019

	Note	Actual 2019 $	Airport SOI 2019 $	Actual 2018 $
Revenue				
Revenue from services provided	4	**520,487**	**521,331**	513,937
Finance revenue	5	**248**	**400**	289
Total revenue		**520,735**	**521,731**	514,226
Expenditure				
Employee benefit expenses	6	**173,596**	**174,752**	171,596
Depreciation and amortisation expense	11,12	**270,882**	**212,000**	248,404
Other expenses	6	**383,167**	**280,758**	290,907
Total operating expenditure		**827,645**	**667,510**	710,907
Surplus/(deficit) before tax		**(306,910)**	**(145,779)**	(196,681)
Income tax (expense)/credit	7	**85,662**	**-**	57,076
Surplus/(deficit) after tax		**(221,248)**	**(145,779)**	(139,605)
Other comprehensive revenue				
Property, plant & equipment revaluations	8	**(125,076)**	**-**	-
Deferred tax on revaluation		**(15,155)**	**-**	-
Total other comprehensive income		**(140,231)**	**-**	-
Total comprehensive income		**(361,479)**	**(145,779)**	(139,605)
Net surplus/(deficit) after taxation is attributable to:				
TDC and The Crown		**(221,248)**	**(145,779)**	(139,605)
Total comprehensive revenue and expenses attributable to:				
TDC and The Crown		**(361,479)**	**(145,779)**	(139,605)
		(361,479)	**(145,779)**	(139,605)

Explanations of major variances against budget are provided in note 15.

Statement of Changes in Net Assets/Equity
For the year ended 30 June 2019

	Note	Actual 2019 $	Airport SOI 2019 $	Actual 2018 $
Equity at start of the year	8	**10,561,387**	**-**	10,700,992
Total comprehensive revenue and expenses previously reported		**(361,479)**	**-**	(139,605)
Equity injections by Crown		**-**	**-**	-
Equity injections by Taupo District Council		**-**	**-**	-
Equity as at 30 June 2019	8	**10,199,914**	**-**	10,561,387
Total recognised revenue and expenses are attributable to:				
Taupo District Council		**(180,740)**	**(33,000)**	(69,802)
The Crown		**(180,739)**	**(33,000)**	(69,803)
Total comprehensive revenue and expenses		**(361,479)**	**(66,000)**	(139,605)

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

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Statement of Financial Position

As at 30 June 2019

	Note	Actual 2019 $	Airport SOI 2019 $	Actual 2018 $
ASSETS				
Current assets				
Cash and cash equivalents	9	**190,364**	-	266,432
Trade and other receivables	10	**66,867**	-	64,441
Prepayments		**4,164**	-	4,974
Total current assets		**261,395**	-	335,847
Non-current assets				
Intangible assets	12	**1,906**	-	2,946
Property, plant and equipment	11	**11,008,712**	-	11,394,500
Total non-current assets		**11,010,618**	-	11,397,446
Total assets		**11,272,013**	-	11,733,293
LIABILITIES				
Current liabilities				
Trade and other payables	13	**101,790**	-	104,484
Employee benefit liabilities	14	**14,974**	-	41,857
Total current liabilities		**116,764**	-	146,341
Non-current liabilities				
Employee benefits liabilities	14	**1,761**	-	1,484
Deferred tax liabilities	7	**953,574**	-	1,024,081
Total non-current liabilities		**955,335**	-	1,025,565
Total liabilities		**1,072,099**	-	1,171,906
Net assets (assets minus liabilities)		**10,199,914**	-	10,561,387
EQUITY				
Equity interest of joint venture partners	8	**4,071,585**	-	4,071,585
Appropriation accounts	8	**1,836,391**	-	2,057,635
			-	
Asset revaluation reserves	8	**4,291,938**	-	4,432,167
Total equity		**10,199,914**	-	10,561,387

Explanations of major variances against budget are provided in note 15.

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

The financial statements of the Taupo Airport Authority are for the year ended 30 June 2019. The financial statements were authorised for issue by the Airport Committee on 16th September 2019.

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Statement of cashflows
For the year ended 30 June 2019

	Note	Actual 2019 $	Airport SOI 2019 $	Actual 2018 $
Cash flows from operating activities				
Receipts from customers		**524,856**	-	503,203
Finance revenue		**248**	-	289
Payments to suppliers		**(391,503)**	-	(276,928)
Payments to employees		**(200,202)**	-	(166,634)
Net GST paid		**(322)**	-	12,721
Net cash flow from operating activities		**(66,923)**	-	72,651
Cash flows from investing activities				
Purchase of property, plant and equipment		**(9,142)**	-	(255,700)
Net cash flow from investing activities		**(9,142)**	-	(255,700)
Net increase (decrease) in cash and cash equivalents held		**(76,065)**	-	(183,049)
Add cash and cash equivalents at the beginning of the year		**266,429**	-	449,478
Cash, cash equivalents, and bank overdrafts at the end of the year	9	**190,364**	-	266,429

Summary of significant accounting policies and the accompanying notes from part of these financial statements.

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1 Statement of accounting policies for the year ended 30 June 2019

1.1 Reporting entity

The Taupo Airport Authority is a joint venture between Taupo District Council and the Crown with both parties having a 50% interest. Taupo District Council has responsibility for the management of the Airport. Governance is provided by a Committee of Council

The primary objective of the Airport is to operate a successful commercially viable business providing land and infrastructure for the safe, appropriate, and efficient air transport needs of the Taupo district, rather than making a financial return. Accordingly, the Airport has designated itself a public benefit entity for the for the purposes of New Zealand equivalents to International Public Sector Accounting Standards (PBE IPSAS).

The financial statements of Taupo Airport Authority are for the year ended 30 June 2019. The financial statements were authorised for issue by the Airport Committee on 16th September 2019.

2 Summary of significant accounting policies

2.1 Statement of Compliance and Basis of Preparation

The financial statements have been prepared on the going concern basis and in accordance with the Civil Aviation Act 1990, the Airport Authorities Act 1966, and the Local Government Act 2002, which includes the requirement to comply with generally accepted accounting practice (GAAP) in New Zealand. The financial statements have been prepared in accordance with Tier 2 RDR standards as total expenses are less than $2m. These financial statements comply with Public Sector Public Benefit Entity (PS PBE) standards.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements are prepared using the historical cost basis except for certain classes of assets and liabilities which are recorded at fair value. These are detailed in the specific policies below.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the Airport is New Zealand dollars.

Changes in accounting policies

There are no changes in accounting policies.

2.2 GST

The financial statements have been prepared exclusive of GST with the exception of receivables and payables that have been shown inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

Commitments and contingencies are disclosed exclusive of GST.

2.3 Revenue

Revenue is measured at the fair value of consideration received or receivable.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Revenue from any services rendered (except as described above) is recognised in proportion to the stage of completion of the transaction at the balance date. The stage of completion is assessed by reference to surveys of work performed.

Landing revenue is recognised on a straight-line basis over the term of the payments.

Rental revenue from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental revenue.

Interest revenue is recognised as it accrues, using the effective interest method.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue is measured at fair value of consideration received.

2 Summary of significant accounting policies

The main sources of revenue for the Airport are airfield landing charges and lease revenue from leasehold sites at the airport. Revenue is recognised in the period to which it relates. Payment is by cash, cheque, credit card, EFTPOS, automatic payment or direct debit.

2.4 Leases

(i) Finance leases

Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. At inception, finance leases are recognised as assets and liabilities on the Statement of Financial Position at the lower of the fair value of the leased property and the present value of the minimum lease payments. Any additional direct costs of the lease are added to the amount recognised as an asset. Subsequently, assets leased under a finance lease are depreciated as if the assets are owned.

(ii) Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Payments made under operating leases are recognised in the surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Revenue and Expense as an integral part of the total lease expense.

(iii) Finance leases

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term, so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iv) Financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, foreign exchange losses, and losses on hedging instruments that are recognised in the Statement of Comprehensive Revenue and Expense using the effective interest rate method.

2.5 Equity

- Accumulated funds
- Revaluation Reserves

Equity is the community's interest in the Airport and is measured as the difference between total assets and total liabilities.

2.6 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short term highly liquid investments with maturities of three months or less.

2.7 Financial assets

Taupo Airport classifies its investments as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the Statement of Comprehensive Revenue and Expense.

2.8 Trade and other receivables

Trade and other receivables are recognised at their cost less impairment losses

A provision for impairment of receivables is established when there is objective evidence that the Airport will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of the estimated recovery of the debt.

2 Summary of significant accounting policies

2.9 Property, plant and equipment

Property, plant, and equipment consist of operational assets, which include office equipment, furniture and fittings, computer equipment, and a vehicle.

These assets are shown at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The cost of an item of property, plant, and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Airport and the cost of the item can be reliably measured.

Valuation methodologies
Those asset classes that are revalued, are revalued on a three yearly valuation cycle. All other asset classes are carried at depreciated historical cost. The carrying values of all assets not revalued in any year are reviewed at each balance date to ensure that those values are not materially different to fair value.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amounts arising on revaluation of an asset class are credited to revaluation reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in the surplus or deficit, the increase is first recognised in the surplus or deficit. Decreases that reverse previous increases of the same asset class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the surplus or deficit.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Airport and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the surplus or deficit during the financial period in which they are incurred.

Additions
Additions between valuations are shown at cost.

The cost of an item of property, plant, and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Airport and the cost of the item can be measured reliably.

Disposals
Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in other reserves in respect of those assets are transferred to retianed earnings.

When the use of a property changes from owner-occupied to investment property, the property is reclassified to investment property at its fair value at the date of the transfer.

Subsequent measurement
Property, plant, and equipment, and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

2 Summary of significant accounting policies

Depreciation

Land is not depreciated. Depreciation has been provided on a straight-line basis on all property, plant, and equipment, except for motor vehicles which is provided on a diminishing value basis. Depreciation is provided at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Class of PP&E	Estimated useful life	Depreciation rates
Buildings	5 - 57 Years	1.75% - 20%
Furniture and Fittings	4 - 10 Years	10% - 25.2%
Office Equipment and Plant and Equipment	4 - 50 Years	2% - 25%
Motor vehicles	5 Years	20%
Infrastructural assets		
Runway & Roading network		
Formation	Indefinite	
Pavement	60 Years	
Top surface (seal)	15 Years	
Stormwater	50 - 80 Years	
Footpaths	80 Years	
Kerbs	50 Years	
Fencing	10 Years	
Streetlights	15 Years	

The depreciation rates are applied at a component level and are dependent on the expected remaining useful life of each component.

Details of valuations by asset class

Valuation of land and buildings

Airport land was initially valued at fair value by independent valuer Quotable Value New Zealand as at 1 July 2005, which was considered deemed cost. The land and buildings were revalued to fair value on the same basis by independent valuer, Quotable Value New Zealand at 30 June 2019. Land is not depreciated.

Valuation of infrastructural assets

Infrastructure assets are the utility systems that provide a continuing service to the Airport and are not generally regarded as tradeable. They include the runways, roads, and stormwater systems together with other improvements of an infrastructural nature. These assets were valued at fair value by Beca Projects NZ Limited at 30 June 2017.

Assets under construction/work in progress.

Assets under construction are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated. Assets under construction are recognised at cost less impairment, The current carrying amount of items under construction is separately disclosed.

All the Airport's assets are classed as non-generating, that is they are not held with the primary objective of generating a commercial return.

2.10 Intangible assets

Website

The website has been capitalised on the basis of costs incurred to acquire and bring to use the website. This has been valued at cost, and will be amortised on a straight line basis over the expected useful life of the website.

Class of intangible asset	Estimated useful life	Amortisation rates
Website	4 years	25%

2 Summary of significant accounting policies

Costs associated with maintaining computer software are recognised as an expense when incurred.

2.11 Investment property

Properties leased to third parties under operating leases and properties held for capital appreciation are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, Taupo Airport Authority measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the statement of comprehensive revenue and expense.

All investment properties have been disposed.

2.12 Financial Liabilities

Short term creditors and other payables are recorded at their face value.

2.13 Employee entitlements

Short-term employee entitlements

Provision is made in respect of the Airport's liability for salaries and wages accrued up to balance date, annual leave, long service leave, and lieu leave.

Long service leave, where there is already actual entitlement, is accrued at actual entitlement using current rates of pay. In addition, there is an actuarial assessment of value for which entitlement has not yet been reached. This assessment uses current rates of pay taking into account years of service, years to entitlement and the likelihood staff will reach the point of entitlement. These estimated amounts are discounted to their present value.

Liabilities for annual leave and lieu day leave are accrued on an actual entitlement basis, using current rates of pay.

Long-term employee entitlements

Employee benefits that are due to be settled beyond 12 months after the end of the period in which the employee renders the related service, such as long service leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement, and contractual entitlement information; and
- the present value of the estimated future cash flows.

Superannuation schemes

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficit when incurred.

2.14 Income tax

Income tax on the surplus or deficit for the year comprises current and deferred tax.

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable surpluses will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

2 Summary of significant accounting policies

Current tax and deferred tax is charged or credited to the statement of comprehensive revenue and expense, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

2.15 Budget figures

The budget figures are those approved by the Committee in the Statement of Intent and in complying with sections 64, 66, and 67 of the Local Government Act 2002.

2.16 Going Concern

The Taupo Airport Authority consider that the continued adoption of the going concern assumption for the preparation of this financial report is appropriate. This conclusion has been reached having regard to assurances from the Taupo District Council that financial support and / or funding will be made available to ensure that the Airport can continue its current operations.

3 Critical accounting estimates and judgements

In preparing the financial statements the Airport made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4 Revenue from services provided

	Airport Actual 2019 $	Actual 2018 $
Landing fees	**189,878**	181,313
Terminal passenger fees	**97,178**	97,409
Lease revenue	**194,785**	192,169
Other services	**38,641**	42,916
Other revenue	**5**	130
Total revenue from services provided	**520,487**	513,937

5 Finance revenue

	Airport Actual 2019 $	Actual 2018 $
Interest revenue	**248**	289
Total finance revenue	**248**	289

6 Operating expenditure

Employee benefit expenses		
Salaries and wages	**194,323**	161,782
Increase/(decrease) in employee entitlements/liabilities	**(26,606)**	4,961
Defined contribution plan employer contributions	**5,879**	4,853
Total employee benefit expenses	**173,596**	171,596
Depreciation by asset class:		
Total depreciation	**269,842**	247,364
Total amortisation	**1,040**	1,040
Total depreciation and amortisation	**270,882**	248,404
Other expenses		
Audit fees for financial statements audit	**12,845**	12,672
Maintenance	**29,644**	24,288
Ground maintenance	**17,202**	41,324
Runway & pavement maintenance	**12,388**	5,839
Terminal maintenance	**3,898**	8,228
Airfield contractors	**41,290**	15,246
Electricity and gas	**12,793**	13,986
Materials and supplies	**4,970**	8,039
Professional services fees/legal fees	**132,613**	51,102
Accountancy & business services TDC	**12,500**	12,500
Vehicle running costs	**2,202**	1,429
Insurance	**8,296**	7,649
Committee expenses	**-**	531
Cleaning	**18,545**	17,704
Equipment hire	**19,041**	20,315
Provision for Bad Debts	**-**	3,506
Other grants	**500**	-
Loss on disposal of property, plant & equipment	**16**	4
Other expenses	**54,424**	46,545
Total other expenses	**383,167**	290,907

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7 Income tax

	Airport Actual 2019 $	Actual 2018 $
Components of tax expense		
Current tax	-	-
Deferred tax	**(85,662)**	(57,076)
Tax expense	**(85,662)**	(57,076)
Relationship between tax expense and accounting profit:		
Net surplus/(deficit)	**(306,910)**	(196,681)
Net Surplus/(deficit)	**(306,910)**	(196,681)
Tax calculated at 28%	**(85,935)**	(55,071)
Plus (Less) tax effect of:		
Deferred tax adjustment	**273**	(2,005)
Tax expense	**(85,662)**	(57,076)

Deferred tax asset (liability)

	Property, plant and equipment $	Non-deductible provisions $	Tax losses $	Total $
Balance at 1 July 2017	(1,551,708)	10,746	459,804	(1,081,158)
Charged to surplus or deficit	37,914	1,389	17,773	57,076
Balance at 30 June 2018	(1,513,794)	12,135	477,577	(1,024,082)
Balance at 1 July 2018	(1,513,794)	12,135	477,577	(1,024,082)
Charged to surplus or deficit	42,810	(7,755)	50,608	85,663
Charged to other comprehensive income	(15,155)	-	-	(15,155)
Charged directly to equity	-	-	-	-
Balance at 30 June 2019	(1,486,139)	4,380	528,185	(953,574)

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8 Net assets/equity

	Airport Actual 2019 $	Actual 2018 $
(a) Equity Interest of Joint Venture Partners		
(i) Taupo District Council		
Opening balance	2,003,902	2,003,902
Closing balance	2,003,902	2,003,902
(ii) The Crown		
Opening balance	2,067,683	2,067,683
Closing balance	2,067,683	2,067,683
Total closing balance of equity accounts	4,071,585	4,071,585
(b) Appropriation Accounts		
(i) Taupo District Council		
Opening balance	2,353,450	2,423,248
Share of net surplus (deficit)	(110,624)	(69,802)
Closing balance	2,242,826	2,353,446
(ii) The Crown		
Opening balance	(295,811)	(226,008)
Share of net surplus (deficit)	(110,624)	(69,803)
Closing balance	(406,435)	(295,811)
Total closing balance of appropriation accounts	1,836,391	2,057,635
(c) Asset Revaluation Reserve		
The breakdown of asset revaluation reserves are disclosed as follows:		
Property, plant and equipment revaluation reserve		
Balance at 1 July	4,432,167	4,432,167
Revaluation gains/(losses)	(125,076)	-
Deferred tax on revaluation	(15,155)	-
Transfer to accumulated funds	-	-
Less minority interest share in change in asset value	-	-
Balance at 30 June	4,291,936	4,432,167
Operational assets:		
Land	1,165,800	1,345,000
Buildings	228,723	189,754
Fencing	59,664	59,664
Land improvements	130,967	130,967
Infrastructure assets		
Roading & streetlighting	370,095	370,095
Stormwater	192,645	192,645
Runways	2,144,042	2,144,042
Total asset revaluation reserves	4,291,936	4,432,167

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9 Cash and cash equivalents

	Airport Actual 2019 $	Airport Actual 2018 $
Cash at bank and in hand	**10,698**	3,624
Call deposits	**179,666**	262,808
Total cash and cash equivalents used in statement of cashflows	**190,364**	266,432

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value.

10 Trade and other receivables

	Airport Actual 2019 $	Airport Actual 2018 $
Trade receivables	**65,377**	66,787
Provision for doubtful receivables	**-**	(3,506)
Net trade receivables	**65,377**	63,281
Other	**1,490**	1,160
Total current net trade and other receivables	**66,867**	64,441
Receivables from exchange transactions	**66,867**	67,947
Receivables from non-exchange transactions	**-**	(3,506)
Total current net trade and other receivables	**66,867**	64,441

Debtors and other receivables are non-interest bearing and receipt is normally on 30 day terms, therefore the carrying value of debtors and other receivables approximates their fair value.

Bad and doubtful trade receivables
The Airport has recognised a loss of $0 (2018: $3,506) in respect of bad and doubtful trade receivables during the year ended 30 June 2019. The loss has been included in 'other expenses' in the surplus and deficit component of the statements of comprehensive income.

The status of receivables as at 30 June 2019 are detailed below:

	Airport Actual 2019 $	Airport Actual 2018 $
Current	**53,484**	57,294
Past due 1-30 days	**9,518**	3,120
Past due 31-60 days	**236**	4,033
Past due 61+ days	**2,139**	2,340
Total trade receivables	**65,377**	66,787

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11 Property, plant and equipment

June 2019	Cost / revaluation 1 Jul 2018 $	Accumulated depreciation 1 Jul 2018 $	Carrying amount 1 Jul 2018 $	Current year additions (+ gains) $	Current year disposals (+ losses) $	Current year impairment charges $	Current year depreciation $	Transfers $	Revaluation surplus $	Cost / revaluation 30 June 2019 $	Accumulated depreciation 30 Jun 2019 $	Carrying amount 30 June 2019 $
Operating assets At cost & valuation												
Buildings	655,692	(53,375)	602,317	-	-	-	(42,141)	-	54,124	614,300	-	614,300
Office furniture and fittings	116,143	(47,902)	68,241	9,142	(16)	-	(18,860)	-	-	124,592	(66,085)	58,507
Plant and equipment	7,665	(2,174)	5,491	-	-	-	(652)	-	-	7,665	(2,826)	4,839
Motor Vehicles	36,043	(26,859)	9,184	-	-	-	(1,837)	-	-	36,043	(28,696)	7,347
Street Lighting	-	-	-	-	-	-	-	-	-	-	-	-
Fencing	-	-	-	-	-	-	-	-	-	-	-	-
Total operating assets	**815,543**	**(130,310)**	**685,233**	**9,142**	**(16)**	**-**	**(63,490)**	**-**	**54,124**	**782,600**	**(97,607)**	**684,993**
Infrastructural assets At cost & valuation												
Roading	1,424,200	(14,808)	1,409,392	-	-	-	(14,808)	-	-	1,424,200	(29,616)	1,394,584
Stormwater	375,200	(14,990)	360,210	-	-	-	(14,989)	-	-	375,200	(29,979)	345,221
Runways	4,899,194	(174,729)	4,724,465	-	-	-	(176,551)	-	-	4,899,194	(351,280)	4,547,914
Capital work in progress - Taupo Airport runways	-	-	-	-	-	-	-	-	-	-	-	-
Total infrastructural assets	**6,698,594**	**(204,527)**	**6,494,067**	**-**	**-**	**-**	**(206,348)**	**-**	**-**	**6,698,594**	**(410,875)**	**6,287,719**
Restricted assets At cost & valuation												
Land	-	-	-	-	-	-	-	-	-	-	-	-
Land Improvements	4,215,200	-	4,215,200	-	-	-	-	-	(179,200)	4,036,000	-	4,036,000
Total restricted assets	**4,215,200**	**-**	**4,215,200**	**-**	**-**	**-**	**-**	**-**	**(179,200)**	**4,036,000**	**-**	**4,036,000**
Total	**11,729,337**	**(334,837)**	**11,394,500**	**9,142**	**(16)**	**-**	**(269,838)**	**-**	**(125,076)**	**11,517,194**	**(508,482)**	**11,008,712**

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June 2018	Cost / revaluation 1 Jul 2017 $	Accumulated depreciation 1 Jul 2017 $	Carrying amount 1 Jul 2017 $	Current year additions (+ gains) $	Current year disposals (+ losses) $	Current year depreciation $	Transfers $	Revaluation surplus $	Accumulated depreciation 30 Jun 2018 $	Carrying amount 30 Jun 2018 $
Operating assets At cost & valuation										
Buildings	536,771	(21,649)	515,122	101,193	-	(22,968)	8,970	-	(53,375)	602,317
Office furniture and fittings	91,034	(75,986)	15,048	11,943	-	(16,929)	58,179	-	(47,902)	68,241
Plant and equipment	153,934	(137,843)	16,091	-	-	(651)	(9,949)	-	(2,174)	5,491
Motor Vehicles	23,043	(11,563)	11,480	-	-	(2,296)	-	-	(26,859)	9,184
Capital work in progress - buildings	17,305	-	17,305	-	(17,305)	-	-	-	-	-
Land Improvements	-	-	-	-	-	-	-	-	-	-
Street Lighting	22,200	-	22,200	-	-	-	(22,200)	-	-	-
Fencing	42,800	-	42,800	-	-	-	(42,800)	-	-	-
Total operating assets	**887,087**	**(247,041)**	**640,046**	**113,136**	**(17,305)**	**(42,844)**	**(7,800)**	**-**	**(130,310)**	**685,233**
Infrastructural assets At cost & valuation										
Roading	1,424,200	-	1,424,200	-	-	(14,808)	-	-	(14,808)	1,409,392
Stormwater	375,200	-	375,200	-	-	(14,990)	-	-	(14,990)	360,210
Runways	4,873,700	-	4,873,700	25,494	-	(174,729)	-	-	(174,729)	4,724,465
Total infrastructural assets	**6,673,100**	**-**	**6,673,100**	**25,494**	**-**	**(204,527)**	**-**	**-**	**(204,527)**	**6,494,067**
Restricted assets At cost & valuation										
Land	3,945,000	-	3,945,000	-	-	-	(3,945,000)	-	-	-
Land Improvements	262,400	-	262,400	-	-	-	3,952,800	-	-	4,215,200
Total restricted assets	**4,207,400**	**-**	**4,207,400**	**-**	**-**	**-**	**7,800**	**-**	**-**	**4,215,200**
Total	**11,767,587**	**(247,041)**	**11,520,546**	**138,630**	**(17,305)**	**(247,371)**	**-**	**-**	**(334,837)**	**11,394,500**

Land (operational, restricted, and infrastructural)

Land is valued at fair value using market-based evidence based on its highest and best use with reference to comparable land values. Adjustments have been made to the "unencumbered" land value where there is a designation against the land or the use of the land is restricted because of reserve or endowment status. These adjustments are intended to reflect the negative effect on the value of the land where an owner is unable to use the land more intensely.

Buildings (operational and restricted)

Specialised buildings are valued at fair value using depreciated replacement cost because no reliable market data is available for such buildings. The Airport has no such buildings

Depreciated replacement cost is determined using a number of significant assumptions. Significant assumptions include:

- The replacement asset is based on the replacement with modern equivalent assets with adjustments where appropriate for obsolescence due to over-design or surplus capacity.
- The replacement cost is derived from recent construction contracts of similar assets and Property Institute of New Zealand cost information.
- The remaining useful life of assets is estimated.
- Straight-line depreciation has been applied in determining the depreciated replacement cost value of the asset.

Non-specialised buildings (for example, residential buildings) are valued at fair value using market-based evidence. Market rents and capitalisation rates were applied to reflect market value.

In November 2018 an earthquake risk assessment was undertaken on the Airport terminal by DBCON Consulting Engineers and the building was assessed as 35% to New Building Standard, Importance Level 3. Based on this assessment no adjustments have been made for any estimated building strengthening costs or associated lost rental due to building strengthening work.

Infrastructural asset classes: roading, stormwater and runways

Roading, stormwater and runway infrastructural assets are valued using the depreciated replacement cost method. There are a number of estimates and assumptions exercised when valuing infrastructural assets using the depreciated replacement cost method. These include:

- Estimating any obsolescence or surplus capacity of the asset.
- Estimating the replacement cost of the asset. The replacement cost is derived from recent construction contracts in the region for similar assets.
- Estimates of the remaining useful life over which the asset will be depreciated. These estimates can be affected by the local conditions. For example, weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then the Airport could be over-or under-estimating the annual deprecation charge recognised as an expense in the statement of comprehensive revenue and expense. To minimise this risk, infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience.

The most recent valuation of infrastructural assets was performed by V Gandhi of Beca Group, and the valuation is effective as at 30 June 2017.

Impairment
No impairment losses have been recognised for plant and equipment during the year.

Leasing

The Airport has no plant and equipment held under finance leases (2018 $0).

Restrictions

The Airport has land in the "restricted Asset" category. Land in the 'Restricted Asset" category are subject to either restrictions on use, or disposal, or both. This includes restrictions from legislation (such as land declared as a reserves under the Reserves Act 1977), or other restrictions (such as land under a bequest or donation that restricts the purpose for which the assets can be used).

There are no buildings in this category.

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12 Intangible assets

Movements in the carrying value for each class of intangible asset are as follows:

	Computer software $
At 1 July 2017	
Cost	4,160
Accumulated amortisation and impairment	(174)
Net book amount	3,986
Year ended 30 June 2018	
Opening net book amount	3,986
Additions	-
Disposals	-
Amortisation charge **	(1,040)
Closing net book amount	2,946
As at 30 June 2018 / 1 July 2018	
Cost	10,681
Accumulated amortisation and impairment	(7,735)
Net book amount	2,946
	$
Year ended 30 June 2019	
Opening net book amount	2,946
Additions	-
Disposals	-
Amortisation charge	(1,040)
Closing net book amount	1,906
As at 30 June 2019	
Cost	10,681
Accumulated amortisation and impairment	(8,775)
Net book amount	1,906

There are no restrictions over the title of intangible assets. No intangible assets are pledged as security for liabilities.

Impairment
No impairment losses have been recognised for any intangible asset.

13 Trade and other payables

	Airport	
	Actual 2019 $	Actual 2018 $
Trade payables	**23,558**	40,622
Accrued expenses	**24,853**	17,271
Revenue in advance	**53,379**	46,591
Other payables	**-**	-
Total creditors and other payables	**101,790**	104,484
Total creditors and other payables from exchange transactions	**40,993**	50,423
Total creditors and other payables from non-exchange transactions	**60,797**	54,061

13 Trade and other payables

Total current creditors and other payables from exchange and non-exchange transactions	**101,790**	104,484

Trade payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade payables approximates their fair value.

14 Employee benefit liabilities

	Airport	
	Actual 2019 $	Actual 2018 $
Current portion		
Annual leave	**14,974**	41,857
Total current portion	**14,974**	41,857
Non-current portion		
Long service leave	**1,761**	1,484
Total non-current portion	**1,761**	1,484
Total employee entitlements	**16,735**	43,341

The present value of long service leave obligations depend on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and the salary inflation figure. Any changes in these assumptions will affect the carrying amount of the liability.

A discount factor of 1.23% (2018 1.78%) and an inflation factor of 2% (2018 2%) were used.

15 Explanation of major variances against budget

	Airport	
	Actual 2019 $	SOI 2019 $
Total revenue	**520,735**	521,731
Total expenditure	**(827,645)**	(667,510)
	(306,910)	(145,779)

Explanations for major variations from the Statement of Intent

	Actual 2019 $	SOI 2018 $
Main variances in expense against budget	-	-
Consultants and professional fees	134,338	15,504
Consultants for the terminal upgrade not forecast	-	-
Subscriptions	-	-
Subscription increase for Risk Management System not forecast	-	-
Ground Maintenance - Streetlights	11,506	1,021
Streetlight electricity switch to Airport from Airways	-	-
Depreciation	270,882	212,000
Other expenses	410,919	438,985
	827,645	**667,510**

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16 Related party transactions

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the Airport would have adopted in dealing with the party at arm's length in the same circumstances.

Related party disclosures have also not been made for transactions with the Crown and with entities within the Taupo District Council Group (such as funding and financing flows), where the transactions are consistent with the normal operating relationships between the entities and are on normal terms and conditions for such Group transactions.

Key management personnel

	Airport	
	Actual 2019	Actual 2018
Committee members		
Full-time equivalent members (Committee Members)	5	6
Total full-time equivalent personnel	5	6

Due to the difficulty in determining the full-time equivalent for Committee Members, the fulltime equivalent figure is taken as the number of Committee Members.

17 Capital & operational commitments and operating leases

As at 30 June 2019 the Airport had no operational commitments or operating leases as lessee (2018: $0).

Operating leases as lessor
Airport land is leased under operating leases. The majority of these leases have non-cancellable terms. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	Airport	
	Actual 2019 $	Actual 2018 $
Not later than one year	**195,569**	199,004
Later than one year and not later than five years	**673,827**	706,846
Later than five years	**400,050**	562,600
Total non-cancellable operating leases	**1,269,446**	1,468,450

No contingent rents have been recognised in the statement of financial performance during the period.

18 Contingencies

As at 30 June 2019 the Airport had no contingent liabilities or assets (2018: $0).

Contingent assets
There are no contingent assets at 30 June 2019 (June 2018 $0).

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19 Financial instruments

Financial instrument categories

Assets	Held for trading $	Assets at fair value through surplus or deficit $	Loans and receivables $	Available for sale $	Total $
30 June 2019					
Cash and cash equivalent	-	-	190,364	-	190,364
Receivables and prepayments	-	-	66,867	-	66,867
Total assets	-	-	257,231	-	257,231
30 June 2018					
Cash and cash equivalent	-	-	266,432	-	266,432
Receivables and prepayments	-	-	64,441	-	64,441
Total assets	-	-	330,873	-	330,873

Liabilities	Held for trading $	Measured at amortised cost $	Total $
30 June 2019			
Payables and accruals	-	48,411	48,411
Total liabilities	-	48,411	48,411
30 June 2018			
Payables and accruals	-	58,014	58,014
Total liabilities	-	58,014	58,014

20 Events after balance date

There were no subsequent events after 30 June 2019.

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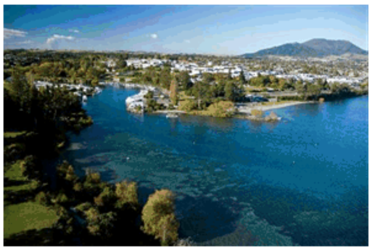

For the year ended 30 June 2019

BOPLASS Ltd

"COUNCILS PARTNERING FOR VALUE AND SERVICE"

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BOPLASS Ltd

PART ONE – OUR YEAR

BOPLASS Chair's Report

On behalf of our Directors I am pleased to present the BOPLASS 2019 Annual Report to our Shareholders. The company continues to contribute significant value to our councils with a number of new initiatives undertaken over the last year in both joint procurement and shared services.

Of particular note is the substantial savings achieved by councils this year through their participation in the collective aerial photography programme. A tender for aerial imagery and LiDAR (3D mapping data) awarded by BOPLASS resulted in savings to all councils through this combined approach but also provided an additional saving of almost $100,000 through utilising a new approach to the capture of the imagery.

As part of the aerial imagery programme, BOPLASS has successfully managed a coordinated regional approach to a Provincial Growth Fund application for co-funding of LiDAR capture for the entire Bay of Plenty region. This funding will provide significant savings for all councils as LiDAR capture had already been planned. The expansion of 3D mapping will also assist councils with supporting major development projects and improve land use management within the region.

Once again, BOPLASS has achieved a very good outcome in the placement of councils' infrastructure insurance into hardening international markets; with all insurance secured and at very competitive rates. While the insurers have been complementary about the risk modelling work undertaken by BOPLASS councils and the management of their assets, this year they indicated that improved valuation data and common standards of asset reporting and valuations methodology across councils would strengthen our position to maintain adequate cover. BOPLASS is now managing a valuations project to develop best practice standards across all BOPLASS councils.

The BOPLASS Advisory Groups have continued to collaboratively develop productive projects in their respective areas of business with BOPLASS now facilitating the following work groups:

- Solid waste
- GIS
- IT
- Health and Safety
- Radio Telephony
- Insurance
- Treasury
- Communications
- Audit and Risk
- Finance
- Procurement

BOPLASS is also working with a number of projects outside of their traditional back of office projects. Robotic Process Automation (RPA) workshops have been organised through BOPLASS to assist councils with developing automated processes for time-consuming repeatable work processes. As a result of these workshops a collective project has been undertaken for Accounts Payable automation.

Investigations into opportunities for improved coordination of councils' capex programmes have also been initiated. This is a significant project for councils and may result in a region-wide marketing approach to civil projects to make the opportunities more attractive to contractors and draw an improved level of tender responses across the region.

BOPLASS Chair's Report continued

During 2018/19 BOPLASS has worked closely with our neighbouring LASS and a number of shared initiatives are being undertaken that will benefit our councils through aggregating volumes across a larger group of councils. The Board are supportive of inter-regional cooperation and encourage sharing of knowledge and collaboration with projects that deliver benefits for all parties and reduce the potential for duplication of effort.

The redesigned MahiTahi Collaboration Portal has much improved navigation and usability and has received positive feedback from users with a number of new team sites being established. Membership has continued to grow and the Portal has driven increased levels of sharing and collaboration between New Zealand councils and the greater Local Government community.

This year we welcomed the Whakatane District Council Chief Executive, Stephanie O'Sullivan, to the Board as Director and Shareholder Representative. Stephanie joins the board as an experienced director and with a strong background in local government. We also welcomed our existing director Marty Grenfell into his new role as Director and Shareholder Representative for Tauranga City Council and farewelled Garry Poole as the Tauranga City Council representative. The Board wish to acknowledge Garry's valued contribution to the Board over the last five years.

BOPLASS continues to deliver considerable value to our shareholding councils for a modest investment. The company remains committed to the areas of collaboration identified in the Statement of Intent with a specific focus on delivering value and savings to our constituent councils through joint procurement initiatives.

The Board acknowledges the commitment of the staff and also thanks the various individuals within all of the councils who have supported and assisted with the variety of projects.

Craig O'Connell
Chair

Company Directory

Nature of Business	Shared Service Provider
Registered Office	91 Willow Street, Tauranga 3110
Telephone:	+64 7 577 7342
Email:	contact@boplass.govt.nz
Website:	https://www.boplass.govt.nz
Incorporation Number	2074873
Incorporation Date	14 January 2008
IRD Number	98-965-361
Directors	Aileen Lawrie Craig O'Connell Fiona McTavish Gareth Green Geoff Williams Martin Grenfell Miriam Taris Nedine Thatcher-Swann Russell George Stephanie O'Sullivan
Shareholders	Bay of Plenty Regional Council Gisborne District Council Kawerau District Council Opotiki District Council Rotorua Lakes Council Taupo District Council Tauranga City Council Western Bay of Plenty District Council Whakatane District Council
Auditor	Audit New Zealand
Bankers	ANZ Bank
Solicitors	Cooney Lees and Morgan

Statement of Intent and Performance

The company has complied with section 64 of the Local Government Act 2002 (LGA) and has had the Statement of Intent for 2019-2022 and associated budget formally adopted by the directors at the meeting held on 28 June 2019.

Performance Targets 2019-2022

To ensure the company continues to operate effectively in both governance and management terms over the next three years the targets are to:

Targets 2019-2022	How	Measure
Ensure supplier agreements are proactively managed to maximise benefits for BOPLASS councils.	Manage and/or renegotiate existing contracts.	Contracts are reviewed annually to test for market competitiveness. New suppliers are awarded contracts through a competitive procurement process involving two or more vendors where applicable.
Investigate new Joint Procurement initiatives for goods and services for BOPLASS councils.	Procure from sources offering best value, service, continuity of supply and/or continued opportunities for integration. (Current identified projects are listed in Appendix B.)	A minimum of four new procurement initiatives investigated. Initiatives provide financial savings of greater than 5% and/or improved service levels to the participating councils.
Provide support to BOPLASS councils that are managing or investigating Shared Services projects.	BOPLASS to provide 0.25 FTE resource and expertise to assist councils in Shared Services developments and projects.	Resource assignment measured from project job tracking.
Further develop and extend the Collaboration Portal for access to, and sharing of, project information and opportunities from other councils and the greater Local Government community to increase breadth of BOPLASS collaboration.	Increase usage of the Collaboration Portal by providing support and training material for new and existing users. Proactively market the benefits to councils.	Number of listed projects to increase by 20% per year. Number of active users to increase by 20% per year.
Communicate with each shareholding council at appropriate levels.	Meeting with each Executive Leadership Team.	At least one meeting per year.
Ensure current funding model is appropriate.	Review BOPLASS expenditure and income and review council contributions and other sources of funding.	Performance against budgets reviewed quarterly. Company remains financially viable.

Statement of Intent and Performance continued

The following is a report of performance against targets set in the Statement of Intent for 2018/21.

Target 2018/19	Result	Narration
Investigate new Joint Procurement initiatives for goods and services for BOPLASS councils. Procure from sources offering best value, service, continuity of supply and/or continued opportunities for integration. A minimum of four new procurement initiatives investigated. Initiatives provide financial savings of greater than 5% and/or improved service levels to the participating councils.	Achieved	The new procurement initiatives which have been investigated during the year are as follows: Infrastructure Insurance – BOPLASS represented a collective group of councils in negotiations for placement of councils' infrastructure insurance into the London markets. Although faced with a hardening insurance market BOPLASS councils were able to achieve particularly good outcomes as a result of our existing underwriter relationships and an established history within the London insurance markets. This was supported by accurate loss modelling information, asset valuations, and risk quantification data, all of which have become essential information in securing appropriate and competitively priced insurance. A new contract was established with a mix of Lloyds' syndicates. Eagle Training – Eagle Technology was engaged by BOPLASS to provide collaborative training on migrating ArcMap to ArcGIS Pro for BOPLASS councils GIS staff. This collective approach provided significant cost savings and improved inter-council information sharing. Aerial Imagery and LiDAR* 2018/19 – The tender for BOPLASS councils' specific areas and requirements within the BOPLASS regional flying calendar were awarded to AAM NZ Ltd. An additional financial saving of approximately $100,000 was achieved (beyond the benefits of a collective tender) through a unique flying and capture process being utilised. **LiDAR (Light Detection and Ranging) data, or height data, is precise laser measurements of the Earth's surface that is used for creating highly accurate 3D maps of the land. LiDAR is particularly useful for flood modelling purposes because it provides accurate terrain and surface models of the land. LiDAR allows us to better understand where water will flow, what protection may be needed and where the areas at greatest risk from flooding are.* Provincial Growth Fund Application for LiDAR Capture – BOPLASS successfully managed a coordinated regional approach to a Provincial Growth Fund application for co-funding for LiDAR capture for the entire Bay of Plenty region. Co-funding was made available to assist councils to invest in an expansion of 3D mapping to assist with supporting major development projects and improve land use management in our region. The successful application for co-funding will result in significant savings for BOPLASS councils' LiDAR and 3D mapping programmes.

Antenno – Is a local government communications app that allows councils to push notifications to their communities. It also provides facilities for people to lodge service requests with their council directly through the app. BOPLASS negotiated a discount rate with Datacom for all BOPLASS councils.

Lone Worker Field Solutions – The BOPLASS Health and Safety group have engaged with vendors to review communication and technology solutions to assist with protecting and connecting with lone or remote workers. Still under action.

Robotic Process Automation – RPA provides an opportunity for the automation of repeatable processes that can run without intervention. BOPLASS has facilitated workshops with vendors and also with Auckland Council as they have developed a mature process for developing solutions based upon various business units' requirements. This project is ongoing.

Accounts Payable Automation Software - BOPLASS led a project to identify collaborative opportunities for the automation of accounts payable processes through niche software or collective development of a shared solution. Negotiations are underway with a shortlisted provider. Still under action.

PMCA NZME Premium Content - BOPLASS holds a collective PMCA licence on behalf of our constituent councils. BOPLASS identified that our licenced organisations cannot legally access premium media content without holding a corporate paywall premium subscription. BOPLASS investigated a project to establish a single corporate licence on behalf of our councils. It was determined that the service was not required by all councils and individual agreements would be pursued.

Insurance Valuations – International underwriters for BOPLASS councils' insurances had requested we demonstrate a common standard of asset reporting aligned to a consistent standard for valuations reporting. Having this consistent data would assist them in better understanding the risk they are writing and, ultimately, would be reflected in their pricing. BOPLASS negotiated an agreement with Aon to review councils' valuation processes and establish consistent standards for valuation of assets. Discounted pricing and savings for all councils was achieved through a collective agreement.

Contractor online inductions – The BOPLASS Health and Safety advisory group have investigated and shortlisted suppliers to deliver a collective solution for online inductions of contractors for all BOPLASS councils. Still under action.

		Eastern BOP Electricity Tender – At the request of Eastern Bay councils BOPLASS explored options for other BOPLASS councils to participate in a collective tender. After investigating with other councils it was determined that it was more beneficial for Eastern Bay councils to proceed with a separate tender. Health and Safety Management Software – A BOPLASS preferred supplier agreement has been established with Vault with preferential pricing applied to all participating Waikato and BOPLASS councils. The agreement provided significant savings for all councils and migration to the latest Vault version at no cost to participating councils.
Provide support to BOPLASS councils that are managing or investigating Shared Services projects. BOPLASS to provide 0.25 FTE resource and expertise to assist councils in Shared Services developments and projects. Quarterly satisfaction reviews with participating councils. Resource assignment measured from project job tracking.	Achieved	0.45 FTE provided through BOPLASS staff engagement committed directly to support of council shared service projects or individual council support – measured by fortnightly timesheets. Support provided to councils in development of the following services: Radio Telephony (RT) strategy – Push Wireless have been appointed as preferred supplier to coordinate region-wide Radio Telephone services and technologies. Standardisation of services and networks also provides the potential for further alignment in civil defence strategies. Bulk loading As Built Data questionnaire – Investigated aligning BOPLASS councils to common As Built data standards. Survey circulated to all GIS teams to benchmark current standards. Still under action. Solid Waste Management – Scoping for two of the three solid waste services that are being coordinated by BOPLASS has been completed, with significant opportunities for cross-regional collaboration identified: • A regional or cross-regional approach to licensing and data collection for waste operators • Diverting putrescible wastes from landfill The Regional Facilities Strategy project is awaiting commitment from Waikato councils before completing the initial scoping. Insurance Forum – BOPLASS hosted an insurance forum covering Waikato and BOP councils. BOPLASS arranged sponsorship and the forum was provided at no cost to the councils. Qualified speakers covered a number of critical insurance and risk topics. Councils benefitted from access to this important information through this forum. Health and Safety Inter-Council Audits – A framework has been developed to enable BOPLASS councils to request a peer review from other councils in the BOPLASS group with the objective of sharing knowledge and improving areas within Health and Safety.

		Asbestos protocol – Researched and shared best practice and protocols across councils and within BOPLASS Health and Safety Advisory group. Organised WorkSafe presentation. Ongoing sharing of information between councils. Sustainable Public Procurement – BOPLASS supported Toi-Ohomai Institute of Technology in a research report on Sustainable Public Procurement in the Bay of Plenty. BOPLASS has worked with CoBOP and The Sustainable Business Network to progress the opportunities identified in the report. BOPLASS councils' procurement managers have undertaken a project to collaborate in the development of sustainability procurement practices and policies. Health and Safety Benchmarking – The BOPLASS and Waikato LASS Health and Safety groups have established measures and systems for implementing a shared local authority health and safety benchmarking system. Support of Video Conferencing services for councils – Ongoing support for councils' in-house and external video conferencing services. Central management of virtual meeting rooms and directories. Investigation of updated services. Added Zoom services to councils' video conferencing services. Opotiki District Council Library and cloud services – BOPLASS IT Manager assisted in reconfiguration of network and led project to investigate options to move Opotiki District Council into the Cloud. Inter-Council Network (ICN) review, redesign and renegotiation of suppliers and services – The ICN is a shared service high capacity fibre network connecting the majority of BOPLASS councils. ICN design was reviewed and an evaluation of ICN contracts undertaken to deliver further cost reductions. Debt Collections – After investigating options for establishing a local shared service, BOPLASS engaged with MWLASS to develop an opportunity for BOPLASS councils to participate in the MWLASS debt management service – Debt Management Central (DMC) – as a shared service. An interLASS agreement has been agreed, with BOPLASS councils entering into individual contracts with DMC. Capital Construction and Civil Works Projects – A regional-wide marketing approach to civil projects is being reviewed. The focus of this approach is to market the project plans of the region as a whole to the construction sector and to help avoid the complex issue of regional versus local prioritisation for delivery of projects. The anticipated benefit of this approach is to attract a better response from contractors for councils across the region. Ongoing.

		Inter-LASS collaboration – BOPLASS continues to encourage collaboration between all LASSes and has established quarterly meetings for LASS leaders to share information and identify opportunities for collective partnering. Collaborative Training – Cross-council training has continued to be arranged across a number of areas of council business, providing for discounted rates, reduced staff travel (as trainers are prepared to travel to region for a larger group), opportunity to network with peers from other councils, and development of tailored material. BOPLASS Reviews – Undertaken during all advisory group meetings – at least quarterly.
Further develop and extend the Collaboration Portal for access to, and sharing of, project information and opportunities from other councils and the greater Local Government community to increase breadth of BOPLASS collaboration. Increase usage of the Collaboration Portal by providing support and training material for new and existing users. Proactively market the benefits to councils. Number of listed projects to increase by 20% per year. Number of Team Sites to increase by 20% per year. Portal is operational outside of the LASS groups with a minimum of ten additional councils or local government related organisations having utilised the portal.	Achieved	Project completed relaunching the Collaboration Portal with a more user friendly platform under Microsoft Teams to enable and encourage a higher level of sharing from councils and the Local Government community. User survey feedback implemented along with a review of best practice methodologies. Ongoing promotion and profiling of the Collaboration Portal has resulted in more than ten additional councils or Local Government related organisations outside of the LASS group signing up to and using the Collaboration Portal, there are 24 councils or local government related organisations outside of the LASS group registered on the Portal. On-boarding, training material and training provided to councils to maximise usage and ensure increased uptake. Demonstrations of the Portal given to BOPLASS Advisory Groups and to councils' executive leadership teams. Number of projects has increased by 11 over the last year, there are now 39 lodged projects. The number of Collaboration Portal Team Sites have increased by 32 over the last year with 58 team sites now registered.
Ensure appointed vendors remain competitive and continued best value is returned to shareholders. Manage and/or renegotiate existing contracts. Contracts due for renewal are tested for competitiveness in the marketplace. New suppliers are awarded contracts through a competitive procurement process involving two or more vendors where applicable.	Achieved	Contracts negotiated and/or renewed for: Video Conferencing Services – New video conference services have been established using Canon and Zoom to deliver desktop and meeting room services to participating councils. GIS software and services – • Geocortex Essentials • Geocortex Optimizer • X-Tools • NZ Archaeological Association Contracts renegotiated and renewed – no alternative suppliers.

		<u>Print Media Copyright Agency (PMCA)</u> – Contract and requirements reviewed. Contract renewed with PMCA – sole NZ provider. <u>ESRI Enterprise Licensing Agreement</u> – BOPLASS Enterprise Agreement renegotiated and renewed for a further three year term with no increases in cost to councils. No alternative provider in NZ. <u>Media Monitoring services</u> – Competitive procurement process managed by BOPLASS with presentations received from two vendors. Contract with iSentia renewed. <u>Inter-Council Network</u> – Existing contracts renegotiated with some of the ICN suppliers, resulting in improved levels of service and $56,048 annual savings in 2018/19 for this foundation service: - <u>Spark Fortigate Firewall Services</u> – renegotiated contract resulting in reduced ongoing costs for this service saving $12,611 per year. - <u>Spark GWS Service</u> in Opotiki replaced with Evolution Networks Wireless WAN. Planning work begun in 2018 and completed in early 2019 year. Further improvements to the wireless service undertaken in February 2019. The decommission of the Spark service will result in a saving of $20,000 per year.
Review governance performance and structure to ensure it supports BOPLASS' strategic direction. Perform review of BOPLASS governance. Affirmative feedback received from shareholding councils at least annually.	Achieved	Following direct engagement with shareholders and feedback received a decision was made not to proceed with an independent governance review. The majority of councils advised they were comfortable with the current Board composition and the cost of carrying out an independent governance review would be prohibitive relative to the return in value. Discussions around strategy and governance are held on a continuous basis by the Board. Feedback from councils is received through the Statement of Intent submission process.
Communicate with each shareholding council at appropriate levels. Meeting with each Executive Leadership Team. At least one meeting per year.	Achieved	BOPLASS continues to regularly engage with our constituent councils, senior management and shareholders to ensure opportunities continue to be developed to the benefit of all stakeholders. Meetings were held with each council's Executive Leadership Team. A further four Operations Committee meetings were held during the year with Executive Leadership Team representation and input provided by all shareholding councils.

Ensure current funding model is appropriate. Review BOPLASS expenditure and income and review council contributions and other sources of funding. Performance against budgets reviewed quarterly. Company remains financially viable.	Achieved	The sources of BOPLASS funding and the viability of the funding model are regularly reviewed with financial reporting provided to the BOPLASS Board. Council contributions levied. Contributions received from activities producing savings. Vendor rebates collected. Monthly and quarterly performance reviewed. Financial statements reported and reviewed at Board meetings. Financial position year end 30 June 2019: $5,322 profit.

Statement of Intent and Performance continued

The following is a report of performance against targets set in the Statement of Intent for 2017/18 and is provided for comparative purposes.

Target 2017/18	Result	Narration
Investigate new Joint Procurement initiatives for goods and services for BOPLASS councils. Procure from sources offering best value, service, continuity of supply and/or continued opportunities for integration. A minimum of four new procurement initiatives investigated. Initiatives provide financial savings of greater than 5% and/or improved service levels to the participating councils.	Achieved	Joint procurement initiatives undertaken for: Health, Safety & Risk Management Software – A project to investigate collective procurement of health and safety risk management software to provide improved functionality and cost savings for councils. Also included Waikato councils. Infrastructure Insurance – BOPLASS represented a collective group of 41 councils in negotiations for placement of councils' infrastructure insurance in the London markets. Requirements included increased limits and higher insured values for BOPLASS councils. Very competitive pricing achieved at rates up to 30% cheaper than had councils insured individually. Health & Safety in Design – BOPLASS facilitated the opportunity for councils to participate in using design services to minimise health and safety risks of council driven projects. Enterprise Content Management / EDRMS Strategic Review – BOPLASS councils collectively reviewed vendor offerings and options for electronic document management systems. Ongoing reviews underway to determine benefits from collective approach to vendors. Managing Contractors' Onsite Safety - BOPLASS investigated the opportunity for councils to participate in joint procurement of the Forsite contractor management system to assist with managing contractors' onsite safety. It was determined that the system was not currently required by all councils and individual contracts would be pursued rather than entering into a collective agreement. Video Conferencing – A project to review options for councils' desktop and meeting room video conferencing systems included a review and testing of multiple providers. Zoom selected as preferred supplier to BOPLASS and councils. Contract provides for cost savings, standard solution across councils and simplification of video conferencing for desktop or meeting-room calling.

		Drug and Alcohol Testing – BOPLASS investigated the opportunity to establish a collective agreement and secure improved pricing from the incumbent supplier to the majority of the BOPLASS and Waikato councils to provide cost savings and common standards. Still under action. Occupational Health Service Preferred Supplier – Following the completion of a tender Waikato Occupational Health Consultancy (WOHC) were appointed as the preferential Health Service supplier for the BOPLASS councils. Access to improved and consistent levels of service achieved at significantly reduced costs through a collaborative agreement. Waikato LASS also with the same provider. Media Distribution Services – BOPLASS is investigating opportunities for regional coordination for the release and distribution of media notifications through common software and standardisation of services. Training – Collaborative training has been arranged across a number of areas of council business, providing for discounted rates, reduced staff travel (as trainer is prepared to travel to region for a larger group), opportunity to network with peers from other councils and development of tailored material.
Provide support to BOPLASS councils that are managing or investigating Shared Services projects. BOPLASS to provide 0.25 FTE resource and expertise to assist councils in Shared Services developments and projects. Quarterly satisfaction reviews with participating councils. Resource assignment measured from project job tracking.	Achieved	0.46 FTE provided through BOPLASS staff engagement committed directly to support of council shared service projects or individual council support – measured by fortnightly timesheets. Support provided to councils in development of the following services: GIS Centralised Data Repository / Shared SDE – Establishment of central GIS storage services for councils. BOPLASS also investigated setting up a SDE (spatial data enterprise) on behalf of its councils. Following completion of initial architecture, it was determined that this was not feasible as it would require too much effort in terms of resource. Radio Telephony (RT) strategy – A region-wide strategy has been developed by BOPLASS for the sharing and utilisation of Radio Telephone services and technologies. This is considered to be of significant importance in shared civil defence strategies. GIS Operating Guide for Civil Defence Emergency Events – Developed by BOPLASS councils to capture learnings from the Edgecumbe event and as a reference to support collaborative working. Operating guide shared with the Local Government Geospatial Alliance and is now being developed into a national reference document through this national GIS collaborative group.

Online Natural Hazards Mapping – Developed as a shared data initiative with App available to BOPLASS councils to notify owners as hazards such as tsunami or flooding.

Regional / Cross-Regional Approach to Licensing and Data Collection for Waste Operators – Scoping of a project to provide a consistent approach to licensing of private waste operators and standards within the industry, while enabling improved data collection for councils' waste planning. Project also covers Waikato councils.

Diversion of Organic Waste from Landfill – Investigation of opportunities for the facilitation and development of a regional shared food waste collection service for BOPLASS councils. Initial scoping phase undertaken.

Solid Waste Regional Infrastructure Strategy – A regional or cross-regional approach to planned and potential waste infrastructure developments within the region. Project identified to be progressed with Waikato councils.

Sustainable Procurement Research Project – BOPLASS facilitated council participation in this project in conjunction with the Sustainable Business Network and Toi Ohomai. Collective project benefitted councils by assisting in establishing how current local government procurement policies and practices are aligned with national objectives of sustainability, and where improvements might be made.

Support of Video Conferencing services for councils – Ongoing support for councils in-house and external video conferencing services. Central management of virtual meeting rooms and directories.

Review of Inter-Council Network (ICN) suppliers and services

A full review of the ICN was undertaken, with a number of providers changed, new services established, and new contracts negotiated on behalf of the councils participating in this shared service.
Improved levels of service achieved, additional services added, and $97,635 in annual savings achieved:

1. Wireless WAN solution for ICN in Opotiki – Evolution Networks project to replace GWS server and develop Wireless WAN in Opotiki (ICN – new contract signed).
2. Increase of fibre pipeline from Opotiki – Termination of service with Vocus and commission of service with Alchemy.
3. Migration off of the One.Govt service for ICN Whakatane & Rotorua – Termination of One.Govt

		contract and migration of accounts to Vocus for links. 4. Establishment of community internet backhaul for Kawerau – New service for Kawerau community. 5. Alchemy Network Service – Opotiki fibre (ICN – new contract signed with new supplier of existing service). 6. Vocus Communications – Fibre pipeline services for Whakatane, Rotorua, Kawerau (ICN – new contract signed with new supplier). Reduction in cost of services. Addition of new links (migrated from One-Govt). 7. Cybersmart – Support of the ICN (agreement signed with new supplier). New service to provide technical support services. Audit and Risk Insights Panel Sessions – BOPLASS coordinated workshops with senior leaders of the KPMG advisory team to provide councils their insights and experience in the areas of: • Internal Audit Trends, • Enabling Data Analytics in Internal Audits, • Cyber Security, • and Fraud Awareness Workshops provided at no cost to councils and included inter-council sharing of invaluable information. Joint Development of Health & Safety Policies and Terms of Reference – BOPLASS H&S group facilitated the sharing of existing H&S procedures or shared development of new procedures across the BOPLASS and Waikato councils. Includes H&S in procurement, common documentation, processes, H&S liabilities and standard reporting measures for councils and governance. Provides for reduced effort for all councils and ability to share best practice. Support for Shared Services projects identified and reviewed by BOPLASS Operations Committee – Projects under review or progressed as opportunities for further council collaboration in Shared Services: • GIS - Further opportunities to align and share services / resources • Digitalisation - Development of standard process and shared software and/or infrastructure • Shared Data Centre - Utilisation of shared infrastructure by multiple BOPLASS councils • Accounts Payable - Development of standard process and shared software and/or infrastructure

		• Debt Management/Collections - Development of shared service • Building Consents - Development of standard processes across councils and opportunities for sharing of resource • Capex projects - Alignment or sequencing of capital projects
Further develop and extend the Collaboration Portal for access to, and sharing of, project information and opportunities from other councils and the greater Local Government community to increase breadth of BOPLASS collaboration. Provide access to the Collaboration Portal for councils outside of BOPLASS and utilise technologies to provide secure access. Proactively market the benefits to councils. All NZ councils are made aware of the Collaboration Portal and its benefits. Portal is operational outside of the LASS groups with a minimum of ten additional councils or local government related organisations having utilised the portal.	Achieved	Project completed to review usage of the Collaboration Portal and opportunities to further develop the Portal to increase the support for collaboration across local government in New Zealand. User survey undertaken along with a review of best practice methodologies. Design-thinking workshop run, with council staff reviewing opportunities to improve the user experience while providing direct input into developing improvements. Ongoing promotion and profiling of the Collaboration Portal has resulted in new councils and local government related organisations joining the Collaboration Portal. On-boarding and training provided to new councils to maximise usage and ensure increased uptake. Collaboration Portal membership has increased by 13 local government organisations over the last year. There are now: 72 councils or local government related organisations registered on the Portal and 569 users.
Ensure appointed vendors remain competitive and continued best value is returned to shareholders. Manage and/or renegotiate existing contracts. Contracts due for renewal are tested for competitiveness in the marketplace. New suppliers are awarded contracts through a competitive procurement process involving two or more vendors.	Achieved	Contracts negotiated and/or renewed for: <u>Councils' liability insurance</u> – Providers reviewed and renewed. Solutions proposed and reviewed from alternative brokers and insurers. <u>GIS software and services</u> – • Geocortex Essentials • Geocortex Optimizer • FME • X-Tools • NZAA Contracts renegotiated and renewed – no alternative suppliers. <u>Print Media Copyright Agency (PMCA)</u> – Contract and requirements reviewed. Re-signed with PMCA – sole NZ provider. <u>ESRI Enterprise Licensing Agreement</u> – Renegotiated and renewed. No alternative provider in NZ.

		Insurance brokerage services – A review of options for the appointment of an insurance broker to the BOPLASS councils was undertaken. Aon reappointed for a further two-year period, as provided for under the agreement. A full tender for brokerage services will be undertaken by BOPLASS at the conclusion of this extension. Aerial Photography – BOPLASS contract extended as flying not completed within existing programme. Media Monitoring services – Contract with iSentia was reviewed and renewed. Services reviewed from two companies. New contracts negotiated for Inter-Council Network – All ICN contracts were reviewed and, where there were alternative options, tested in the market. Several providers were changed; providing for improved service levels or cost savings for participating councils. Insurance Forum – BOPLASS hosted a forum which included presenters from London and Australia. This gave an opportunity for the London underwriter to get a better understanding of the regions they insure and for councils to meet with the underwriters and to gain a better understanding of the challenges facing the insurance industry. Ultimately leading to improved services and rates for BOPLASS councils.
Complete independent review of governance performance and structure to ensure it supports BOPLASS' strategic direction. Engage external party to complete independent review of BOPLASS governance. Affirmative feedback received from shareholding councils following 2017/18 governance review.	Not achieved	Governance review initiated. After preliminary review of governance, Board made decision to complete a strategic review of BOPLASS and include governance structure as an important aspect of this full review. A shortlist of independent consultants identified by BOPLASS Board. Review put on hold as a strategic alliance with Waikato LASS was proposed. Consultant engaged to review and facilitate the opportunity for the two LASS to develop a jointly aligned strategy. Review also covered LASS governance. BOPLASS and Waikato Boards completed collective evaluation. Decision made to proceed with independent reviews of the two LASS. BOPLASS progressing strategic review and independent governance review. The governance review has not been completed at this stage.
Communicate with each shareholding council at appropriate levels. Meeting with each Executive Leadership Team. At least one meeting per year.	Achieved	Executive-level meetings held with councils. Five Operations Committee meetings held during the year with executive level input provided by all shareholding councils. Executive Leadership Team representation and attendance at one or more meetings from every council.

Ensure current funding model is appropriate. Review BOPLASS expenditure and income and review council contributions and other sources of funding. Performance against budgets reviewed quarterly. Company remains financially viable.	Achieved	Council contributions levied. Contributions received from activities producing savings. Vendor rebates collected. Monthly and quarterly performance reviewed. Financial statements reported and reviewed at Board meetings. Financial position year end 30 June 2018: $10,794 deficit.

BOPLASS Ltd

PART TWO – ACCOUNTABILITY STATEMENTS

Building Blocks

BOPLASS Ltd has been built on a number of principles and activities and these are the building blocks of our success.

You will find examples in text boxes scattered through the document.

Statement of Responsibility

The following pages 24-47 outline the financial statements and notes for year ended 30 June 2019 for BOPLASS Limited.

The directors believe that proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial position of the company and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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

The directors are pleased to present the financial statements of BOPLASS Ltd for the twelve months ended 30 June 2019.

For and on behalf of the Board of Directors:

Signed:	________________	Craig O'Connell – Chair	Date:	____________
Signed:	________________	Martin Grenfell – Director	Date:	____________

Audit Report

Audit Report Continued

Audit Report Continued

Audit Report Continued

Financial Statements – Statement of Financial Position

STATEMENT OF FINANCIAL POSITION - AS AT 30 JUNE 2019			
		BOP LASS Ltd	
BOP LASS LTD	**Notes**	**2018/19 Actual**	**2017/18 Actual**
ASSETS - CURRENT			
Bank accounts and cash	10	216,878	468,383
Short Term Investments	10	800,000	500,000
Debtors and Other Receivables	11	126,132	113,004
Prepayments	12	70,127	92,235
Total Current Assets		**1,213,137**	**1,173,622**
ASSETS - NON-CURRENT			
Intangible Assets	13	24,241	15,832
Plant and Equipment	14	1,383	2,791
Total Non-Current Assets		**25,624**	**18,623**
TOTAL ASSETS		**1,238,761**	**1,192,245**
LIABILITIES - CURRENT			
Creditors and Accrued Expenses	15	120,629	224,961
Employee Costs Payable	16	38,809	29,790
Income in Advance	17	1,034,244	897,738
Borrowings	18	0	0
Total Current Liabilities		**1,193,682**	**1,152,489**
TOTAL LIABILITIES		**1,193,682**	**1,152,489**
TOTAL ASSETS less TOTAL LIABILITIES		**45,079**	**39,757**
EQUITY			
Accumulated Deficits	19	(53,923)	(59,245)
Share Capital	19	99,002	99,002
TOTAL EQUITY		**45,079**	**39,757**

The notes and Statement of Accounting Policies form part of these financial statements.

For and on behalf of the Board of Directors:

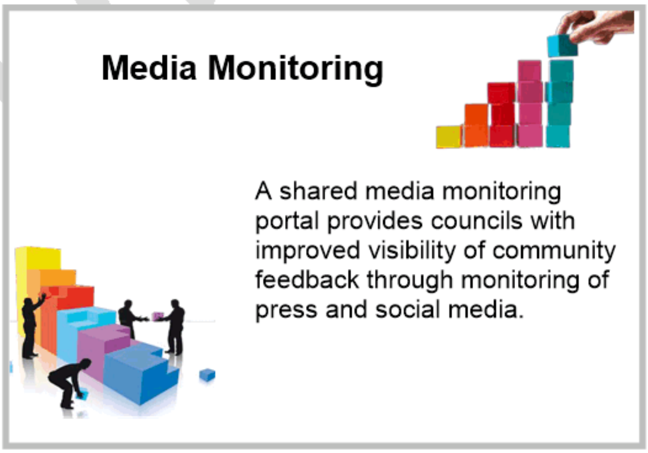
Signed: ______________________ Craig O'Connell – Chair Date: ______________

Signed: ______________________ Martin Grenfell – Director Date: ______________

Financial Statements – Statement of Financial Performance

STATEMENT OF FINANCIAL PERFORMANCE - FOR THE YEAR ENDED 30 JUNE 2018				
		BOP LASS Ltd		
BOP LASS LTD	Notes	2018/19 Actual	2018/19 Budget	2017/18 Actual
REVENUE				
Council Contribution	2	273,511	273,510	273,511
Project Revenue	2	1,061,642	1,592,000	1,170,889
Interest Revenue	3	24,690	17,500	585
Other Income		0	0	0
Total Revenue		**1,359,843**	**1,883,010**	**1,444,985**
EXPENSES				
Depreciation and Amortisation	4	9,282	12,000	14,464
Employee Related Costs	5	344,150	345,500	341,046
Directors Costs	6	21,206	18,000	15,758
Finance Cost	7	793	1,000	844
Other Expenses	8	979,089	1,506,510	1,083,667
Total Expenses		**1,354,521**	**1,883,010**	**1,455,779**
Surplus/(Deficit) before tax			**0**	
Income Tax Expense/(Benefit)	9	0	0	0
Surplus/(Deficit) after Tax		**5,322**	**0**	**(10,794)**

The notes and Statement of Accounting Policies form part of these financial statements.
Explanations of major variances against budget are provided in note 25.



Financial Statements – Statement of Cashflows

STATEMENT OF CASHFLOWS - FOR THE YEAR ENDED 30 JUNE 2019			
		BOP LASS Ltd	
BOP LASS LTD	**Notes**	**2018/19 Actual**	**2017/18 Actual**
CASHFLOWS FROM OPERATING ACTIVITIES			
Council Contribution		273,511	273,511
Project Revenue		1,185,801	1,279,973
Interest Revenue		24,690	16,083
Tax Paid - RWT (net)		0	0
Goods and Services Tax (net)		7,987	0
Total Cash Provided		**1,491,989**	**1,569,567**
Employee Related Costs		(335,130)	(338,622)
Payments to Suppliers		(1,082,520)	(964,211)
Interest Paid		(794)	(844)
Tax Paid - RWT (net)		(8,767)	(2,040)
Goods and Services Tax (net)		(0)	(69,584)
Total Cash Applied		**(1,427,211)**	**(1,375,301)**
NET CASHFLOWS FROM OPERATING ACTIVITIES		**64,778**	**194,266**
CASHFLOWS FROM INVESTING ACTIVITIES			
Acquisition of Investments		(300,000)	(500,000)
Purchase of Plant and Equipment		(0)	(1,217)
Purchase of Intangibles		(16,283)	0
Total Investing Cash Applied		**(316,283)**	**(501,217)**
NET CASHFLOWS FROM INVESTING ACTIVITIES		**(316,283)**	**(501,217)**
CASHFLOWS FROM FINANCING ACTIVITIES			
Proceeds from Loans		0	0
Repayment of Loans		(0)	(35,000)
NET CASHFLOWS FROM FINANCING ACTIVITIES		**(0)**	**(35,000)**
NET INCREASE/(DECREASE) IN CASH		**(215,505)**	**(341,951)**
CASH AT BEGINNING OF THE YEAR		**468,383**	**810,334**
CASH AT END OF THE YEAR	10	**216,878**	**468,383**

The GST component of operating activities reflects the net GST paid and received to and from the Inland Revenue Department. The GST component has been prepared on a net basis, as the gross amounts do not provide meaningful information for financial purposes.

The notes and Statement of Accounting Policies form part of these financial statements.

Entity Information for the Year Ended 30 June 2019

LEGAL NAME

BOP LASS Limited stands for Bay of Plenty Local Authority Shared Services.

TYPE OF ENTITY AND LEGAL BASIS

BOPLASS Ltd is incorporated in New Zealand under the Companies Act 1993.

COMPANY'S PURPOSE

BOPLASS Ltd is based in Tauranga and is a joint venture between nine councils formed to provide shared services.

STRUCTURE OF COMPANY'S OPERATIONS INCLUDING GOVERNANCE ARRANGEMENTS

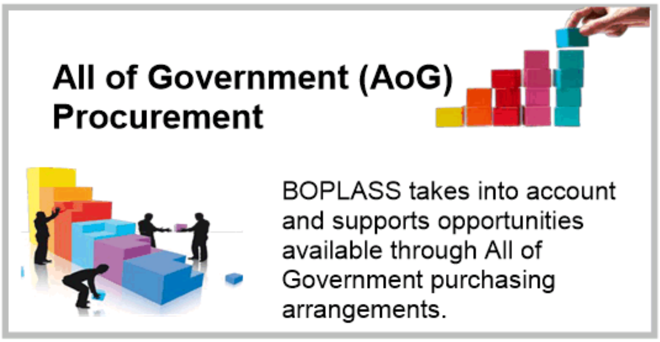
The company is owned and controlled by the nine councils and comprises a Board of ten directors who oversee the governance of the company. A Chief Executive is responsible for the day-to-day operations of the company and reports to the Board, with two other staff supporting the Chief Executive in delivering against the company's objectives. The Board is made up of nine Chief Executives from participating councils and one Independent director. Refer Statutory Disclosure note page 48 for list of councils.

MAIN SOURCE OF THE COMPANY'S CASH AND RESOURCES

Annual operating contribution received from each of the nine councils and project commissions are the main source of funding.

OUTPUTS

As per the Statement of Intent and Performance.



Statement of Accounting Policies

Statement of Accounting Policies for the Year Ended 30 June 2019

ACCOUNTING POLICIES APPLIED:

BASIS OF PREPARATION

The Board has elected to apply PBE SFR-A (PS) *Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)* on the basis that the company does not have public accountability (as defined) and has total annual expenses less than $2 million.

All transactions in the financial statements are reported using the accrual basis of accounting. The financial statements are presented in New Zealand dollars ($) and all values are rounded to the nearest dollar. The functional currency of BOPLASS Ltd is New Zealand dollars.

The financial statements are prepared on the assumption that the company will continue to operate in the foreseeable future.

SIGNIFICANT ACCOUNTING POLICIES

There have been no changes to accounting policies during the reporting period.

GOODS AND SERVICES TAX

The company is registered for GST. All amounts in the financial Statements are recorded exclusive of GST, except for debtors and creditors which are stated inclusive of GST.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable.

Contributions received from the nine shareholder councils are BOPLASS Limited's primary source of funding for the 12 months ended 30 June 2019.

Council contributions are recognised as revenue when they become receivable unless there is an obligation to return the funds if conditions of the contributions are not met. No such obligation is attached to the council contributions received for the twelve months ended 30 June 2019.

Project revenue is recognised when the sale of goods or services is sold to the customer.

Interest revenue is recorded as it is earned during the year.

EMPLOYEE RELATED COSTS

Wages, salaries, and annual leave are recorded as an expense as staff provide services and become entitled to wages, salaries and leave entitlements.

Performance payments are recorded when the employee is notified that the payment has been granted.

Superannuation contributions are recorded as an expense as staff provide services.

ADMINISTRATION, OVERHEADS AND PROJECT EXPENDITURE COSTS

These are expensed when the related service has been received.

LEASE EXPENSES

Lease payments are recognised as an expense on a straight-line basis over the lease term.

BANK ACCOUNTS AND CASH

Bank accounts and cash comprise cash on hand, cheque or savings accounts, and deposits held at call with banks.

Bank overdrafts are presented as a current liability in the statement of financial position.

DEBTORS AND OTHER RECEIVABLES

Debtors are initially recorded at the amount owed. When it is likely the amount owed (or some portion) will not be collected, a provision for impairment is recognised and the loss is recorded as a bad debt expense.

PLANT AND EQUIPMENT

Plant and equipment is recorded at cost, less accumulated depreciation and impairment losses.

For an asset to be sold, the asset is impaired if the market price for an equivalent asset falls below its carrying amount. For an asset to be used by the company, the asset is impaired if the value to the company in using the asset falls below the carrying amount of the asset.

Depreciation is provided on a diminishing value basis over the estimated useful life, at the same rate as is allowed by the Income Tax Act 1994.

The useful lives for associated depreciation rates of other assets have been estimated using the diminishing value basis as follows:

Office equipment	5 years	40%
Computer equipment	4 years	50%
Mobile Phone	3 years	67%

INTANGIBLE ASSETS

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred.

The carrying value of an intangible asset with a finite life is amortised on a diminishing value basis over its estimated useful life, at the same rate as is allowed by the Income Tax Act 1994. This charge is recognised as an expense.

The useful lives for associated amortisation rates of major classes of intangible assets have been estimated using the diminishing basis as follows:

2019 Computer Software	4 years	50%
2018 Computer Software	4 years	50%

CREDITORS AND ACCRUED EXPENSES

Creditors and accrued expenses are measured at the amount owed.

EMPLOYEE COSTS PAYABLE

A liability for employee costs payable is recognised when an employee has earned the entitlement.

These include salaries and wages accrued up to balance date and annual leave earned but not yet taken at balance date. A liability and expense for long service leave and retirement gratuities is recognised when the entitlement becomes available to the employee.

INTEREST BEARING LOANS AND BORROWINGS

Loans & Borrowings are recognised at the amount borrowed from the lender.

Interest costs and interest accrued are recognised as an expense when incurred.

INCOME TAX

Tax expense is calculated using the taxes payable method. As a result, no allowance is made for deferred tax. Tax expense includes the current tax liability and adjustments to prior year tax liabilities.

BUDGET FIGURES

The budget figures are derived from the Statement of Intent as approved by the Board at the beginning of the financial year. The budget figures have been prepared in accordance with Tier 3 standards, using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

COMMITMENT AND CONTINGENT LIABILITIES

Commitments and contingencies are disclosed exclusive of GST.

EQUITY

Equity is measured by the value of total assets less total liabilities.

TIER 3 PBE ACCOUNTING STANDARDS APPLIED

BOPLASS Ltd has applied Tier 3 Accounting Standards in preparing its Financial Statements to:

- Property, plant and equipment to show intangible assets separate from property, plant & equipment.
- Debtors and prepayments reported separately.

Print Services

A collective contract with CSG for photocopiers and printers has delivered significant savings to the group. It has also provided a common technology platform supporting the development and delivery of further shared services.

Notes to Financial Statements

NOTE 2: COUNCIL CONTRIBUTION / PROJECT REVENUE

	Notes	BOP LASS Ltd 2018/19 Actual	2018/19 Budget	2017/18 Actual
Core Revenue				
Council Contribution		273,511	273,510	**273,511**
		273,511	**273,510**	**273,511**
Project Revenue				
Rebates	*	7,850	9,000	**0**
Aerial Photography Revenue	**	205,510	600,000	**477,556**
Canon Video Conferencing Revenue	***	34,140	13,000	**7,853**
Lease Revenue - ICN	****	116,783	175,000	**293,092**
Recoveries	*****	561,012	650,000	**571,833**
Sales of Service Revenue	******	57,947	45,000	**54,337**
Collaboration Portal Revenue	*******	78,400	100,000	**50,200**
		1,061,642	**1,592,000**	**1,454,871**
TOTAL CORE AND PROJECT REVENUE		**1,335,153**	**1,865,510**	**1,728,383**

* Rebates for Services contracted by BOPLASS Ltd are received from CSG and NZ Post Ltd.

** Aerial Photography revenue is offset by Aerial Photography expenditure paid by BOPLASS Ltd on behalf of the councils. Refer to note 8.

*** Video Conferencing Revenue is offset by Video Conferencing expenditure.
**** Lease Revenue – ICN is offset by ICN Lease expenditure.
***** Recovery Revenue is offset by recovery expenditure refer to note 8. This is the recovery of BOPLASS project or procurement costs incurred on behalf of the participating councils.
****** Sales of Service Revenue includes various rebates on projects and secondment payment from Bay of Plenty Regional Council and Opotiki District Council.
******* Collaboration Portal Revenue is offset by Collaboration Portal expenditure.

NOTE 3: INTEREST REVENUE

	Notes	BOP LASS Ltd 2018/19 Actual	2018/19 Budget	2017/18 Actual
Core Revenue				
Interest Revenue - Current account	*	559	1,000	585
Project Revenue				
Interest Revenue - Aerial Trust account	*	24,131	16,500	15,498
TOTAL INTEREST REVENUE		**24,690**	**17,500**	**16,083**

* Bank interest on BOPLASS Ltd current account and Aerial Photography Trust account.
The Budget variation occurred as the budget was set before the interest rate dropped significantly.
Councils now have an agreement to invest monies at a higher interest rate. Refer Note 10.

NOTE 4: DEPRECIATION AND AMORTISATION EXPENSE

	Notes	BOP LASS Ltd		
		2018/19 Actual	2018/19 Budget	2017/18 Actual
Core Expenditure				
Intangibles	*	7,875	12,000	13,371
Plant and Equipment	**	1,408	0	1,093
TOTAL DEPRECIATION AND AMORTISATION EXPENSE		**9,282**	**12,000**	**14,464**

* Intangibles refer to note 13.
** Plant and Equipment refer to note 14.

NOTE 5: EMPLOYEE RELATED COSTS

	Notes	BOP LASS Ltd		
		2018/19 Actual	2018/19 Budget	2017/18 Actual
Core Expenditure				
Salary and Wages		293,860	294,519	296,926
Superannuation	*	20,481	20,481	17,936
Direct Personnel Overheads	**	29,809	30,500	26,184
TOTAL EMPLOYEE RELATED COSTS		**344,150**	**345,500**	**341,046**

* Superannuation includes employer contributions to Kiwisaver.
** Direct Personnel Overheads include ACC, Fringe Benefit Tax, staff training costs and other staff support costs.

NOTE 6: DIRECTORS COSTS

	Notes	BOP LASS Ltd		
		2018/19 Actual	2018/19 Budget	2017/18 Actual
Core Expenditure				
Directors Costs (Fees)	*	15,000	15,000	15,000
Directors Costs	**	6,206	3,000	758
TOTAL DIRECTORS COSTS		**21,206**	**18,000**	**15,758**

* Craig O'Connell only independent paid Director, commenced February 2015. The other nine Directors are the Chief Executives of participating Councils and do not receive any remuneration from BOPLASS.
** Directors travel costs.

Insurance

Collaboration with insurance has provided improved service levels and substantial premium savings for all councils.

NOTE 7: FINANCE COST

	Notes	BOP LASS Ltd 2018/19 Actual	2018/19 Budget	2017/18 Actual
Core Expenditure				
Interest on Borrowings	*	793	1,000	844
TOTAL FINANCE COST		**793**	**1,000**	**844**

* Interest on Tauranga City Council loan refer to note 18.

NOTE 8: OTHER EXPENSES

	Notes	BOP LASS Ltd 2018/19 Actual	2018/19 Budget	2017/18 Actual
Core Expenditure				
Audit and Accounting Fees	*	17,364	17,500	16,592
Administration Expenses	**	28,120	24,000	32,474
Consultancy	***	7,100	4,500	5,900
General Costs	****	5,743	9,900	6,318
Insurance		8,425	8,000	7,146
Loss on Disposal of Asset		0	0	0
		66,752	**63,900**	**68,430**
Project Expenditure				
Aerial Photography	*	205,510	600,000	256,781
Canon Video Conferencing	**	35,904	12,610	19,513
Lease Expenses - ICN	**	104,285	170,000	204,824
Recoveries	***	531,930	620,000	492,770
Collaboration Portal Opex	****	34,707	40,000	41,529
		912,336	**1,442,610**	**1,015,417**
TOTAL OTHER EXPENSES		**979,088**	**1,506,510**	**1,083,847**

Core

* Audit Fees for 2018/19 are $16,592 includes accrual $16,592.

** Administration Expenses

*** Consultancy includes tax advice for 2018/19

**** Accommodation & Travel, Bank Fees, Conferences, General Expenses, Legal, Subscriptions

Project

* BOPLASS Ltd has a contract for aerial photography on behalf of the councils. This expenditure is offset from the revenue received from the councils. BOPLASS Ltd is acting on behalf of the councils.

** Lease Expenses – ICN. This expenditure is offset from the revenue received from the councils. BOPLASS Ltd is acting on behalf of the councils.

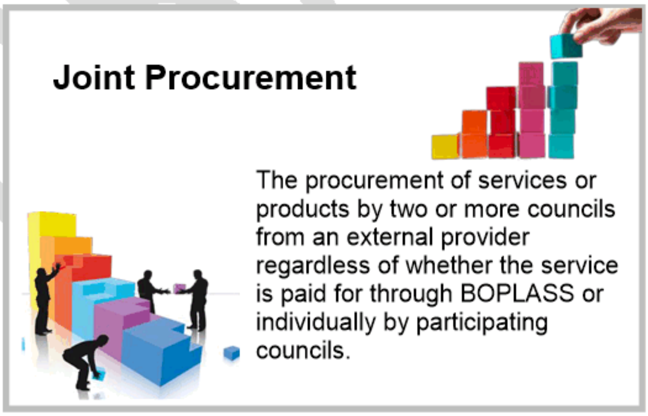
*** Recoveries - This expenditure is offset from the revenue received from the councils for project work.

**** Collaboration Portal Opex - to assist in accelerating growth of shared service strategies and projects throughout local government in New Zealand by increasing visibility of councils' opportunities to collaborate.

NOTE 9: INCOME TAX EXPENSE

	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Components of tax expense			
Current Tax Expense		0	0
Adjustments to current tax in prior years		0	0
Tax Expense		0	0
INCOME TAX EXPENSE		**0**	**0**
		-	
Relationship between tax expense and accounting profit			
Net surplus (deficit) before Taxation*		5,322	(10,794)
Tax calculation @ 28%		1,490	(3,022)
Plus/(Less) Taxation effect of:		0	0
Non-deductible Expenditure		508,966	148,766
Imputation credit adjustment		0	0
Non-taxable (income)/expenditure		(506,045)	(148,482)
Prior Period Adjustment		0	0
Group loss offset		0	0
Tax Losses not recognised		0	0
Deferred tax adjustment		2,921	2,738
TOTAL INCOME TAX EXPENSE		**(0)**	**(0)**

Tax losses for 2019: $(11,898) (2018: $20,141) are available to carry forward and offset against any future taxable income.



NOTE 10: BANK ACCOUNTS, CASH AND OTHER FINANCIAL ASSETS

	Notes	BOP LASS Ltd	
		2018/19 Actual	2017/18 Actual
Cash at Bank - Current account		40,988	76,910
Cash at Bank - Aerial Trust account		175,890	391,474
Term Deposit 90 days @ 3.40%. Maturing 16 July 2019		300,000	300,000
Term Deposit 90 days @3.00% Maturing 16 July 2019		250,000	200,000
Term Deposit 180 days @3.45% Maturing 14 October 2019		250,000	
TOTAL BANK ACCOUNTS AND CASH		**1,016,878**	**968,384**

NOTE 11: DEBTORS AND OTHER RECEIVABLES

	Notes	BOP LASS Ltd	
		2018/19 Actual	2017/18 Actual
Debtors – Other		73,474	66,734
Goods and Services		4,985	12,971
Accrued Revenue		27,152	21,545
Withholding Tax		20,521	11,754
TOTAL DEBTORS AND OTHER RECEIVABLES		**126,132**	**113,004**

Debtors are non-interest bearing and receipt is normally 30-day terms. Therefore, the carrying amount of debtors approximates their fair value.

NOTE 12: PREPAYMENTS

	Notes	BOP LASS Ltd	
		2018/19 Actual	2017/18 Actual
Under 1 Year		70,127	92,235
TOTAL PREPAYMENTS		**70,127**	**92,235**

Coalition of the Willing

BOPLASS councils work within an opt-in principle, meaning projects initially advance with the willing and active participants.

NOTE 13: INTANGIBLE ASSETS

	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Computer Software			
Cost			
Cost at beginning of Year		62,891	62,891
Current Year Additions		16,283	0
Current Year Disposals		0	0
Cost Balance at Year End		**79,174**	**62,891**
Accumulated Amortisation and Impairment			
Cost at beginning of Year		(47,059)	(33,688)
Amortisation Expense		(7,875)	(13,371)
Impairment Losses			
Accumulated Amortisation and Impairment Balance at Year End		**(54,934)**	**(47,059)**
Carrying Amounts			
Cost at beginning of Year		15,832	29,203
Carrying Amount at Year End		**24,240**	**15,832**

2019 Computer software has been developed in-house and outsourced. This has been amortised over its life (4 years).
2017 and 2018 Computer software has been developed in-house. This has been amortised over its life (4 years).

Amortisation Expense decreased as 2017 additions of $24,349.50 were amortised at varying rates between 15% to 45% a total of $13,371.

No impairment losses have been recognised for intangible assets.

NOTE 14: PLANT AND EQUIPMENT

	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Office and Computer Equipment			
Cost			
Cost at beginning of Year		6,484	5,268
Current Year Additions		0	1,216
Current Year Disposals			
Cost Balance at Year End		**6,484**	**6,484**
Accumulated Depreciation and Impairment			
Cost at beginning of Year		(3,693)	(2,600)
Depreciation Expense		(1,408)	(1,093)
Impairment Losses		0	0
Loss on Disposal of Asset		0	0
Accumulated Depreciation and Impairment Balance at Year End		**(5,101)**	**(3,693)**
Carrying Amounts			
Cost at beginning of Year		2,791	2,668
Carrying Amount at Year End		**1,383**	**2,791**

Office equipment has been depreciated over its life (5 years).
Computer equipment has been depreciated over its life (4 years). Mobile Phone (3 years).

NOTE 15: CREDITORS AND ACCRUED EXPENSES

	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
ANZ Business Credit Card		4,195	0
Creditors		57,298	156,397
Accrued Expenses	*	19,592	20,363
Goods and Services Tax Payable		0	0
Retentions		39,544	48,201
TOTAL CREDITORS AND ACCRUED EXPENSES		**120,629**	**224,961**

ANZ Business Credit Card facilities were arranged primarily to pay international accounts for software to reduce the fees charged and to improve expense processes and reporting.
Creditors are non-interest bearing and are normally settled on 30-day terms. Therefore the carrying value of creditors and other payables approximates their fair value.

* Accrued Expenses relates to Audit Fees of $16,592 and Tax Advice that have been accrued for the 2018/19 financial year.

NOTE 16: EMPLOYEE COSTS PAYABLE

	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Accrued Salaries and Wages		10,058	5,954
Annual Leave		16,896	14,602
PAYE		11,855	9,234
TOTAL EMPLOYEE COSTS PAYABLE		**38,809**	**29,790**

NOTE 17: INCOME IN ADVANCE

	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Income in Advance	*	1,034,244	897,738
TOTAL INCOME IN ADVANCE		**1,034,244**	**897,738**

* Income in advance that relates to 2018/19 financial year:
$851,701 is for aerial photography;
$68,544 is for the Geospatial Web project;
$49,999 is for Proof of Concept budget for OpsCom Projects;
$25,877 is for N3 Group Membership 1 July 2019 to 30 June 2020;
$4,131 is for Geocortex Analytics Annual Maintenance to 1 July 2019 to 30 June 2020;
$14,190 is for Annual Geocortex Essentials 1 July 2019 to 30 June 2020;
$4,182 is for XTools Pro Annual Maintenance for Global License 1 July 19 to 30 June 2020;
$10,000 CSG Technology Rebates 2020 and 2021 of $5,000 per annum;
$5,620 is for an ICN project which is currently on hold for 2020 financial year.

NOTE 18: BORROWINGS

	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Maturing in Under 1 Year		0	0
TOTAL BORROWINGS		**0**	**0**

BOPLASS Ltd has a reciprocal borrowing arrangement with Tauranga City Council which allows for the borrowing of funds and placement of excess funds. The current loan balance as at 30 June 2019 is $NIL. Interest is accrued during each interest period.
This loan facility is still available to BOPLASS Ltd.

Interest is calculated at current market rates. The loan from Tauranga City Council is unsecured.

NOTE 19: EQUITY

	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Share Capital			
Balance at beginning of Year		99,002	99,002
Fully Paid up Shares		0	0
Balance at Year End		**99,002**	**99,002**
Accumulated Surpluses/(Deficit)			
Balance at beginning of Year		(59,245)	(48,451)
Surplus/(Deficit) after Taxation		5,322	(10,794)
Balance at Year End		**(53,923)**	**(59,245)**

Share Capital - As at 30 June 2019, share capital comprised of thirty-one Ordinary Shares and twenty-two Non-Voting Shares.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time, are entitled to one vote per share at meetings of the Company, and rank equally with regard to the Company's residual assets.

Dividends - No dividends have been paid or are proposed by the Company.

NOTE 20: CONTINGENCIES

BOPLASS Ltd have no contingencies at year end and that there were no contingencies for prior year.

NOTE 21: EVENTS OCCURING AFTER BALANCE DAY

No events have occurred since balance date for BOPLASS Ltd.

NOTE 22: STATEMENT OF COMMITMENTS

	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Capital Commitments		0	0
TOTAL CAPITAL COMMITMENTS		**0**	**0**

This statement represents extraordinary or exceptionally large commitments for that type of expenditure within the normal course of business, which have been contractually entered into. As at balance date, BOPLASS Ltd has no large commitments of this nature.

BOPLASS Ltd has a contractual agreement with AAM Limited to provide aerial photos for the councils. This is treated as an operational expense in the BOPLASS Ltd accounts.

Operating Leases as Lessee

BOPLASS Ltd has leased an ultrafast broadband network to enable the establishment of the Inter Council Network. An advance payment of $250,000 was paid by BOPLASS Ltd in 2010 for the first three years of a lease contract. The lease has a term of ten years with the right of withdrawal after three years. BOPLASS Ltd does not have an option to purchase the leased broadband network at the expiry of the lease period.

OPERATING LEASES AS LESSEE	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Not later than one year		33,008	49,510
Later than one year and not later than five years		0	33,008
Later than five years		0	0
TOTAL OPERATING LEASES AS LESSEE		33,008	**82,518**

The lease expense of $104,285 for the Inter Council Network is recognised in the Statement of Financial Performance refer to note 8. Participating councils are invoiced by BOPLASS Ltd on a quarterly basis over the period of the lease to recover the costs for the lease of the Council network. The pricing is reviewable not less than annually and adjustments are to be made for market trends and for the number of councils participating. The lease invoicing started in the 2010 financial year.

RECOVERY OF OPERATING LEASES PAYMENTS FROM PARTICIPATING COUNCILS	Notes	BOP LASS Ltd 2018/19 Actual	BOP LASS Ltd 2017/18 Actual
Not later than one year		33,008	49,510
Later than one year and not later than five years		0	33,008
Later than five years		0	0
TOTAL OPERATING LEASES AS LESSOR		33,008	**82,518**

Video Conferencing

Distance and travel time are a significant cost. BOPLASS has assisted councils to implement video conferencing to make activities more efficient.

NOTE 23: RELATED-PARTY TRANSACTIONS

Related-party disclosures have not been made for transactions with related parties that are within a normal supplier or client / recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the company would have adopted in dealing with the party at arm's length in the same circumstances.

Related party required to be disclosed

Tauranga City Council provided accounting services to BOPLASS Ltd during the financial year to 30 June 2019 free of charge. An estimated value of the accounting services provided for the year is $10,000.

NOTE 24: STATEMENT OF PERFORMANCE AGAINST STATEMENT OF INTENT

The Equity Ratio is a good indicator of the level of leverage used by a company. The Equity Ratio measures the proportion of the total assets that are financed by stockholders and not creditors.

The calculation of equity ratio is:

2019: 20.69% (2018: 28.99%)

NOTE 25: EXPLANATIONS OF MAJOR VARIANCES AGAINST BUDGET

BOP LASS Ltd	
Statement Of Financial Performance	**Variance against Budget**
Sales of Service (Note 2)	Additional secondment hours were requested by and charged to BOPRC.
Aerial Photography Revenue and Expenditure (Note 2)	Budgeted Aerial Photography Programme was postponed while PGF application was undertaken.
ICN Lease Revenue and Expenditure (Note 2)	ICN income and expenditure reflect the reduction in costs through negotiation with BOPLASS supplier contracts. Reductions in the expense and revenue remained proportional.
Recoveries and Projects – Recoveries (Note 2)	Project timing effects the Project Recoveries and Expenditure which states the projects undertaken during the year. A number of projects remain under review by the Operations Committee and were deferred until 2019/20. Both the expense and revenue remained proportional.
Collaboration Portal (Note 2)	Collaboration Portal revenue is less than budget as Portal not marketed while it was being redeveloped. Changes to expense and revenue remained proportional.
Interest Revenue (Note 3)	Funds moved to Term Deposits to increase revenue from interest in the low interest rate environment.
Direct Personnel Overheads (Note 5)	Restructure of ACC rates decreased the premium payable.
Directors Costs (Note 6)	Directors costs increased as additional travel costs were incurred for Chair to attend OpsCom meetings.
Administration (Note 8)	Administration costs increased due to unexpected costs incurred with updates and support to existing software and the transition to an alternative provider.

NOTE 26: BOPLASS CONTRACTUAL OFFSETTING REVENUE & EXPENDITURE TRANSACTIONS

	BOP LASS Ltd 2018/19			
	Revenue	Expenditure	Net Operating Surplus/(Deficit)	Explanation to Variance
Core				
Council Contribution	273,511	0	273,511	BOPLASS Ltd receives funds from nine councils to fund administrative costs not related to projects.
Interest Revenue	558	0	558	Refer Note 3.
Sales of Service	57,947	0	57,947	Sales of Service is revenue earned from secondment for completion of work that are not part of a contract such as one off project.
Depreciation & Amortisation	0	9,282	(9,282)	Refer to note 4.
Salary and Wages	0	293,860	(293,860)	Refer to note 5.
Superannuation	0	20,481	(20,481)	Refer to note 5.
Direct Personnel Overheads	0	29,809	(29,809)	Refer to note 5.
Directors Fees & Costs	0	21,206	(21,206)	Refer to note 6.
Interest on Borrowings	0	793	(793)	Interest paid to TCC for general loan.
Administration Expenses	0	28,892	(28,892)	Refer to note 8.
Audit Fees	0	16,592	(16,592)	Refer to note 8.
Consultancy	0	7,100	(7,100)	Refer to note 8.
Insurance	0	8,425	(8,425)	Refer to note 8.
General	0	5,745	(5,745)	Refer to note 8.
Total	**332,016**	**442,185**	**(110,169)**	
Projects				
Aerial Photography	205,510	205,510	0	Participating councils are invoiced by BOPLASS Ltd and AAM Ltd is paid for as percentages of the work on the project are completed.
Interest Revenue related to Aerial Photography	24,132	0	24,132	Bank interest received on the BOPLASS Ltd Aerial Photography Trust account. Refer to Note 3.
Canon Video Conferencing	34,140	35,904	(1,764)	Councils pay BOPLASS Ltd an amount charged by Canon plus an administrative fee for BOPLASS Ltd maintaining a service and maintenance contract on behalf of the councils.
Lease - ICN	116,783	104,285	12,498	Participating councils are invoiced by BOPLASS Ltd on a quarterly basis over the period of the lease to recover the cost for the lease of the Council Regional Network Platform. ICN lease revenue includes recovery of other operating expenditure - ICN, interest on borrowings - ICN loan and BOPLASS Ltd administration fees.
ESRI Enterprise Licence (Recoveries)	374,500	370,800	3,700	BOPLASS charges an administration fee for management of the software purchase and recoveries.
Other Recoveries	199,118	161,130	27,583	Includes recovery and administration fees for ad-hoc projects.

Rebates	7,850	0	7,850	Rebates earned by BOPLASS from CSG Technology and NZ Post Ltd.
Collaboration Portal	78,400	34,707	25,035	The Portal is to assist in accelerating growth of shared service strategies and projects throughout local government in New Zealand by increasing visibility of councils' opportunities to collaborate.
Total	**1,040,433**	**912,336**	**128,097**	
Overall Total	**1,372,449**	**1,354,521**	**17,928**	

BOP LASS Ltd 2017/18

	BOP LASS Ltd 2017/18		
	Revenue	**Expenditure**	**Net Operating Surplus/(Deficit)**
Core			
Council Contribution	273,511	0	273,511
Interest Revenue	585	0	585
Salary and Wages	0	296,926	(296,926)
Superannuation	0	17,936	(17,936)
Direct Personnel Overheads	0	26,184	(26,184)
Depreciation & Amortisation	0	14,464	(14,464)
Interest on Borrowings	0	844	(844)
Administration Expenses	0	32,474	(32,474)
Audit Fees	0	16,592	(16,592)
Consultancy	0	5,900	(5,900)
Insurance	0	7,146	(7,146)
Directors Fees & Costs	0	15,758	(15,758)
General	0	6,138	(6,138)
Total	**274,096**	**440,362**	**(166,266)**
Projects			
Aerial Photography	256,781	256,781	0
Interest Revenue related to Aerial Photography	15,498	0	15,498
Canon Video Conferencing	20,515	19,513	1,002
Lease - ICN	225,630	204,824	20,806
ESRI Enterprise Licence (Recoveries)	374,500	370,800	3,700
Other Recoveries	149,553	121,970	27,583
Rebates	18,498	0	18,498
Collaboration Portal	66,564	41,529	25,035
Service Sales and Costs	43,350	0	43,350
Total	**1,170,889**	**1,015,417**	**155,472**
Overall Total	**1,444,985**	**1,455,778**	**(10,794)**

Statutory Disclosures

as per section 211 (1) of the Companies Act (1993)

NATURE OF BUSINESS

There has been no change in the nature of the business of the company during the year.

DIRECTORS APPOINTED

Under the Shareholder Agreement directors are appointed by the constituent councils. Directors and their dates of appointment are as follows:

Independent director	Craig O'Connell	26 February 2015 Chair from 16 March 2016
Kawerau District Council	Russell George	14 January 2008
Bay of Plenty Regional Council	Fiona McTavish	30 June 2018
Western Bay of Plenty District Council	Miriam Taris	1 July 2014
Rotorua Lakes Council	Geoff Williams	1 July 2013
Whakatane District Council	Martin Grenfell Stephanie O'Sullivan	26 September 2011 until 31 August 2018 19 November 2018
Tauranga City Council	Garry Poole Martin Grenfell	26 April 2013 until 31 August 2018 3 September 2018
Taupo District Council	Gareth Green	26 July 2016
Gisborne District Council	Nedine Thatcher-Swann	13 March 2017
Opotiki District Council	Aileen Lawrie	10 August 2010

INTEREST REGISTER

There have been no disclosures of self-interest during the period.

DIRECTORS REMUNERATION

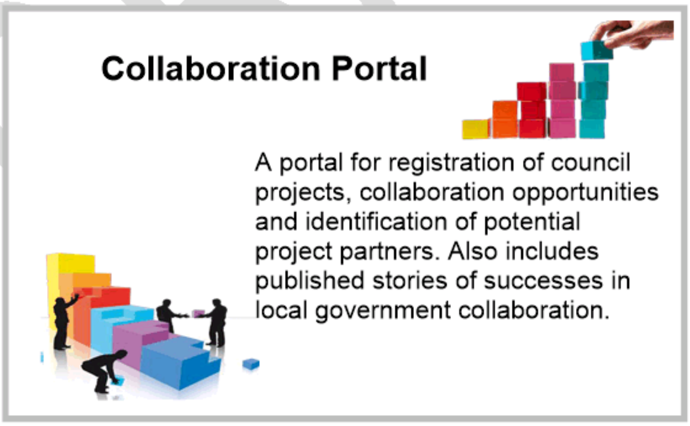
In February 2015 the Board appointed an independent director. The independent director receives remuneration and is reimbursed for related expenses. No remuneration had been paid to other directors.

DONATIONS

There were no donations made by the company during the period.

AUDIT FEES

The actual audit fees for the financial year are $16,592. The amount of $16,592 has been accrued for audit fees for BOPLASS Ltd and this is what is shown in the Statement of Financial Performance.



TAUPŌ

ANNUAL REPORT

FOR THE YEAR ENDING
30 JUNE 2019

GREAT LAKE TAUPŌ

DIRECTORY

Governing Body	**Destination Lake Taupō Trust Board** Ray Salter (Chairman) Cushla Clark Dennis Christian Glyn Williams Jonathan Cameron
General Manager	Jane Wilson
Bankers	Bank of New Zealand, Taupō – Transactional Banking
Auditors	Audit New Zealand on behalf of The Controller & Auditor General
Insurance Brokers	Aon New Zealand Limited
Address	Level 1, 32 Roberts Street, TAUPŌ
Telephone	Phone [07] 376-0400 email admin@lovetaupo.com website lovetaupo.com

CONTENTS

DESTINATION GREAT LAKE TAUPŌ (DGLT) AGM 2019: CHAIRMAN'S REPORT

This year has continued a trajectory of very strong tourism growth for the district. Local tourism expenditure is up 7% YE Jun 2019 and now accounts for $684 million of direct spend and approximately $650 million indirectly, making it a $1.3 billion industry. This is more than double the national increase of 3% with a stand-out month in May 19 where the Taupo region had the highest growth across the country (18% vs 5% nationally). This year- end growth in expenditure was driven primarily by an increase in domestic spend (up 7%) and steady growth from the international markets (up 4%).

The value of tourism has grown from $450M in 2013 to its current value this year. This growth represents a compound annual growth rate of 7.1%. This very strong rate of growth is unlikely to continue with forecasts indicating rates of 2-3% annually to 2025. We are seeing global uncertainty affecting international visitation and the domestic economy starting to flatten.

Over two thirds of this spending comes from domestic visitation, largely concentrated in the school holiday periods. This creates capacity issues around seasonality. This has meant concentrating our messaging on a group of potential visitors that have more flexibility on when they travel. Addressing seasonality in the district through this approach is the key to improving profitability of tourism operators, rather than encouraging growth during peak seasons. Marketing activity has targeted travel over the shoulder seasons with the launch of autumn and winter campaigns domestically. We are continuing the Winter Partnership campaign with Ruapehu Alpine Lifts, Visit Ruapehu, Tourism NZ and Auckland International Airport to significantly increase winter promotional activity that targets the eastern seaboard of Australia. This has resulted in strong growth from Australia with expenditure up 13% in the year ending June 2019.

DGLT has also partnered with Tourism NZ and the Explore Central North Island group of Regional Tourism Offices (RTO) to attract visitation from the traditional western markets of UK/Europe and the US. Although visitor arrivals from UK and Europe have softened considerably over the last 12 months the USA continues to show very solid growth, with spend up 33% YE June 2019.

While the marketing of Taupo district as "natures ultimate playground" still resonates with a wide and active audience, it has less appeal to the changing international visitor or to the domestic urban audience. It is therefore crucial for DGLT to continue to work with existing operators, attract new investment and diversify our product offering if we are to remain an appealing and competitive holiday destination. This has necessitated more work alongside existing and new tourism operators (in partnership with Enterprise Great Lake Taupō).

DGLT has carried out a campaign rebranding exercise this year. "Love Taupo" is the new brand and builds on the success of the #LOVETAUPO lettering located on the Taupo lakefront. This pop-up lettering has become such an iconic point of attraction with an unprecedented number of photographs, Instagram images and likes. In addition to the new brand, DGLT has invested heavily in updating the destination website and a new url to www.lovetaupo.com. With the changeover to a new website there has been some loss in organic traffic and a decrease in referrals to operator listings. Addressing these issues has been a high priority and we are working closely with our web agencies to monitor and improve performance. New imagery that reflects the beauty and vastness of our landscapes aims to inspire visitors to stay longer and explore more of our region.

Several regional tourism projects are in the pipeline for applications to the Provincial Growth Fund, with the RAL Sky waka gondola project a key success to date. The official opening of the gondola was held at the end of July 19 and initial performance is very promising. RAL are continuing to streamline operations to provide a unique and engaging experience on the mountain year-round.

The DGLT regional strategy also highlights the importance of sustainable growth. DGLT is increasingly focused on destination management and development issues. As growth continues, the district is starting to experience crowding and capacity issues at key icon sites. DGLT has

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been increasingly involved in discussions about ensuring that the tourism infrastructure is established to cope with existing and future growth. These changes mean that the role of the RTO is evolving rapidly.

The Turangi and Taupo i-SITEs remain a critical part of the tourism infrastructure in the region. Operated by DGLT, the I- sites are the shopfront for the district and are an important distribution point for international visitors arriving in the region. They continue to operate in a challenging environment, with declining sales revenue as planning and booking are increasingly conducted across digital platforms.

We also know that we would not have been able to deliver such high-quality marketing activity without strong industry support. Often unrecognised is the in-kind contribution that operators make. While the cash support and partnership money are highly visible in our financial statements as revenue, what is not so well identified or acknowledged is the huge support that we receive throughout the year in terms of engagement, discussion, time and product for famils and other industry events and hosting. We are seeing a significant step up in famil activity in the district and especially in partnership with Tourism New Zealand. This activity demands significant staff input as well as support from operators. On behalf of the organisation I thank the industry for their generosity and support – it makes a big difference to know that they are so supportive and willing to contribute in kind as well as cash.

Taupo District Council reviewed its long-term plan in 2018 and a new plan is now operating that provides direction and investment certainty for the next three years. DGLT has, as a result of changes in the plan, a new funding regime. Two key changes have been made to the funding of DGLT that provide a better long-term funding arrangement. Firstly, the core grant for DGLT will now be inflation adjusted consistent with the local government cost index. Since 2010 when the grant was first established, the grant has lost around 25% of its purchasing power. This deterioration in purchasing power will now no longer occur.

The second major change is the separation of the funding of I-SITES from the rest of the DGLT budget. The reason for this change is to enable the destination marketing activity to occur at a level that is independent of the revenue from the i-SITES. The impact of this change is significant as it means that there is now certainty about the marketing budget for the district. Previously the marketing budget was highly variable on a year by year basis because of the need to ensure that the i-SITES were supported in an environment where their revenue fluctuated depending on the season.

After three years as General Manager, Damian Coutts resigned from DGLT in February 2019 to take up a position with the Department of Conservation. The board has subsequently appointed Jane Wilson to the role in March 2019. Jane brings with her a wealth of tourism and destination marketing experience across Australia and New Zealand, as well as experience in strategy development and relationship management with key stakeholders across the industry. Jane has also been involved in tourism business development and marketing and communications strategy. With established tourism connections, Jane has quickly become familiar with the issues and opportunities for tourism as part of the wider district economy.

This year we had two board positions that were advertised as a result of the end of the three-year terms. The council again considered a range of applicants and I am delighted to advise that Dennis Christian has been appointed for a second term. Dennis brings both international experience and deep experience in the backpacker segment in New Zealand. Sadly, we have lost Laura Duncan whose term ended. Laura has recently sold her tourism business and left the district with her family on new adventures. She has been replaced on the board by Cushla Clark, who was appointed in May 2019. Cushla is an experienced tourism operator having run aviation tourism businesses throughout New Zealand. With significant experience in Taupo she is well connected to the industry in the district. As Chairman I welcome Cushla to the board and look forward to the contribution she will bring to discussions over the coming 12 months.

Report to Taupo District Council for 01 July 2018 – 30 June 2019
On behalf of the DGLT Board:

Ray Salter
DGLT Board Chairman
20 August 2019

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Destination Lake Taupō Trust's financial statements and performance information for the year ended 30 June 2019

The Auditor-General is the auditor of Destination Lake Taupō Trust (the Trust). The Auditor-General has appointed me, Clarence Susan, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the Trust on his behalf.

Opinion

We have audited:

- the financial statements of the Trust on pages 19 to 37, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Trust on page 15.

In our opinion:

- the financial statements of the Trust on pages 19 to 37:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards with reduced disclosure requirements.
- the performance information of the Trust on page 15 presents fairly, in all material respects, the Trust's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Trust's objectives for the year ended 30 June 2019.

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

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

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Basis for our opinion

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

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

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

Responsibilities of the Trustees for the financial statements and the performance information

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

The governing body is responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

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

The Trustee's responsibilities arise from the Local Government Act 2002 and the Trust Deed.

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trust.

- We evaluate the appropriateness of the reported performance information within the Trust's framework for reporting its performance.

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

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Trustees are responsible for the other information. The other information comprises the information included on pages 2 to 6, 11 to 14 and 16 to 18, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

Clarence Susan
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand

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REPORT ON TRUST ACTIVITIES

This Annual Report consolidates the financial statements for the Destination Lake Taupō Trust, which trades as Destination Great Lake Taupō. The Annual Report provides an assessment against key performance indicators in the 2018-19 DGLT Statement of Intent, and a report on the Trust's activities (in accordance with Sections 10.9(a) and (c) and 13.2(b) of the Trust Deed.

In accordance with the Trust Statement of Intent, DGLT has two main areas of activity, destination marketing and destination management.

DESTINATION MARKETING:

Destination Great Lake Taupō is a relatively small Regional Tourism Organisation (RTO), with limited resources available for marketing. The trust therefore focuses on three main channels for marketing activity; direct to consumer marketing (largely targeting domestic visitors), operation of the two i-SITEs, and work alongside the travel trade to promote awareness of the region from long haul international destinations.

Domestic consumer marketing continues to be targeted to key markets of Auckland, Wellington, Hawkes Bay, Bay of Plenty, and Waikato. We have continued to focus on driving visitation into the shoulder periods through the release of spring, autumn and winter domestic campaigns.

Our 2019 domestic autumn campaign activity commenced in March 2019 and continued through into April targeting April/May travel. This had a focus on cycling and the campaign was supported with in-region activations delivered in partnership with Town Centre Taupō, Turangi Tourism Group and Bike Taupō including a very successful Monster Bike Sale and treasure trail hunts along the Great Lake Pathway and Tongariro River Trail.

Digital and online marketing remains the key channel for our destination marketing activity. DGLT launched a new website in October 2018 leveraging the success of the pop- up #LOVETAUPO lettering and acknowledging the high level of search on these words, especially from our international markets. With the changeover to a new url, there has been some loss in organic traffic and referrals to operators. Improving performance is a high priority. We have been working with our digital agencies and web developers to address these issues. Although traffic is down those visiting the site are more highly engaged and the bounce rate continues to decline, indicating once people are arriving on lovetaupo.com they are spending quality time there, and finding what they want. There were 635,283 website sessions from 01 July 2018 to 31 June 2019 compared to 1,010,217 for the same period last year. It is important to also note that previous years statistics included those visiting the site to gain free wifi access. We now extract the 'free Wi-Fi' data and report on that separately. From 01 July 18 – 30 June 2019 there were 30,731 Free wifi sessions compared to 29,073 in the previous year. We are also working to establish more meaningful insights – around acquisition, behavior (engagement) and conversion.

Additionally, our social media channels remain important for promotion to visitors. Facebook, Twitter, Instagram, YouTube and Sina Weibo remain our key platforms. DGLT currently has 36,268 Facebook followers (up 8%), 6,617 Twitter followers (up 6%), 16,559 Instagram followers (up 9%) and for Sina Weibo we have 3,384 followers (up 3%). YouTube views are at 144,000 from 1 July 2018 to 30 June 2019 (down 38%). This decrease was expected following the launch of several new video releases in 2018, highlighting the need to continually refresh and supply new content on these channels.

A key component of our consumer direct activity is to generate positive media coverage for the destination. Inviting relevant media both domestically and internationally to visit the Taupo region and then share their stories with their audience generated an equivalent advertising value (EAV) of more than $22million. The region featured in over 650 stories around the world, including features in Signature Luxury Travel & Style Magazine; Luxury Travel Magazine; NZ Mountain Biker; Out & About with Kids; NZ Herald Travel; JetStar Magazine, Kia Ora Magazine, stuff.co.nz, Sunday Telegraph Australia, Conde Nast Traveller, USA plus many others. Significant video content included Samantha Brown's Places to Love (broadcast), USA - https://samantha-brown.com/episodes/season-2/central-north-island-new-zealand/

and Ben Fogle: New Lives in the Wild (broadcast), UK - https://www.my5.tv/ben-fogle-new-lives-in-the-wild/season-7/episode-2

The giant #LOVETAUPO lettering erected on the Taupō lakefront in collaboration with Town Centre Taupō continues to be extremely successful, with the 'Love Taupō' message inspiring a collective catchphrase amongst tourists and locals alike. Originally planned as a playful pop-up concept for major events and festivals around the Great Lake Taupō region, the lettering has taken on a life of its own on social media platforms, with hundreds of visitors sharing their images around the world and inspiring other travelers to the region to seek out the lettering for their 'must do' photo stop.

The Official Great Lake Taupō Visitor Guide was republished in October 18 and continues to have strong support from local operators, with 100,000 copies produced. These are distributed around Auckland, Rotorua, Wellington and Taupō. Additionally, the Shop/Taste guide was released in time for Easter 2019 and a further Walks/Ride publication is due for publication in Oct 2019.

DGLT's focus internationally remains on the core source markets of UK/Europe, USA and Australia.

Australia is our number one market and the eastern seaboard has been the primary focus. DGLT visits the market several times a year. Key activity included participation in a Tourism New Zealand RTO workshop in Sydney (meeting and training over 25 wholesalers) and leading a trade-mission alongside 8 local operators to Brisbane, Surfers, Sydney and Melbourne. DGLT also continued its partnership with Tourism NZ and other RTO's in two additional campaigns during the 18-19 FY. The North Island Touring campaign aimed at attracting visitation over the spring/early summer period and the launch of 'Winter at its Peak' in Feb 19 positioned the Central North Island as a viable winter holiday option. This was the third year of the Tourism NZ, RAL, Visit Ruapehu, Destination Rotorua and Taupō Winter collaboration utilising the additional funding provided by Taupō District Council. Aimed at beginner skiers the campaign messaging promoted the region as more than just a ski destination offering a broad range of experiences to augment a ski holiday. The campaign exceeded all KPI's with referrals up 349% on the previous year's campaign.

A continuing challenge for the region is to have a significant portfolio of bookable 'trade ready product'. A considerable amount of work has taken place within the district to increase the amount of Taupō/Turangi product that is 'contracted' with Australian travel wholesalers and we now have packages that include a broader range of Ruapehu, Turangi and Taupo operators.

Unlike domestic visitors, international long-haul travellers tend to tour across multiple locations. Therefore, our marketing approach for both the UK/Europe market and North American market is undertaken in collaboration with the Explore Central North Island marketing collective. This is a co-operative marketing alliance including seven other regional tourism organisations of the Central North Island (Hamilton/Waikato, Rotorua, Coromandel, Bay of Plenty, Gisborne, Hawkes Bay and Ruapehu) Over the past six months the collective ran a series of sales and training events in both the US and UK/Europe for travel sellers which included promotion and training to over 700 agents across 4 countries. The uncertainty around Brexit has seen a continuing decline in visitor arrivals from the UK over the past 12 months. Despite this decline UK/Europe remains the regions second largest source market, and DGLT has therefore supported ECNI's decision to appoint a local representative based in the UK. The focus is on maintaining and strengthening trade relationships and to ensure that the Central North Island retains its profile and momentum in a challenging market.

There are many additional marketing opportunities in other international markets such as China, India and SE Asia. However, with limited budgets and resource DGLT needs to remain focused on its core source markets to ensure it doesn't dilute the already limited activity we currently undertake.

Throughout the year we have also continued to work closely with NZ based travel trade hosting a greater number of famils in region, as well as attending and hosting several training sessions and workshops with NZ based agents and inbound tour operators.

Corporate and business event clients are high value and are especially valuable as they often contribute to the local economy in off-peak and shoulder season periods. Conference and business event delegates per night spend within the region is approximately $533 per person per night (CDS Survey Dec 2018 – MBIE). This is significantly higher than both the domestic and international holiday visitors who spend an average of $295 and $397 per night respectively (Freshinfo 2019). The total number of business events held within the Taupō region is currently sitting on 963 year to date, with statistics still to be received from some venues for the months of March-June '19. Currently the YE figure is slightly lower than the final YE totals for the 2017/18 year (which was 1126), however with numbers still to be received for some venues, it is on track to either match or exceed the previous year. The region was showcased to potential conference and incentive buyers through a range of channels including tradeshows and famils. This has included hosting New Zealand based companies to the region, coordinating and running networking events in both Auckland and Wellington alongside Taupo operators as well as attending the Convene C & I Tradeshow in Auckland.

As consumers increasingly plan and book their holiday arrangements online the i-SITES are competing for their share of commission sales, advertising dollars and retail spend. Visitor numbers for both i-SITEs have decreased with foot traffic across both I-sites down 8.5% from 216,613 in 2018 to 198,565 YE June 2019. The Turangi door count has dropped 8.6% to 63,379 and the Taupō door count has dropped 8.2% to 135,186. Revenue has further declined with Taupo gross commission sales down 11.3% although retail sales are up 4.5%. Turangi commission and retail sales are down 11.3% and 12% respectively. The drop in Turangi retail sales is largely a result of the reduction in retail space due to the refurbishment of the Centre in 2018.

DESTINATION MANAGEMENT:

Destination management involves three main areas of focus; investing in people, tourism infrastructure and product development.

Building capability within the industry is critical to ensure the industry remains sustainable and competitive. In partnership with Tourism NZ, DGLT held a training workshop with industry aimed at how to work more effectively with international trade and how best to leverage Tourism NZ's digital platforms.

DGLT has identified that the development of new attractions/activities, and infrastructure is critical to tourism growth in the region. If we are to remain a competitive and inspiring year-round destination, it is essential to diversify our product offering, especially in soft and non-adventure activities. DGLT is working closely with Enterprise Great Lake Taupo to support and establish new tourism opportunities for the district. This has included advice, provision of data and where appropriate advocacy in various statutory processes.

The Provincial Growth Fund (PGF) is one of the key avenues of funding support for tourism projects. DGLT is continuing to work with TDC to promote support for vital redevelopment of the airport infrastructure. Ruapehu Alpine Lifts has been successful through this the PGF to receive a $10M loan in support of their gondola development.

DGLT is involved in a series of key destination management issues and has been an active participant in discussions with Local and Central Government around sustainable tourism growth, roading and infrastructure projects.

DGLT works with key partners in the community. We have continued to support District Events, Towncentre Taupō, the Turangi Tourism Group and the business community in Mangakino. This support is a mixture of time, resource and co-operative marketing activity.

DGLT has begun to build a stronger relationship with Ngati Tuwharetoa at various levels and recognizes their growing interest in tourism and the need to work together to develop a cultural tourism strategy moving forward.

Robust data is an ongoing challenge. DGLT is working closely with Regional Tourism New Zealand to advocate and lobby Central Government for stronger reporting at a regional level. Visitor numbers, dispersal, expenditure and length of stay data is critical to inform destination management decision making. The recent announcement by StatsNZ to remove the Commercial Accommodation Monitor (following the earlier announcement to discontinue the Business Events statistics) has added pressure on MBIE to find a solution to strengthen its reporting around data and insights. Listed as one of the top 4 priorities in the recently released NZ – Aotearoa Government Tourism Strategy's, the industry is looking to Central Government to now deliver on their promise at both a National and Regional level.

OVERVIEW OF TOURISM PERFORMANCE

Current data sources, although limited, provide a trending analysis of performance.

Expenditure:
The key spending metric is the monthly regional tourism estimates (MRTE), produced by MBIE. This provides an estimate of regional monthly expenditure on tourism related products for both international and domestic consumers. In the year ending Jun 19, the Taupo region has performed strongly gaining market share in both international and domestic visitation. Total expenditure is up 7% to $684 million compared to national growth of 3%. Domestic expenditure is up 7% to $465 million with international expenditure increasing by 4% to $219 million.

Our strategy to target visitation in the shoulder periods of winter, spring and autumn is also paying off with much of the domestic growth occurring during these off-peak months. The Taupo region was the top performing region in NZ for May 19 growing at 18% compared to the same period last year. This followed record expenditure of $68 M in April - an increase of 21% YOY.

Our core international source markets of USA and Australia also showed strong returns with expenditure up 33% and 13% respectively – again with visitation growing over the winter and autumn periods.

Guest nights:
The Commercial Accommodation Monitor (CAM) tracks and records motel, hotel, backpacker and holiday park guest nights, month-on-month. It does not include non- commercial accommodation such as B&B, Freedom campers, or peer – to peer booking platforms such as Air BnB. It is estimated that one third of our visitors to the Taupo region stay in commercial accommodation. Just over 1 million guest nights were recorded year ending May 2019. This is a decline of 2% on the same period last year. Domestic nights were flat while International nights declined 5%. It is important to note that Air BnB is playing a significant role in accommodating our guests, with the number of properties listed on the platform increasing from 36 in 2016 to over 1600 in May 2019. Revenue generated on the platform has more than doubled over the last 12 months with strong growth from international markets such as Australia (up 110%). The average length of stay in region remains consistent at 1.8 nights in commercial accommodation although it is expected many domestic visitors are staying for significantly longer periods in non- commercial accommodation such as holiday homes and baches.

DGLT PERFORMANCE MEASURES ACHIEVED

In terms of DGLT activity to support and enable this growth, business as usual marketing activity has been maintained through 2018/19.

Below is a table outlining the full year measures against performance targets set for year-end 30 June 2019 (based on the 2018-2020 Statement of Intent).

Objective 1 – Establish Great Lake Taupō as 'THE North Island holiday destination', centred around our natural environment and attractions				
As measured by	**Data sources**	**Result**	**YE 2017-18**	**YE 2018-19**
Growth in tourism expenditure	**Monthly Regional Tourism Estimates**	**ACHIEVED:** **Total direct tourism expenditure of $684M for year ended June 2019 (+ 7%)** **Domestic: $465M (+7%)** **International: $219M (+ 4%)**	**Target:** **4.8% annual growth** **Result:** **6.0%**	**Target:** **4.8% annual growth** **Result:** **7% compared to National growth of 3%**
Visitor experience / satisfaction.	**Annual AA Domestic Travel Monitor**	**ACHIEVED:** **2019: Net promoter score of 52**	**Target:** **Net promoter score of 46** **Result: 48**	**Target:** **Net promoter score of 46** **Result: 52**
As measured by	**Data source**	**Result**	**YE 2017-18**	**YE 2018-19**
Visitation numbers in the Taupō and Turangi i-SITEs	**i-SITE door counters**	**NOT ACHIEVED:** **Total visits 198,565 (- 8.5%)** **Taupo: 135,186 visits (-8.2%)** **Turangi: 63,379 (-8.6%)**	**Target:** **260,000 visits** **Result:** **216,613 Visits**	**Target:** **240,00 Visits** **Result:** **198,565 visits**
Support for DGLT collateral	**Number of operators advertising on www.lovetaupo.com** **Number of operators with brochures in the Taupo and Turangi i-SITEs.**	**NOT ACHIEVED:** **586 listings on lovetaupo.com** **The decline in listings is due to the change over to the lovetaupo platform. Many retail/food and beverage operator listings have not yet been loaded we require updated listings from over 500+ Town Centre Taupo members.** **NOT ACHIEVED** **193 Local operators stocking brochures in the Taupo and Turangi i-SITEs.**	**Listing numbers maintained or growing.** **Result:** **874 listings** **221 operator brochures**	**Listing numbers maintained or growing.** **Result:** **586 listings** **193 operator brochures**
Support for DGLT marketing initiatives	*Measured by free of charge or in-kind support for marketing promotions activity.*	**ACHIEVED** **TOTAL:** **$97,000 estimated of in-kind support was received from our industry to support trade and consumer famils/ events.**	**Target:** **$60,000 free of charge or in-kind support for marketing activity**	**Target:** **$70,000** **Result:** **$97,000 (est)**
Stakeholder satisfaction.	*Annual Visitor Industry Survey* *Maintaining consistency is set as the primary performance target*	**NOT ACHIEVED** **2019: 67%** **56 respondents completed the entire survey with a larger number of responses coming from Turangi voicing their extreme dissatisfaction with TDC issues.**	**Result:** **81% Industry satisfaction score** **38 completed surveys received**	**Target:** **85% Industry satisfaction score** **Result:** **67% Industry satisfaction score**

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Rationale for performance measures:

The 2018 SOI adopts a new performance measure around growth in tourism expenditure. The purpose of this measure is to track spending as an overall measure of visitor numbers and economic benefit from tourism. This will be tracked through the Monthly Regional Tourism Estimates. This is a dataset published monthly by the Ministry of Business, Innovation and Employment, and it provides an estimate of monthly regional tourism spend. We have adopted a growth target of 4.8% annually. This is consistent with the DGLT Strategic Document and Tourism New Zealand's national targets, which lists increased tourism spend as the key performance indicator. The strategic document identifies a performance target of $800 million by 2026, based on a 4.8% increase year on year.

The annual AA Domestic Travel Monitor has been retained to measure domestic visitor experience/satisfaction with the destination. There is currently no data set to measure international NPS at a regional level. The key measure therefore is the domestic net promoter score. The net score ranges from -100 to +100 so a score above 50 reflects a very high level of visitor satisfaction.

We have retained the i-SITE door count as a measure, but the performance target is a reduction in visitation below current levels. Trends around i-SITEs nationally suggest that many are struggling to maintain visitation and profitability with a change in consumer behavior towards planning and booking their holiday activities online. Therefore, the performance target is based on reducing market share and performance over time, rather than predicting significant growth.

A new measure was included in 2017 to track support for DGLT collateral. This was retained in 2018. DGLT will track the overall number of operator listings on the website and in the i-SITE. This provides a way to measure the number of operators and the value they place in our marketing material (irrespective of the size of their business).

An additional measure is included to capture 'free of charge' or 'in-kind' contributions by industry. The estimated contribution from the 2017/18 financial year has been added as a benchmark and used as the target for 2018/19. As growth occurs, we anticipate that this level of contribution will increase. As a result, the target increases for 2018/19 and 2019/20.

Changes to performance measures from 2017-2020 SOI:

Changes have been included in performance measures for the 2018-2021 Statement of Intent, reflecting changes to data sets available nationally and the changes outlined in the DGLT Strategic Document.

In 2017/18 DGLT monitored tourism spending using both the Monthly Regional Tourism Estimates (MRTEs), and the quarterly Marketview report, which tracks electronic card retail transactions (but excludes cash, hire-purchase and online methods of payment). Marketview data is now being incorporated as part of the MRTEs, so it is a duplicate to track/report against both measures. On this basis, the Marketview data/performance metric has been deleted from the SOI.

DGLT has deleted the performance measure around i-SITE costs (as measured by net i-SITE expenditure over income) in favour of measuring i-SITE door count. The i-SITE financial performance is measured elsewhere via the annual report.

SUMMARY OF FINANCIAL STATEMENTS

OVERVIEW

Following Taupo District Council's review of its long- term plan in 2018, a new funding regime is now in place for DGLT. This provides greater certainty for DGLT up until 2021. As a result of the changes, DGLT will now be inflation adjusted consistent with the local government cost index. Since 2010 when the funding grant was first established, the annual budget had lost approximately 25% of its purchasing power.

A further change separated the funding for the I-sites from DGLT's budget. With the continued decline in visitor numbers and commission sales at the I-sites, the destination marketing budget was significantly eroded as it off-set these losses. With this change there is now certainty about the marketing budget for the district and ensures a level of independence from the seasonal fluctuations in sales and commissions.

DGLT was funded by way of a grant from Taupō District Council of $1,950,000 (including an additional $200,000 for the I -sites) and generated another $616,542 (gross) of income from sales, commissions and advertising. This is down from $710,414 in 2017/18, reflecting reduced operator advertising and commission sales through the i-SITEs.

The organisation had operating expenditure of $2,459,991 creating a year end surplus of $119,203 and a balance in equity of $293,927. The Trust holds an adequate level of equity to support capital purchases, cover prepayments and to hold a position of positive working capital.

REVENUE

Total gross revenue for the year sits at $2,579,194, comprised of the TDC grant, interest received and revenue from services provided. This figure is $95,271 below the figures submitted in the 2018/19 Statement of Intent and reflects the decrease in commission and retail sales through the I- sites and a reduced level of marketing promotions income from advertising and campaign buy-in.

Continued work with partnership marketing and advertising sales has resulted in income of $125,702. This reflects operator investment in website and brochure advertising, plus trade activity.

I-SITE revenue (from commissions, advertising and retail profit plus online sales) is $490,840. This is less than the 2017/18 result of $517,622, reflecting the reduced foot traffic, ticket and retail sales and net commissions through both i-SITEs.

EXPENDITURE

There are some variations in the Annual Report relative to the Statement of Intent and the 2017/18 result.

Employee expenses are down $103,554 reflecting changes in staffing levels at DGLT and the I- sites. With a change in General Manager, DGLT has reviewed I-site rosters and held off replacing staff, taking the opportunity to review resource requirements moving into the new financial year.

Legal fees cover the cost of trademarking the Lovetaupo logo.

An increase in work alongside the international travel trade has created an increase in trade show and sales activity. Conference fees are therefore up due to the costs of registration at the various trade and industry events.

The other notable variation is in Materials and Supplies. The rebrand to lovetaupo required new trade display material, updated TRENZ/Exhibition display stands. Other expenditure was for updating decals at Turangi and Taupo I-sites and replacing the banner arms for the CBD Street flags. We anticipate additional expenditure in 2019/2020 to complete the lovetaupo rebranding of the Taupo i-Site.

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STATEMENT OF FINANCIAL POSITION

Current assets and current liabilities have reduced by approximately $250,000 due to a timing difference in payables at 30 June 2019. Trade receivables have been reduced as a result of increased effort in collecting receivables.

Trust equity has increased to $293,927 as a result of a net surplus of $119,203. While total expenditure was in line with the funds received, website development costs are of a capital nature and have been treated as such, resulting in an increase in intangible assets in the Statement of Financial Position. Overall DGLT has a working capital position of $73,785.

Report to Taupō District Council for 1 July 2018 – 30 June 2019
Prepared by:

Jane Wilson
DGLT General Manager
20 August 2019

Statement of Comprehensive Revenue and Expense
For the year ended 30 June 2019

	Note	Actual 2019 $	DLTT SOI 2019 $	Actual 2018 $
Revenue				
Operating grant from Taupo District Council		**1,950,000**	**1,950,000**	1,750,000
Revenue from services provided	4	**616,542**	**716,677**	710,414
Finance revenue	5	**12,652**	**7,788**	5,600
Other gains/(losses)		**-**	**-**	9,600
Total revenue		**2,579,194**	**2,674,465**	2,475,614
Expenditure				
Employee benefit expenses	6	**1,074,663**	**1,178,217**	1,039,144
Depreciation and amortisation expense	12,13	**48,319**	**23,860**	19,022
Finance costs	5	**-**	**-**	1,796
Other expenses	6	**1,337,009**	**1,472,388**	1,438,378
Total operating expenditure		**2,459,991**	**2,674,465**	2,498,340
Operating surplus/(deficit) before tax		**119,203**	**-**	(22,726)
Income tax (expense)/credit		**-**	**-**	75,942
Surplus from continuing operations		**119,203**	**-**	53,216
Other comprehensive revenue		**-**	**-**	-
Total comprehensive revenue and expenses attributable to:				
Destination Lake Taupo Trust		**119,203**	**-**	53,216

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

Statement of Changes in Equity
For the year ended 30 June 2019

	Note	Actual 2019 $	DLTT SOI 2019 $	Actual 2018 $
Net Assets/Equity at start of the year	7	**174,725**	**-**	121,509
Total comprehensive revenue and expenses		**119,203**	**-**	53,216
Balance at 30 June	7	**293,927**	**-**	174,725
		-	-	-

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

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Statement of Financial Position
As at 30 June 2019

	Note	Actual 2019 $	DLTT SOI 2019 $	Actual 2018 $
ASSETS				
Cash and cash equivalents	8	**52,623**	-	300,625
Other financial assets	11	**250,000**	-	250,000
Trade and other receivables	9	**20,473**	-	59,286
Inventories	10	**29,322**	-	23,558
Prepayments		**27,651**	-	25,201
Total current assets		**380,069**	-	658,670
Non-current assets				
Property, plant and equipment	12	**103,823**	-	111,955
Intangible assets	13	**122,162**	-	-
Total non-current assets		**225,985**	-	111,955
Total assets		**606,054**	-	770,625
LIABILITIES				
Current liabilities				
Trade and other payables	14	**190,532**	-	453,137
Employee benefit liabilities	15	**108,752**	-	128,793
Current tax liabilities		**7,000**	-	7,000
Total current liabilities		**306,284**	-	588,930
Non-current liabilities				
Employee benefit liabilities	15	**5,843**	-	6,970
Total non-current liabilities		**5,843**	-	6,970
Total liabilities		**312,127**	-	595,900
Net assets (assets minus liabilities)		**293,927**	-	174,725
EQUITY				
Contributed equity	7	**100**	-	100
Accumulated funds	7	**293,827**	-	174,625
Total equity		**293,927**	-	174,725

Summary of significant accounting policies and the accompanying notes form part of these financial statements.

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Statement of cashflows
For the year ended 30 June 2019

	Note	Actual 2019 $	DLTT SOI 2019 $	Actual 2018 $
Cash flows from operating activities				
Receipts from customers		**632,661**	-	667,516
Receipts from Taupo District Council operating grant		**1,950,000**	-	1,750,000
Finance revenue		**12,652**	-	5,600
Other revenue		-	-	11,928
Payments to suppliers		**(1,606,913)**	-	(1,266,799)
Payments to employees		**(1,095,831)**	-	(1,016,010)
Interest paid		-	-	(1,796)
Net GST refunded / (paid)		**22,544**	-	19,579
Net cash flow from operating activities		**(84,887)**	-	170,018
Cash flows from investing activities				
Investments made		**(250,000)**	-	(250,000)
Investments matured		**250,000**	-	-
Proceeds from sale of property, plant and equipment		-	-	35,074
Purchase and development of property, plant and equipment		**(18,808)**	-	(77,534)
Purchase and development of intangibles		**(144,307)**	-	-
		(163,115)	-	(77,534)
Net cash flow from investing activities		**(163,115)**	-	(292,460)
Net increase (decrease) in cash held		**(248,002)**	-	(122,442)
Add cash at start of year		**300,625**	-	423,067
Cash, cash equivalents, and bank overdrafts at the end of the year	8	**52,623**	-	300,625

The GST (net) component of cash flows from operating activities reflects the net GST paid to and received from the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes and to be consistent with the presentation basis of the other primary financial statements.

The accompanying notes form part of these financial statements.

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1 Statement of accounting policies for the year ended 30 June 2019

1.1 Reporting entity

The Destination Lake Taupo Trust ('the Trust") is a Council Controlled Organisation of Taupo District Council, by virtue of the Council's right to appoint the Board of Trustees. Governance is provided by the Trust Board as per the Destination Lake Taupo Trust deed. The relevant legislation governing the Trust's operations includes the LGA. The financial statements of the Destination Lake Taupo Trust have been prepared in accordance with the provisions of section 68 and section 69 of the Local Government Act 2002.

The primary objective of the Trust is to promote the Great Lake Taupo region to the domestic and international visitor market with the specific intention of growing this market, rather than for making a financial return. Accordingly, the Trust has designated itself as a public benefit entity for financial reporting purposes.

The financial statements of the Trust are for the year ended 30 June 2019. The financial statements were approved by the Board of Trustees on 30th August 2019.

2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared on a Going Concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of compliance

The financial statements of the Trust have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZGAAP).

They comply with NZ PBE IPSAS as appropriate for public benefit entities.

The financial statements of the Trust have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with Public Sector Public Benefit Entity Standards (PS PBE Standards).

The financial statements have been prepared in accordance with Tier 2 PBE accounting standards RDR as it has no public accountability and has total expenses (including grants) of > $2million but < $30million.

These financial statements comply with PBE standards.

The Trust has adopted External Reporting Board Standard A1 Accounting Standards Framework (FP Entities & PS PBEs Update) (XRB A1). XRB A1 establishes a PBE tier structure and outlines which suit of accounting standards entities in different tiers must follow. The Trust is a Tier 2 PBE as it has no public accountability and has total expenses (including grants) of less than $30 million.

Measurement base

The financial statements have been prepared on a historical cost basis except for certain classes of assets and liabilities which are recorded at fair value. These are detailed in the specific policies below.

Functional and presentation currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the Trust is New Zealand dollars.

Changes in accounting policies

There have been no changes in accounting policies

2.2 Foreign currency transactions

The functional and presentation currency is New Zealand dollars. Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction.

2.3 GST

The financial statements have been prepared exclusive of GST, except for trade and other receivables and trade and other payables. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense.

Commitments and contingencies are disclosed exclusive of GST.

2 Summary of significant accounting policies

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

2.4 Revenue

Revenue is measured at fair value.

Grants

All grants (including the grant from Taupo District Council) and bequests received, including non-monetary grants at fair value, shall be recognised as revenue when there is reasonable assurance that:

(a) the entity will comply with the conditions accounting to them; and

(b) the grants will be received.

Vested assets

Where a physical asset is acquired for nil or nominal consideration, the fair value of the asset received is recognised as revenue.

Sales of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Marketing fees

Marketing fees are fees charged for the advertising and promotion of businesses and tourism operators. This includes but is not limited to website advertising, i-Site TV advertising and other print advertising. Marketing fees are recognised as revenue when DGLT invoices the customer.

Interest and dividends

Interest revenue is recognised as it accrues, using the effective interest method.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

2.5 Leases

(i) Finance leases

Leases
Leases in which substantially all of the risks and rewards of ownership transfer to the lessee are classified as finance leases. At inception, finance leases are recognised as assets and liabilities on the Statement of Financial Position at the lower of the fair value of the leased property and the present value of the minimum lease payments. Any additional direct costs of the lease are added to the amount recognised as an asset. Subsequently, assets leased under a finance lease are depreciated as if the assets are owned.

At the start of the lease term, finance leases are recognised as assets and liabilities in the balance sheet at the lower of the fair value of the leased item or the present value of the minimum lease payments.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term, so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, foreign exchange losses, and losses on derivative instruments that are recognised in the Statement of Comprehensive Revenue and Expense. The interest expense component of finance lease payments is recognised in the Statement of Comprehensive Revenue and Expense using the effective interest rate method.

(ii) Operating leases

Payments made under operating leases are recognised in the surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Comprehensive Revenue and Expense as an integral part of the total lease expense.

2 Summary of significant accounting policies

2.6 Equity

Equity is the community's interest in the DGLT as measured by the value of total assets less total liabilities. Equity is disaggregated and classified into a number of reserves to enable clearer identification of the specified uses DGLT makes of its accumulated surpluses. The equity of DGLT is made up of the following components:

- Accumulated funds

Equity is the community's interest in the Trust, and is measured as the difference between total assets and total liabilities

2.7 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits, and other short term highly liquid investments with maturities of less than three months.

2.8 Financial assets

The Trust classifies its investments as loans and receivables.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. They are included in current assets except for maturities greater than 12 months after the balance date, which are included in non-current. After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the Statement of Comprehensive Revenue and Expense.

2.9 Trade and other receivables

Trade and other receivables are initially measured at face value, less impairment losses (note 2.13). A provision for impairment of receivables is established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of the estimated future cashflows, discounted using the effective interest method.

2.10 Inventory

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Inventories held for use in the provision of goods and services on a commercial basis are valued at the lower of cost (using the FIFO method) and net realisable value.

2.11 Property, plant and equipment

Property, plant, and equipment consist of:

Operational assets – These include plant and equipment.

No property, plant or equipment owned by DGLT are subject to restrictions in title or have been pledged as security for liabilities. There are also no contractual commitments for the acquisition of plant, property and equipment.

Property, plant and equipment are shown at cost or valuation, less accumulated depreciation and impairment losses.

Valuation methodologies
Those asset classes that are revalued, are revalued on a three yearly valuation cycle. All other asset classes are carried at depreciated historical cost. The carrying values of all assets not revalued in any year are reviewed at each balance date to ensure that those values are not materially different to fair value.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

2 Summary of significant accounting policies

Increases in the carrying amounts arising on revaluation of an asset class are credited to revaluation reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in the surplus or deficit, the increase is first recognised in the surplus or deficit. Decreases that reverse previous increases of the same asset class are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the class; all other decreases are charged to the surplus or deficit.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the surplus or deficit during the financial period in which they are incurred.

Borrowing costs are not capitalised as part of the cost of an asset. They are recognised as an expense in the period in which they are incurred.

Additions
The cost of an item of property, plant, and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Trust and the cost of the item can be measured reliably.

Disposals
Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to accumulated funds.

Transfers
When the use of a property changes from owner-occupied to investment property, the property is reclassified to investment property at its fair value at the date of the transfer.

Subsequent measurement
Subsequent to initial recognition, classes of PP&E are accounted for as set out below. Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of PP&E, less any residual value over its remaining useful life.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant, and equipment other than land, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Motor vehicles	4 years	25%
Machinery	4 years	5% - 25%
Computer equipment	4 years	25%
Office equipment	4 - 10 years	8.5% - 30%
Furniture and fittings	2 - 10 years	7% - 33%

2.12 Intangible assets

Intangible assets are initially recorded at cost. Where acquired in a business combination, the cost is the fair value at the date of acquisition. The cost of an internally generated intangible asset represents expenditure incurred in the development phase.

Subsequent to initial recognition, intangible assets with finite useful lives are recorded at cost, less any amortisation and impairment losses and are reviewed annually for impairment losses. Amortisation of intangible assets is provided on a straight-line basis that will write off the cost of the intangible asset to estimated residual value over their useful lives. Assets with indefinite useful lives are not amortised but are tested, at least annually, for impairment and are carried at cost less accumulated impairment losses.

Realised gains and losses arising from the disposal of intangible assets are recognised in statement of comprehensive income in the year in which the disposal occurs.

Website

Website development costs recognised as assets are amortised using the straight line method over their estimated useful lives (not exceeding 8 years).

2 Summary of significant accounting policies

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Class of intangible asset	Estimated useful life	Amortisation rates
Website	4 years	25%

2.13 Impairment

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

Cash generating assets are those assets that are held for the primary objective of generating a commercial return. Value in use is the present value of expected future cash flows.

Non-cash generating assets are those assets that are not held with the primary objective of generating a commercial return. The value in use for non-cash generating assets is the the depreciated replacement cost

2.14 Financial Liabilities

Short term creditors and other payables are recorded at their face value.

2.15 Employee entitlements

Provision is made in respect of the Trust's liability for salaries and wages accrued up to balance date, annual leave, and long service leave.

Long service leave, where there is already actual entitlement, is accrued at actual entitlement using current rates of pay. In addition, there is an actuarial assessment of value for which entitlement has not yet been reached. This assessment uses current rates of pay taking into account years of service, years to entitlement and the likelihood staff will reach the point of entitlement. These estimated amounts are discounted to their present value.

Liabilities for annual leave are accrued on an actual entitlement basis, using current rates of pay.

Superannuation schemes

Defined contribution schemes
Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficit when incurred.

2.16 Interest bearing borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

2.17 Income tax

The IRD has recently confirmed the Trust is now exempt from income tax under sections CW 40 of the Income Tax Act 2007. The IRD has advised that the exemption is not back-dated, and applies from the date that the trust deed was amended on 12 June 2015.

2.18 Budget figures

The budget figures are those approved by the Board in the Statement of Intent and in complying with sections 64, 66, and 67 of the Local Government Act 2002.

2 Summary of significant accounting policies

2.19 Advertising costs

Advertising costs are expensed when the related service has been rendered.

3 Critical accounting estimates and judgements

In preparing the financial statements DGLT made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4 Revenue from Services Provided

	DGLT Actual 2019 $	Actual 2018 $
Revenue from significant activities		
I-Site operations	**490,840**	517,622
Marketing fees	**125,702**	192,792
Total revenue from services provided	**616,542**	710,414

The i-Site Operations revenue (including stock movement) is shown below:

Analysis of I-site Revenue		
Retail sales	**189,584**	186,959
less cost of goods sold	**(104,767)**	(106,026)
Gross margin on retail sales	**84,817**	80,933
less stock losses	**(1,233)**	(2,622)
	83,584	78,311
I-Site Commissions	**253,049**	252,573
I-Site Operator advertising revenue	**27,420**	32,310
Other	**20,787**	45,780
Total I-site operations revenue	**384,840**	408,974

5 Finance revenue and finance costs

	DLTT Actual 2019 $	Actual 2018 $
Finance revenue		
Interest revenue	**12,652**	5,600
Less finance costs		
Interest expense	**-**	1,796
Net finance costs	**12,652**	3,804

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6 Operating expenditure

	DLTT Actual 2019 $	Actual 2018 $
Employee benefit expenses		
Salaries and wages	1,067,473	993,809
Increase/(decrease) in employee entitlements/liabilities	(20,977)	19,588
Defined contribution plan employer contributions	28,167	25,747
Total employee benefit expenses	1,074,663	1,039,144
Depreciation by asset class:		
Motor vehicles	-	-
Furniture and fittings	25,457	15,669
Machinery	716	3,353
Amortisation of intangible assets:		
Website Development	22,146	-
Total depreciation and amortisation	48,319	19,022
Audit fees for financial statements audit	17,986	17,634
Board meeting fees	39,968	43,065
Bad debts written off	150	1,249
Legal fees	4,256	572
Taupo District Council indirect costs	179,000	179,000
Inventory cost of goods sold	104,767	106,026
Inventory writeoff	1,233	2,622
Advertising	402,682	537,261
Professional services fees/legal fees	37,120	43,796
Travel & accommodation	99,594	110,321
Printing & stationery	13,564	18,351
Bank fees	38,732	37,521
Rental	151,876	148,678
Publicity	10,711	14,600
Maintenance	5,763	7,352
Conference fees	67,178	55,527
Materials and supplies	32,390	10,615
Insurance	2,290	2,115
Other grants	5,063	-
Loss on disposal of property, plant & equipment	766	2,759
Staff expenses	9,720	6,012
Other expenses	112,200	93,302
Total other expenses	1,337,009	1,438,378

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7 Net assets/equity

	DLTT Actual 2019 $	Actual 2018 $
Trust Equity		
Accumulated funds	293,827	174,625
Balance as at 30 June	293,827	174,625
Contributed equity		
Equity	100	100
Balance as at 30 June	100	100
Total equity	293,927	174,725
Accumulated funds		
Balance as at 1 July	174,624	121,409
Surplus/(deficit) for the year	119,203	53,216
Balance as at 30 June	293,827	174,625

8 Cash and cash equivalents

	DLTT Actual 2019 $	Actual 2018 $
Cash at bank and in hand	9,496	4,873
Call deposits	43,127	45,752
Term deposits with maturities of less than three months	-	250,000
Total cash and cash equivalents used in statement of cashflows	52,623	300,625

9 Trade and other receivables

	DLTT Actual 2019 $	Actual 2018 $
Trade receivables	6,039	21,051
Net debtors	6,039	21,051
Other	4,641	5,898
GST refund	9,793	32,337
	14,434	38,235
Total current net trade and other receivables	20,473	59,286
Total debtors and other receivables from exchange transactions	6,039	21,051
Total current net trade and other receivables from non-exchange transactions	14,434	38,235

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9 Trade and other receivables

Total current net trade and other receivables	**20,473**	59,286

Debtors and other receivables are non-interest bearing and receipt is normally on 30 day terms, therefore the carrying value of debtors and other receivables approximates their fair value.

The status of receivables as at 30 June 2019 are detailed below:

	DLTT	
	Actual 2019 $	Actual 2018 $
Current	**1,278**	8,280
Past due 1-30 days	**3,218**	-
Past due 31-60 days	**345**	1,750
Past due 61+ days	**1,198**	11,021
Total receivables	**6,039**	21,051

The Trust holds no collateral as security or other credit enhancements over receivables that are either past due or impaired.

10 Inventories

	DLTT	
	Actual 2019 $	Actual 2018 $
Commercial inventories		
- held for use in the provision of services	**29,322**	23,558
Total inventory	**29,322**	23,558

No inventories are pledged as security for liabilities (2018 $nil).

11 Other financial assets

	DLTT	
	Actual 2019 $	Actual 2018 $
At beginning of year	**250,000**	-
Additions	**-**	250,000
At end of year	**250,000**	250,000

	DLTT	
	Actual 2019 $	Actual 2018 $
Current portion		
Short term bank deposits with maturities of 4-12 months	**250,000**	250,000
Total current portion	**250,000**	250,000

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12 Property, plant and equipment

DLTT 2019	Cost 1 Jul 2018 $	Accumulated depreciation 1 Jul 2018 $	Carrying amount 1 Jul 2018 $	Current year additions (+ gains) $	Current year disposals (+ losses) $	Current year depreciation $	Cost 30 Jun 2019 $	Accumulated depreciation 30 Jun 2019 $	Carrying amount 30 June 2019 $
Operating assets									
Furniture and fittings	111,957	(22,732)	89,225	15,979	(766)	(16,933)	125,690	(37,780)	87,910
Office and computer equipment	59,786	(37,056)	22,730	2,829	-	(9,241)	62,614	(46,701)	15,913
Total DLTT	**171,743**	**(59,788)**	**111,955**	**18,808**	**(766)**	**(26,174)**	**188,304**	**(84,481)**	**103,823**

DLTT 2018	Cost 1 Jul 2017 $	Accumulated depreciation 1 Jul 2017 $	Carrying amount 1 Jul 2017 $	Current year additions (+ gains) $	Current year disposals (+ losses) $	Current year depreciation $	Cost 30 Jun 2018 $	Accumulated depreciation 30 Jun 2018 $	Carrying amount 30 Jun 2018 $
Operating assets									
Furniture and fittings	53,761	(20,421)	33,340	66,827	(1,726)	(8,813)	111,957	(22,732)	89,225
Office and computer equipment	50,514	(27,652)	22,862	10,707	(1,033)	(10,209)	59,786	(37,056)	22,730
Motor vehicles	77,393	(51,919)	25,474	-	(25,474)	-	-	-	-
Total DLTT	**181,668**	**(99,992)**	**81,676**	**77,534**	**(28,233)**	**(19,022)**	**171,743**	**(59,788)**	**111,955**

There is no provision for impairment this year (2018 $nil)

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13 Intangible assets

Movements in the carrying value for each class of intangible asset are as follows:

	Website	Total
Year ended 30 June 2019		
Opening net book amount	-	-
Additions	144,308	144,308
Amortisation charge **	(22,146)	(22,146)
Closing net book amount	122,162	122,162
At 30 June 2019		
Cost	144,308	144,308
Accumulated amortisation and impairment	(22,146)	(22,146)
Net book amount	122,162	122,162

** Amortisation of $22,146 (2018: $nil) is included in depreciation and amortisation expense in the statement of comprehensive income.

14 Trade and other payables

	DLTT Actual 2019 $	Actual 2018 $
Trade payables	**102,985**	323,985
Accrued expenses	**82,030**	127,847
Provision for ACC	**1,625**	1,305
Revenue in advance	**3,892**	-
Total creditors and other payables	**190,532**	453,137
Total creditors and other payables from exchange transactions	**184,995**	451,832
Total creditors and other payables from non-exchange transactions	**5,537**	1,305
Total current creditors and other payables from exchange and non-exchange transactions	**190,532**	453,137

Trade payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade payables approximates their fair value.

15 Employee benefit liabilities

	DLTT Actual 2019 $	Actual 2018 $
Current portion		
Accrued pay	**8,348**	7,413
Annual leave	**93,039**	114,872
Long service leave & lieu days	**7,365**	6,508
Total current portion	**108,752**	128,793
Non-current portion		
Long service leave actuarial accrual	**5,843**	6,970
Total non-current portion	**5,843**	6,970
Total employee entitlements	**114,595**	135,763

The present value of retirement gratuities and long service leave obligations depend on a number of factors that are determined on an actuarial basis. Two key assumptions used in calculating this liability include the discount rate and the salary inflation figure. Any changes in these assumptions will affect the carrying amount of the liability.

A discount factor of 1.23% (2018 1.78%) and an inflation factor of 2% (2018 2%) were used.

16 Related party transactions

The Destination Lake Taupo Trust (the Trust) is a Council Controlled Organisation of Taupo District Council and received a significant operating grant of $1,950,000 from the Council to deliver it's objectives as specified in the Trust Deed. All transactions with related parties have been conducted at arms length.

Key management personnel

	DLTT	
	Actual 2019 $	Actual 2018 $
Council members		
Remuneration (Trustees)	**39,968**	43,065
Remuneration	**6**	6
Senior Management		
Remuneration (GM & SMT)	**415,135**	391,825
Remuneration	**4**	4
Total full-time equivalent personnel	**455,103**	434,890
Total key management personnel compensation	**10**	10

Due to the difficulty in determining the full-time equivalent for Board Members, the fulltime equivalent figure is taken as the number of Board Members.

Key management personnel includes the Trustees, General Manager, and the senior management team.

17 Capital & operational commitments and operating leases

Non-cancellable operating leases as lessee:
The Destination Lake Taupo Trust leases property, plant and equipment in the normal course of its business. The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

	DLTT	
	Actual 2019 $	Actual 2018 $
Payable no later than one year	**18,000**	18,000
Total non-cancellable operating leases	**18,000**	18,000

This lease relates to one year's rental for Turangi I-Site.

18 Contingencies

As at 30 June 2019 the Trust had no contingent liabilities or assets (2018: $nil).

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19 Financial instruments

Financial instrument categories

Assets	Held for trading $	Assets at fair value through surplus or deficit $	Loans and receivables $	Available for sale $	Total $
DLTT 2019					
Cash and cash equivalent	-	-	52,623	-	52,623
Receivables	-	-	6,039	-	6,039
Other financial assets:					
Term Deposits	-	-	250,000	-	250,000
Total assets	-	-	308,662	-	308,662
DLTT 2018					
Cash and cash equivalent	-	-	300,625	-	300,625
Receivables	-	-	21,051	-	21,051
Total assets	-	-	321,676	-	321,676

Liabilities	Held for trading $	Liabilities at fair value through surplus or deficit $	Measured at amortised cost $	Total $
DLTT 2019				
Payables and accruals	-	-	198,949	198,949
Total liabilities	-	-	198,949	198,949
DLTT 2018				
Payables and accruals	-	-	453,958	453,958
Total liabilities	-	-	453,958	453,958

20 Events after balance date

There were no significant events after balance date that require reporting.

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21 Explanation of major variances against budget

Explanations for major variations from the DGLT's budget figures in the SOI are as follows:

Statement of comprehensive revenue and expense	DLTT 2019 $
Budget - surplus before tax	-
Employee benefit expenses - lower than expected personnel costs due to delays in filling vacancies, reduced working hours for some permanent positions and less casual hours employed	103,554
Revenue from services provided - Lower than budgeted revenue from commission sales due to higher use of online booking via personal devices.	(100,135)
Finance Revenue - higher interest revenue due to greater emphasis being placed on term investments and yield.	4,864
Depreciation and amortisation expense - higher charges due to website development and other asset purchases not budgeted for.	(24,459)
Other expenses - favourable due to website development expenses being capitalised. Website development spend had been budgeted in operations.	144,308
Other expenses - rebranding expenses for consumables	(8,929)
Actual - surplus before tax	**119,203**

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Waikato Local Authority
SHARED SERVICES

Better together

Annual report 2019

The enabler for Councils to provide their services in the most effective and efficient way

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Chair & CEO report

Transforming WLASS

It has been a landmark year for the evolution of the company. Following a strategic review, the company's operating model has changed - it is now employing staff for the first time in its history as part of transforming into a service delivery agent.

A further enabler for the transformation is an agile, skills-based governance structure. Shareholders unanimously supported a change to the Board structure, reducing it from twelve to six members, including an independent Chair. This change took effect from 1 July and we are pleased to see the appointment of Peter Stubbs into the Chair role.

While these changes require additional, upfront investment from shareholding Councils, the company recognises that overall Councils must be better off. With its performance measures for the coming year the company commits to identifying shared service opportunities that, once implemented, will deliver savings that ensure that outcome is realised.

Another year of achievements

WLASS has continued to make significant advances during the year with several projects coming to fruition.

The aligned resourcing consent project was completed, making business in Waikato easier by aligning resource consent process documentation so that the consent process is more efficient and user friendly. The forum continues to meet and is now considering ways to enhance the offering which include taking the consenting process on-line.

The three-year energy management programme, in collaboration with the Energy Efficiency Conservation Authority, was successfully concluded. That programme has, over its duration, seen energy management projects that have delivered annual energy savings of 3.62GWh and annual cost savings of $446k. On the back of this success, WLASS will continue to deliver energy and carbon management savings under a new programme that commenced 1 July.

The Waikato Data Portal went live in April. You can see it here (https://data-waikatolass.opendata.arcgis.com/). The portal provides a single location for customers to access data shared by the Councils.

We implemented a regional Health & Safety Management framework together with a suite of best practice documents covering various aspects of health and safety, from emergency preparedness and hazard and risk management, to health monitoring and training.

We also completed a regional procurement framework and now have a toolkit to ensure best practice procurement processes are undertaken as efficiently as possible, by leveraging established templates and guidelines.

Keeping with procurement, a project was undertaken to establish a new professional service panel covering consultants supporting physical works. Council participation has increased from four to eight councils and the response from the market was significant. The panel sees consultants engaged on pre-agreed terms which significantly reduces the time and effort required of councils, and the consultants, when engaging on particular work. The value to councils based on the previous panel, is expected to be significant.

This year, Future Proof entered a new phase of its evolutionary journey, with the expansion of the partnership and introduction of a new significant workstream. In March 2019, the Future Proof Implementation Committee approved a milestone paper on 'Future Proof Looking Forward', recommending that the Future Proof framework be adapted to bring in the Hamilton to Auckland Corridor Plan as a significant workstream, and that Central Government, Auckland Council and Auckland Iwi be invited to join the partnership.

Financial position

Financially, WLASS remains in a strong position with cash reserves of $1.46m and equity of $1.28m.

Our thanks

We would like to take this opportunity to acknowledge the efforts of those directors who have stepped down, either as part of the Board restructure of simply with their departure from the council:

Langley Cavers, Hauraki District Council (to 30 June 2019)
Dave Clibbery, Otorohanga District Council (to 1 March 2019)
Garry Dyet, Waipa District Council (to 30 June 2019)
Craig Hobbs, South Waikato District Council (to 28 October 2018)
Don McLeod, Matamata-Piako District Council (to 30 June 2019)
Chris Ryan, Waitomo District Council (to 30 June 2019)
Ben Smit, South Waikato District Council (12 March 2019 to 30 June 2019)
Geoff Williams, Rotorua Lakes Council (to 30 June 2019)
Tanya Winter, Otorohanga District Council (12 March 2019 to 30 June 2019)

They have left the company well positioned to meet its vision of being the enabler for Councils to provide their services in the most effective and efficient way.

Gavin Ion WLASS Chair (outgoing)	Kelvin French Chief Executive

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WLASS objectives

The objectives of WLASS are to:

- enable the Waikato councils to collectively be more effective as a region on the national stage
- contribute to building central government's confidence in the Waikato region, and to encourage central government investment
- achieve effectiveness and efficiency gains
- reduce duplication of effort and eliminate waste through repetition
- make it easier for customers to engage with councils in the Waikato region
- promote and contribute to the development of best practice
- promote business transformation to improve customers' experiences

WLASS achievements

2019 has built on the earlier achievements of the company which are set out in the document Collaboration in Action.

The WLASS Transformation project

The WLASS Transformation project delivers on the recommendations of a strategic review undertaken in late 2017 recommending the transformation of WLASS into a service delivery agent, with the capability and capacity to physically deliver services on behalf of the shareholding councils.

The recommendations in that report have been implemented during the year. Most significantly, WLASS has, for the first time, employed a full-time chief executive and business analyst to help drive the development of opportunities and provide thought leadership to councils.

The transformation has also seen a significant change to the Board structure. Historically being made up of a representative from each shareholding council, the Board has been reduced to six members including an independent Chair (to be appointed). This will make the Board more agile and help the company have a greater commercial focus.

Collaborating on digital transformation

The WLASS Board approved a business case to develop a digital strategy across councils. The digital strategy is focused on finding opportunities for collaboration on digital initiatives between Waikato councils. More particularly, its objectives are to:

- Build closer connections between WLASS working parties to ensure opportunities for digital collaboration are more readily recognised, captured and actioned;
- Enable and promote increased business information sharing between councils;
- Identify and recommend joint initiatives that will inform and advance digital collaboration;
- Promote business transformation to improve customer experiences; and
- Achieve effectiveness and efficiency gains through collaboration.

With a focus on the customer a new WLASS working party, the Customer Interface Group, comes together to discuss how councils can collaborate to improve the user experience.

The Waikato Data Portal

The Waikato Data Portal, phase 1 of the Regional Geospatial Collaboration roadmap, was delivered in April 2019, ahead of schedule with more datasets at go-live than anticipated. The portal is a single centralised place where customers will experience consistent processes for data discovery and access, and improved channels for communicating their data needs. Three stakeholder Information

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Sessions were held to showcase the portal. New datasets continue to be added to the site with the current total at 369 datasets across 5 councils, ensuring customers can more easily access data and enabling faster decision-making.

Phase 2 of the roadmap is underway. This phase seeks to achieve two key outcomes: the alignment of geospatial data from the different WLASS councils and providing users with a means to view this aligned data

Collaboration Agreement with the Energy Efficiency Conservation Authority (EECA)

WLASS's 3-year Collaboration Agreement with EECA to promote the development, implementation and communication of energy efficiency and renewable opportunities across the Waikato councils, and for each of the councils to implement energy management best practice concluded this year. Participating councils have achieved annual savings estimated at $446,000.

Under a new initiative WLASS will continue to provide an energy and carbon management programme to nine councils.

Professional services panel

WLASS's established Professional Services Panel (PSP) expires 31 July 2019. Throughout the first half of 2019 the panel has been remarketed. The new panel, applying from 1 August 2019, is significantly expanded, involving more than three times the suppliers and eight councils (previously four). The principle purpose of establishing the panel is to provide value to councils in two key ways:

- Securing discounted rates from consultants; and
- Eliminating the time, cost and effort otherwise required of councils to procure services in the future for each piece of work.

Road Asset Technical Accord (RATA)

RATA provides roading asset management services to enable and facilitate effective, strategic roading investment decision-making. Councils saving as a result of RATA initiatives are estimated at $2.8m across the past five years, through joint procurement, training support, the deferral of physical works due to better data analysis and decision-making processes, and more appropriate asset lives being used in depreciation calculations.

Future Proof

Future Proof has entered a new phase of its evolutionary journey, with a proposed expansion of the partnership and the introduction of a new workstream. In March 2019, the Future Proof Implementation Committee approved a milestone paper on 'Future Proof Looking Forward'. The paper recommended that the Future Proof framework be adapted to bring in the Hamilton to Auckland Corridor Plan as a significant workstream, and that Central Government, Auckland Council and Auckland Iwi be invited to join the partnership. Most key initiatives for the Hamilton to Auckland Corridor Plan are underway with work continuing throughout 2019.

Three waters collaboration

The 'waters' sector is facing significant change due to a number of external and internal influences. It is anticipated that Central government will seek to implement a more rigorous regulatory framework.

WLASS's business unit, Roading Asset Technical Accord (RATA), has investigated the opportunity for a sub-regional collaboration on three waters activities, supported by nine councils. From that initial investigation it is evident there are opportunities for increased collaboration. These opportunities initially relate to:

1. Consistent document templates to support better reporting;
2. Increased information sharing through collaborative, effective forum meetings;
3. Training and recruitment;
4. Consistent asset valuations; and
5. Collaborative procurement – materials/equipment/laboratory services.

The business case underpinning the opportunity is being presented to the WLASS Board in the second half of 2019.

Aligned resource consent planning

The Waikato Resource Consent Forum has been meeting on a 3-monthly basis. The members are using to forum to discuss planning issues they are facing in their areas. Tompkins Wake have agreed to provide planning related presentations at the forum meetings at no cost and the forum members particularly commented that these presentations provide good value to the forum. MFE's Relationship Manager, Partnerships and Engagement for the Waikato region has been invited to attend Forum meetings to brief members on what is occurring in the resource management space at the ministry.

Two additional forms are in the process of being prepared and the group is considering next steps in the implementation and action plan.

LiDAR

In February 2019 the Board approved the procurement of a regional Light Detection and Ranging (LiDAR) data set as part of a Land Information NZ nation-wide initiative. That initiative is supported by funding from the Provisional Growth Fund and additional co-funding partners have been sought. LiDAR is essential to decisions involving the physical world. It helps to drive regional economic growth and spur new investment across the region by enabling councils and businesses to more efficiently plan and develop housing, road and water infrastructure, as well as better prepare for hazards such as flooding, landslides and erosion.

It is expected that the contract will begin late November/early December.

By the numbers

Summary financial results for the year:

	2019 (000's)	2018 (000's)	Change
Total income	4,513	4,470	1%
Net surplus before tax	253	227	11.5%
Cash on hand	1,460	1,570	-7.0%

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Performance measures

Key:

Achieved	🟢	The performance measure has been met in its entirety
Partially achieved	🟡	Good progress is being made toward meeting the performance measure, but it has not yet been met (e.g. delivering the targeted result may span multiple years or there is some room for improvement)
Not achieved	🔴	The performance measure has not been met

TARGET	MEASURE	OUTCOME	
Procurement Joint procurement initiatives for goods and services for WLASS councils will be investigated and implemented. *<u>Method</u>* *Procurement is from sources offering best value, service, continuity of supply, and/or opportunities for integration.*	The Procurement Specialist has developed standard regional procurement policies, templates and procedures and provided training in each council by the end of the financial year.	***Achieved:*** The regional procurement framework and toolkit were completed, with training provided to participating councils across three workshops held in March 2019. *[New measure]*	🟢
	New suppliers are awarded contracts through a competitive tender process.	***Achieved:*** The professional services panel was re-tendered during the year (contracts take effect from 1 August 2019). Any new suppliers are procured in line with the company's procurement policy. *[2018: Achieved]* In consultation with workstream managers, contracts with existing suppliers that are due for renewal are assessed as to whether they continue to offer best value, service or continuity of supply. 24 supplier contracts were entered into (five relating to joint procurement).	🟢
Collaborative Projects Priorities for collaboration are identified, business cases are developed for the highest	A minimum of three priority projects for collaboration are identified per annum.	***Achieved:*** Projects identified and progressed through the year were:	🟢

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TARGET	MEASURE	OUTCOME	
priority projects, and the projects are implemented. *Method* *The focus is on shared services which will benefit all councils.*	If considered of value, business cases are developed for approval by the Board, and the projects are implemented.	- LiDAR: A project to establish regional LiDAR supported by PGF funding. Business case approved in principle - Professional Services Panel: A project to re-market and establish a panel of consultants across eight disciplines under an agreed framework to streamline procurement of their services - Energy & Carbon Management: A programme to support councils in energy and carbon management. Business case approved - A regional Health and Safety Management Framework and best practice documents were implemented - Regional reporting indicators for safety performance were approved Business cases were prepared where Board approval and council funding was required. The customer interface group was established to provide council staff engaging with customers with a forum to collaborate and consider opportunities to use digital technology to improve the customer experience. In addition, nine collaborative opportunities are at various stages of development. *[2018: Achieved]*	
Existing WLASS Contracts Existing contracts are managed and renegotiated as required. *Method* *Appointed vendors deliver on the terms of their contracts and*	The WLASS Contracts Register is maintained and managed. Contracts which are due for renewal are tested for competitiveness and either	***Achieved:*** *[2018: Achieved]* ***Achieved:*** Any new suppliers are procured in line	● ●

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TARGET	MEASURE	OUTCOME	
deliver value to the shareholders.	renegotiated or re-tendered through a competitive process.	with the company's procurement policy. In consultation with workstream managers, contracts with existing suppliers that are due for renewal are assessed as to whether they continue to offer best value, service or continuity of supply and if so, renegotiated. 24 supplier contracts were entered into. *[2018: Achieved]*	
Cashflow The company shall maintain a positive cashflow position. *Method* *The Financial Accountant reviews cashflow monthly, and the WLASS Board reviews the financial statements quarterly.*	The WLASS Board reviews the financial statements at least quarterly.	***Achieved:*** Management accounts were presented to each of the six board meetings held during the year. The company remains in a strong cash position (funds on hand at 30 June 2019 are $1.46m *[2018: $1.57m]*). It is currently actively seeking to manage down cash reserves that have arisen from revenue received in advance. *[2018: Achieved]*	🟢
Cost Control Administration expenditure shall be managed and monitored. *Method* *The Financial Accountant and Chief Executive review expenditure monthly.*	Administration expenditure shall not exceed budget by more than 5%, unless prior approval is obtained from the Board.	***Achieved:*** Actual spend ($440k) exceeded budget ($300k) but was less than the reforecasted spend of $446k approved by the Board (and shareholding councils). The additional spend was to support the transformation of the company and was met by prior year cash reserves and additional shareholder contributions. *[2018: Achieved]*	🟢
Reporting Six monthly reports provided to Shareholders. *Method* *The Chief Executive prepares a written report for the WLASS Board every meeting.* *One 6-monthly and one Annual Report are prepared for shareholders.*	The Board shall provide a written report on the business operations and financial position of WLASS to the shareholders every six months. Every second report shall be the Annual Report, which includes a report that all of the statutory requirements of	***Achieved:*** Half-yearly report and annual report delivered to shareholders within required timelines. *[2018: Achieved]* ***Achieved*** *[2018: Achieved]*	🟢 🟢

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TARGET	MEASURE	OUTCOME	
	the WLASS are being adhered to.		
Waikato Mayoral Forum The company shall provide administrative support to the Mayoral Forum work streams and to the Mayoral Forum. *Method* *Mayoral Forum projects shall be managed financially through the WLASS.*	Approved invoices for Mayoral Forum projects are paid by the 20th of the month following their receipt.	***Achieved*** *[2018: Achieved]*	
Shared Valuation Data Services (SVDS) The SVDS is reliable, well maintained and available to all users. *Method* *A Contract Manager is appointed for SVDS.*	The SVDS is available to users at least 99% of normal working hours.	***Achieved:*** the SVDS has been available 100% for users during normal business hours. *[2018: Achieved]*	
The Contract Manager monitors performance of the contractors and reports quarterly to the SVDS Advisory Group.	The SVDS Advisory Group meets at least 6-monthly.	***Achieved:*** Four meetings held in August, November, March and May. *[2018: Achieved]*	
Risks associated with the SVDS are well managed.	The Annual Business Plan is accepted by the Advisory Group by 31 March 2019, and includes consideration of strategic and operational risks, a disaster recovery plan, and a business continuity plan.	***Achieved*** *[New measure]*	
The long-term provision of SVDS services is achieved.	The timetable and milestones for implementing the long-term provision of SVDS Services (as agreed by the Board), are being achieved.	***Not achieved:*** The project has begun. However, data load issues and complexities has caused project delays of approx. six months. There is no increase in total project cost, but the delay has meant that the existing SVDS support is needed longer than anticipated, with associated cost increases. The revised end date is now March 2020. *[New measure]*	
Insurance Achieve the relevant KPIs in Appendix 4 of the Insurance Brokerage contract with Aon. *Method*	Strategic advice provided by Aon on the insurance programme structure is assessed as satisfactory in the annual WLASS	***Achieved:*** Of the 11 council who responded, 3 were partially satisfied, 7 satisfied and 1 very satisfied. *[2018: Achieved]*	

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TARGET	MEASURE	OUTCOME	
The Insurance Broker delivers on the terms of their contract and provides value to the participating councils.	Shareholders' survey by the participating councils. The day-to-day service provided by Aon is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating councils.	***Achieved:*** Of the 11 council who responded, 1 was dissatisfied, 3 were partially satisfied, 6 satisfied and 1 very satisfied. *[2018: Achieved]*	
RATA Deliver better data for decision making across the Waikato Region, enabling more consistent best practice	Reports are presented to stakeholders in October/January/April and July each year.	***Achieved:*** All four reports provided on time. *[New measure]*	
Method *Quarterly update reports are provided to all stakeholders participating in the Data Collection contracts.*	Reports on progress presented to WLASS Board as at 30 December and 30 June.	***Achieved:*** Both reports provided with the required timeframe. *[2018: Achieved]*	
	All data are reviewed for compliance and all good practice requirements are met.	***Achieved:*** All data supplied met compliance requirements *[New measure]*	
Data supplied by contractors is of good quality and meets all of the participating councils' requirements.	Procurement of services complies with WLASS and NZTA's procurement requirements.	***Achieved:*** All procurement was completed in accordance with policy requirements *[New measure]*	
Method *Innovation: Identify opportunities to modify standard approaches and/or develop new approaches that will lead to optimal asset management.*	Present to a national conference on RATA innovations at least once per year.	***Achieved:*** Papers presented at IPWEA conference and Sydney Road Maintenance Conference *[New measure]*	
Leadership: Lead engagement and increase capability within the sector.	At least two RATA guidance documents detailing good practice are produced each year.	***Achieved:*** RATA benchmarking report and Regional MIS report delivered *[New measure]*	
	RATA Forums are held 2-monthly to share learnings and experience.	***Achieved:*** All RATA Forum presented and well attended by RCA's *[New measure]*	
Waikato Regional Transport Model (WRTM) The WRTM is reliable, well maintained and available to all users. *Method* *RATA manages the WRTM on behalf of the participating councils and monitors the*	All modelling reports requested from the model supplier are actioned within the agreed timeframe, scope and budget.	***Achieved:*** All reports received and shared with WRTM User Group *[2018: Achieved]*	

Waikato Local Authority
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TARGET	MEASURE	OUTCOME	
performance of the model supplier (currently Stantec). RATA reports quarterly to the WRTM Project Advisory Group.	A report from RATA on any new developments and on the status of the model is provided to the WLASS Board at least every six months.	***Achieved:*** Bi-annual reports provided to WLASS Board *[2018: Achieved]*	
	The quality of the base model complies with NZTA guidelines (as set out in the NZTA's Economic Evaluation Manual), and is independently peer reviewed each time the model is updated.	***Achieved:*** Model endorsed by NZTA. Peer review recommendations being progressed (scenario testing of medium land use) *[2018: Achieved]*	
Waikato Building Consent Group Provide strategic direction and actively pursue improvements in Building Control across the Waikato region. *Method* *Implement the strategic priorities detailed in the "Build Waikato" May 2017 strategic review document.*	Milestones for the five strategic review work streams are achieved for: • Digital experience and technology: a common online customer experience. Success is defined as user friendly, convenient, quick, end-to end management and communication, measured by customer surveys and systems comparisons.	***Achieved:*** On track with both TCDC and Waipa having successfully implemented the preferred online Alpha One System. Waitomo DC is committed to implementing in the 2019/20 year and MPDC and HDC are finalising their procurement process with Alpha One in the mix. ODC is also committed to implementing Alpha One and this will probably be in 2020/21 financial year. Well on track with achieving a common processing system. Works is programmed for 2019/20 to revitalise our web site to enhance the digital experience. *[New measure]*	
	• People capability. Success is defined as a successful recruitment and training programme, measured by compliance with BCA Reg. 8 -11.	***Partially achieved:*** we have scoped a programme of work to approach secondary schools and tertiary students before the end of the 2019/20 year looking at a cadet type scheme *[New measure]*	

Waikato Local Authority
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30 June 2019

TARGET	MEASURE	OUTCOME	
Fulfil the roles and responsibilities set out in clause 9 of the WBCG's Memorandum of Understanding, 2016.	• Quality assurance. Success is defined as continued accreditation and increased service consistency, measured by accreditation outcomes, BCA annual audits, and customer surveys.	***Achieved:*** On track with successful IANZ audits for both WDC and MPDC with good feedback on the cluster QA overall. A review of our QA offering will be undertaken in 19/20. *[New measure]*	
	• Lift industry competency and compliance. Success is measured by increased industry compliance, with reduced RFIs, and reducing percentages of application or building consent rejection.	***Partially achieved:*** Work has been scoped for a programme to engage industry in the 2019/20 year. The Tech Committee will be continuing to work on consistency across councils on RFI's to enhance a consistent customer experience. *[New measure]*	
	• Central government: engagement and legislative influence. Success is measured by legislative submissions and outcomes.	***Achieved:*** Cluster submission to Building Reform Act was delivered – was very similar to that put together by LGNZ. *[New measure]*	
	There is a common understanding and buy-in by all BCAs for the WBCG vision and actions that are taken to achieve this vision, measured by: i. Full participation in WBCG projects and programmes	***Partially achieved:*** Good participation in the projects when required but could improve. *[New measure]*	
	ii. Audits demonstrating implementation and compliance with the agreed QA systems	***Achieved*** *[New measure]*	
	iii. Consistency in service delivery, measured by customer surveys.	***Not achieved:*** No customer survey this year – customer experience will be a key focus for 2019/20. *[New measure]*	
	Risk management is visible through regular reviews of the Risk Register.	***Not achieved***: Lack of awareness of risk register – will be in the programme of work for the new Strategic Manager. *[New measure]*	

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30 June 2019

TARGET	MEASURE	OUTCOME	
	All funding requirements are met by each of the participating councils.	***Achieved:*** Requested funding received in a timely manner by participating councils *[New measure]*	
	Minimum of two reports presented to the WLASS Board on the Group's activities.	***Achieved:*** Activity reported to the Board in September and December 2018 and February 2019. *[2018: Achieved]*	● (green)
Future Proof Planning for growth in the sub-region is co-ordinated and collaborative. *Method* *Joint preparation and input into Phase 2 of the Strategy update.*	Phase 2 of the Future Proof Strategy is adopted by the Future Proof Implementation Committee no later than December 2018.	***Not achieved:*** The draft Future Proof Strategy (phase 2) was reported to the Future Proof Implementation Committee and submitted to MfE in December 2018. However, work has been deferred due to other processes currently underway, namely the Hamilton to Auckland Corridor Plan, review of NPS on Urban Development Capacity, Waikato Proposed District Plan, and sub-regional industrial land study. The phase 2 Strategy is expected to be completed in 2020. *[New measure]*	● (red)
The Future Proof budget is well managed and monitored. *Method* *Bi-monthly reports presented to Waikato Plan and Future Proof Chief Executive Group, and six monthly and annual reports to WLASS Board.*	The overall Future Proof work programme is delivered within the approved budget.	***Not achieved:*** The Future Proof work programme to the end of 2018/19 ran slightly over budget. However, this was as a result of an approved increase in scope associated with the Hamilton to Auckland Corridor Plan. The deficit is covered by the cash reserves from the previous year. *[New measure]*	● (red)
Future Proof influences and inputs into District Plan, Regional Plan, growth strategy and any other planning processes which manage growth within the sub-region and neighbouring regions. *Method*	Future Proof makes submissions (using RMA and Local Government processes), on District Plans, LTPs, growth management planning documents, and any central government initiatives which have the potential to impact growth management planning in the sub-region.	***Achieved:*** Future Proof made a submission on the Proposed Waikato District Plan in 2018 and has been working closely with Waikato District on their District Plan and supporting strategic planning documents. Future Proof has also been working with the Waikato Regional	● (green)

Waikato Local Authority SHARED SERVICES
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TARGET	MEASURE	OUTCOME	
Future Proof works collaboratively and provides input into the planning work undertaken by all FP partners and any other relevant planning authorities.		Council on upcoming changes to the Regional Policy Statement. *[New measure]*	
Aligned Resource Consent Planning Project Implementation of the Aligned Resource Consent Planning project is underway during 2018/19. *Method* *Progress on implementation of common forms and other initiatives is reported to shareholders on a regular basis.*	Common forms are in place for all Councils involved by December.	***Achieved:*** The suite of initial forms has been completed and is live. The forum continues to meet on a 3-monthly basis to discuss planning issues. Two additional forms are being prepared and the group is considering next steps in the implementation and action plan. *[New measure]*	●
Shareholder Survey Shareholders are satisfied with the performance of WLASS. *Method* *An annual survey of shareholders is undertaken to assess satisfaction levels with WLASS.*	A survey of shareholders is undertaken each year, and the results are reported to all shareholders.	***Achieved:*** The survey was undertaken in the second half of the year with response received from all shareholders *[2018: five respondents – 42%]*. Results of the survey are included in this annual report for shareholders. *[2018: Achieved]*	●
Review of Benefits Shareholders are informed of the benefits being provided to shareholding councils by WLASS. *Method* *The benefits of WLASS (including financial and non-financial achievements) are regularly analysed and reported to shareholders.*	Information on the financial and non-financial benefits being achieved by WLASS are included in the 6-monthly and Annual Report to shareholders.	***Achieved:*** Benefits and achievements have been reported in the half-yearly report, this annual report and the statement of intent published in June 2019. *[2018: Achieved]*	●
	The WLASS website is regularly maintained and updated.	***Achieved:*** Relevant information and publications are included on the website. *[New measure]*	●

Waikato Local Authority
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30 June 2019

Shareholder survey results

Each year WLASS surveys its shareholders to gauge the extent to which it is delivering on its objectives and meeting customer expectations. There was a strong response rate to this year's survey. Overall, councils are happy with the progress the company is making. There is a great deal of anticipation of what can be achieved under the new operating model.

Other key themes coming through from responses were:

- Councils recognise that success will be dependent on a greater level of support from councils for transformational initiatives;
- There is a sense among some that WLASS may have too many active initiatives. This could dilute progress in priority areas.

Board and management have taken the responses on board and will build the feedback into future activity.

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Independent auditor's report

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Waikato Local Authority Shared Services Limited
Financial statements - 30 June 2019

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Waikato Local Authority Shared Services Limited
Statement of comprehensive revenue and expense
For the year ended 30 June 2019

Statement of comprehensive revenue and expenditure

For the year ended 30 June 2019

	Note	Actual 2019 $	Budget 2019 $	Actual 2018 $
Revenue				
SVDS Data Sales		**508,912**	**410,583**	408,244
Grants		**31,418**	**35,000**	35,000
Interest		**13,134**	**14,000**	21,958
Other revenue	5	**3,959,827**	**3,538,496**	4,004,889
Total revenue		**4,513,291**	**3,998,079**	4,470,091
Expenditure				
Personnel Costs	7	**149,459**	**-**	-
Depreciation and amortisation expense	11,12	**67,314**	**163,616**	163,616
Other expenses	6	**4,043,366**	**4,783,445**	4,079,619
Total operating expenditure		**4,260,139**	**4,947,061**	4,243,235
Surplus/(deficit) before tax		**253,152**	**(948,982)**	226,856
Income tax expense	10	**-**	**-**	-
Surplus/(deficit) after tax		**253,152**	**(948,982)**	226,856
Total comprehensive income		**253,152**	**(948,982)**	226,856

The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 23

Statement of changes in equity

For the year ended 30 June 2019

	Note	Actual 2019 $	Budget 2019 $	Actual 2018 $
Balance at 1 July		**1,026,530**	**1,363,922**	799,673
Total comprehensive revenue and expense		**253,152**	**(948,982)**	226,856
Balance at 30 June	16	**1,279,683**	**414,940**	1,026,530
Total equity attributable to:				
Equity holders of Waikato Local Authority Shared Services Limited		**1,279,683**	**414,940**	1,026,530
Balance at 30 June		**1,279,683**	**414,940**	1,026,530

The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 23

Waikato Local Authority Shared Services Limited
Statement of Financial Position
As at 30 June 2019

Statement of financial position

As at 30 June 2019

	Note	Actual 2019 $	Budget 2019 $	Actual 2018 $
ASSETS				
Current assets				
Cash and cash equivalents	9	**1,459,803**	**266,317**	1,570,003
Exchange trade and other receivables	8	**793,750**	**449,687**	407,156
Non-exchange trade and other receivables	8	**76,126**	**9,817**	157,057
Other financial assets		**-**	**-**	81,000
Prepayments		**212,087**	**2,784**	149,905
Total current assets		**2,541,766**	**728,605**	2,365,121
Non-current assets				
Property, plant and equipment	11	**4,799**	**-**	-
Intangible assets	12	**97,071**	**-**	163,592
Total non-current assets		**101,870**	**-**	163,592
Total assets		**2,643,636**	**728,605**	2,528,713
LIABILITIES				
Current liabilities				
Payables and deferred revenue	14	**1,341,397**	**313,665**	1,502,183
Employee benefits	15	**22,556**	**-**	-
		1,363,953	**313,665**	1,502,183
Total current liabilities		**1,363,953**	**313,665**	1,502,183
Non-current liabilities				
Total non-current liabilities		**-**	**-**	-
Total liabilities		**1,363,953**	**313,665**	1,502,183
Net assets		**1,279,683**	**414,940**	1,026,530
EQUITY				
Contributed capital	16	**2,957,001**	**2,957,001**	2,957,001
Retained earnings	16	**(1,677,318)**	**(2,542,061)**	(1,930,471)
Total equity		**1,279,683**	**414,940**	1,026,530

These financial statements have been authorised for issue by the Board of Directors on 6 September 2019.

Director
6 September 2019

Director
6 September 2019

The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 23

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Cash flow statement

For the year ended 30 June 2019

	Note	Actual 2019 $	Budget 2019 $	Actual 2018 $
Cash flows from operating activities				
Interest Received		**16,114**	**14,000**	19,075
Receipts from other revenue		**4,031,703**	**4,074,061**	4,680,206
Payments to suppliers and employees		**(4,241,295)**	**(4,873,425)**	(4,032,901)
Taxes received / (paid)		**5,746**	**-**	(6,426)
Goods and services tax received / (paid)		**2,123**	**(119,905)**	(43,897)
Net cash flow from operating activities		**(185,609)**	**(905,269)**	616,057
Purchase of property, plant and equipment		**(5,592)**	**-**	-
Settlement of term deposits with maturities greater than 3 months	13	**81,000**	**-**	-
		75,408	**-**	-
Net cash flow from investing activities		**75,408**	**-**	-
Net (decrease)/increase in cash and cash equivalents		(110,201)	(905,269)	616,057
Cash and cash equivalents at the beginning of the year		1,570,003	1,171,586	953,948
Cash, cash equivalents, and bank overdrafts at the end of the year	9	1,459,802	266,317	1,570,005

The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 23

1 Statement of accounting policies

1.1 Reporting entity

Waikato Local Authority Shared Services Limited ("the Company") is a Company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is controlled by the councils listed on the directory page of these accounts. The company is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002 (LGA), by virtue of each of the shareholding Council's right to appoint the Board of Directors.

The primary objective of the Company is to provide the Waikato region's local authorities with a vehicle to develop shared services that demonstrate a benefit to the ratepayers and provide those services to local authorities.

The Company has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the Company are for the year ended 30 June 2019. The financial statements were authorised for issue by the Board of Directors on the 6 September 2019.

2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with the requirements of the LGA, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with and comply with Tier 2 PBE Standards reduced disclosure regime (RDR).

WLASS is eligible to report in accordance with the Tier 2 PBE accounting standards RDR as it:

- is not publicly accountable;
- has expenses more than $2 million, but less than $30 million.

The accounting policies set out below are consistent with the prior year.

Measurement base

The financial statements have been prepared on a historical cost basis.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar unless otherwise stated. The functional currency of the Company is New Zealand dollars.

Budget figures

The budget figures are those approved by the Board of Directors in the 2018/19 Statement of Intent. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Company in preparing the financial statements.

2.2 Goods and services tax

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

The net amount of GST recoverable from, or payable to, the Inland Revenue (IR) is included as part of receivables or payables in the statement of financial position.

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

2 Summary of significant accounting policies (continued)

Commitments and contingencies are disclosed exclusive of GST.

3 Critical accounting estimates and assumptions

In preparing the financial statements the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year have been included below.

3.1 Intangible assets

Useful lives and residual values

At each balance date the Company reviews the useful lives and residual values of its intangible assets. Assessing the appropriateness of useful life and residual value estimates of intangible assets requires the Company to consider a number of factors such as the expected period of use of the asset by the Company, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact the amortisation expense recognised in the income statement, and carrying amount of the asset in the balance sheet. The Company minimises the risk of this estimation uncertainty by reviewing that the asset technology is still relevant and there is no alternative options to recreate the asset at a lower price.

Impairment of intangible assets

Intangible assets measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use.

If an assets carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

4 Change of accounting estimate

(a) Revision of useful lives of intangible assets

At year end the estimated total useful lives to Waikato LASS of the SVDS and WRTM intangible assets were revised. The net effect of the changes in the current financial year was a decrease in amotisation expense of $97,071.

Revised estimated useful lives are: SVDS - March 2020, WRTM - June 2023. The effect of amortisation for future years are as follows:

Year ending 30 June	$
2020	53,321
2021	14,583
2022	14,583
2023	14,583

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2019
(continued)

5 Revenue

Accounting policy

(i) Revenue
Revenue comprises the fair value of the considerations received or receivable for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts and after eliminating sales within the Company. No provisions have been recorded as all revenue and trade receivables are expected to be received.

(ii) Other Revenue
Member charges for all activities are recognised when invoiced to the user, i.e. Councils. The recorded revenue is the net amounts of the member charges payable for the transaction. Contributions received for projects that were not completed in a financial year are recognised when the Company provides, or is able to provide, the service for which the contribution was charged. To the extent the service has not been delivered, contributions for that service are recorded as revenue in advance.

	Actual 2019 $	Actual 2018 $
Non-exchange revenue		
Member Charges	2,110,470	1,970,549
Exchange revenue		
Procurement	439,023	717,960
Information Technology	106,613	93,453
Energy Management	116,800	172,914
Shared Valuation Data Services	80,189	80,189
Road Asset Technical Accord	567,405	584,087
Waikato Regional Transport Model	5,011	5,136
Waikato Plan	371,940	221,498
Waikato Building Consent Group	85,205	79,852
Future Proof	25,765	66,470
Waikato Mayoral Forum	51,406	12,781
Total exchange revenue	1,849,357	2,034,340
Total other revenue	3,959,827	4,004,889

Draft

6 Other expenses

Operating leases
An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

	Actual 2019 $	Actual 2018 $
Audit fees	21,220	20,910
Company Administration	266,310	242,853
Procurement	572,823	749,153
Information Technology	106,267	93,131
Energy Management	123,519	119,474
Shared Valuation Data Services	510,919	522,267
Road Asset Technical Accord	1,155,313	1,245,925
Waikato Regional Transport Model	70,041	46,378
Waikato Building Consent Group	391,912	297,370
Future Proof	557,377	507,880
Waikato Mayoral Forum	39,406	12,781
Waikato Plan	225,044	221,497
Rental expense relating to operating leases	3,215	-
Total other expenses	4,043,366	4,079,619

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7 Personnel costs

Accounting policy

Defined contribution schemes

Employer contributions to KiwiSaver, the Government Superannuation Fund, and other defined contribution superannuation schemes are accounted for as defined contribution schemes and are recognised as an expense in the surplus or deficit when incurred.

	Actual 2019 $	Actual 2018 $
Salaries and wages	**145,357**	-
Defined contribution plan employer contributions	**4,102**	-
Total personnel costs	**149,459**	-

The total remuneration (including any non-financial benefits) paid or payable for the year to the Chief Executive was $74,540.

8 Receivables

Accounting policy

Short-term receivables are recorded at the amount due, less any provision for uncollectability.

Receivables are initially measured at nominal or face value. Receivables are subsequently adjusted for penalties and interest as they are charged and impairment losses. Non-current receivables are measured at the present value of the expected future cash inflows.

Debtors are amounts due from customers. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

	Actual 2019 $	Actual 2018 $
Gross trade and other receivables	**179,247**	88,729
Related Party Receivables (note 19)	**633,150**	407,156
Accrued Interest on Short Term Deposits and Call Accounts	**-**	2,980
GST Refund Due	**56,481**	58,604
IRD - RWT Tax	**998**	6,744
Total debtors and other receivables	**869,876**	564,213
Exchange		
Receivables from exchange transactions	**793,750**	407,156
Non-exchange		
Receivables from non-exchange transactions	**76,126**	157,057
Total debtors and other receivables	**869,876**	564,213

9 Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash on hand, deposits held at call with banks, with original maturities of three months or less, and bank overdrafts.

	Actual 2019 $	Actual 2018 $
Cash at bank	**1,459,803**	1,570,003

The carrying value of cash at bank, call deposits, and term deposits with maturities less than three months approximates their fair value.

10 Income tax

Accounting policy

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable surpluses will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

	Actual 2019 $	Actual 2018 $
Components of income tax expense:		
Current tax expense	-	-
Adjustments to current tax in prior years	-	-
Deferred tax expense	-	-
Tax expense	-	-
Relationship between tax expense and accounting profit:		
Net surplus (deficit) before tax	253,152	226,856
Tax at 28%	70,883	63,520
Non-taxable in calculating taxable income		
Non-deductible expenditure	444	-
Other timing adjustments	-	45,812
Non-taxable income	-	-
Prior year adjustment	-	-
Deferred tax adjustment	-	(45,806)
Tax losses not recognised	(71,327)	(63,526)
Tax expense	-	-

Deferred tax asset (liability)	**PPE & Intangible assets $**	**Employee entitlements $**	**Provisions $**	**Tax losses $**	**Total $**
Balance at 1 July 2017	(91,618)	-	-	91,618	-
Charged to surplus or deficit	45,806	-	-	(45,806)	-
Balance at 30 June 2018	(45,812)	-	-	45,812	-
Charged to surplus or deficit	18,557	2,418	-	(20,974)	-
Balance at 30 June 2019	(27,255)	2,418	-	24,838	-

A deferred tax asset has not been recognised in relation to tax losses of $1,819,752 (2018: 2,074,000).

11 Property, plant and equipment

Accounting policy

Property, plant, and equipment consist of:

(i) Operational assets

Operational assets – These include land, buildings, plant and equipment, and motor vehicles.

Additions

The cost of an item of property, plant, and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant, and equipment other than land, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Class of PP&E	Estimated useful life	Depreciation rates
IT equipment	3 years	33%

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Council 2019	Note	Carrying amount 1 Jul 2018 $	Current year additions $	Current year depreciation $	Carrying amount 30 Jun 2019 $
Operating assets					
At cost & valuation					
IT equipment		-	5,592	(793)	4,799
Total		**-**	**5,592**	**(793)**	**4,799**

12 Intangible assets

Accounting policy

Software acquisition and development
Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software are recognised as an intangible asset.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation
The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer Software	5 to 7 years	14 to 20%

	Actual 2019 $	Actual 2018 $
Computer Software		
Balance at 1 July	**5,363,366**	5,363,366
Disposals	**-**	-
Balance at 30 June	**5,363,366**	5,363,366
Accumulated amortisation and impairment losses		
Balance at 1 July	**5,199,774**	5,036,158
Amortisation as per Income statement	**66,521**	163,616
Impairment losses	**-**	-
Balance at 30 June	**5,266,295**	5,199,774
Carrying Amounts		
Balance at 1 July	**163,592**	327,208
Balance at 30 June	**97,071**	163,592

Intangible assets include the Shared Value Data Services (SVDS) computer software, the Waikato Regional Transport Model (WRTM) and MoneyWorks computer software.

The carrying amount of the SVDS asset as at 30 June 2019 is $38,738 (2018: $90,421).
The carrying amount of the WRTM asset as at 30 June 2019 is $58,333 (2018: $$72,916).
The carrying amount of the MoneyWorks asset as at 30 June 2019 is $0 (2018: $256).

13 Other financial assets

Accounting policy

Investments in bank deposits are measured at fair value plus transaction costs.

At each balance sheet date the Company assesses whether there is any objective evidence that an investment is impaired. Any impairment losses are recognised in the income statement.

	Actual 2019 $	Actual 2018 $
Current		
Term deposits with maturities greater than 3 months	-	81,000
Non-Current		
Term deposits with maturities greater than 3 months	-	-
Balance as at 30 June	-	81,000

14 Payables and deferred revenue

Accounting policy

Short-term creditors and other payables are recorded at their face value.

	Actual 2019 $	Actual 2018 $
Current		
Trade payables and accrued expenses	633,279	511,579
Related party payables (note 19)	118,450	248,994
Deferred revenue	589,668	741,610
Total creditors and other payables	1,341,397	1,502,183
Exchange		
Trade payables	611,547	659,338
Accrued expenses	140,182	101,235
Deferred revenue	589,668	741,610
Total creditors and other payables from exchange transactions	1,341,397	1,502,183
Non-exchange		
Total creditors and other payables from non-exchange transactions	-	-

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payable approximates their fair value.

Contributions received for projects that were not completed in a financial year are recognised as deferred revenue until the Company provides, or is able to provide, the service for which the contribution was charged.

15 Current liabilities - Employee benefits liabilities

Accounting policy

Short-term employee entitlements

Employee benefits expected to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined contribution schemes
Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit when incurred.

	Actual 2019 $	Actual 2018 $
Current portion		
Annual leave	**8,635**	-
Wages	**13,921**	-
Total current portion	**22,556**	-

16 Reconciliation of equity

Accounting policy

Equity is the shareholders interest in WLASS and is measure as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

Contributed equity
Contributed equity is the net asset and liability position at the time the company was formed. The allocation of capital amongst shareholders is explained in this note.

Retained earnings
Retained earnings is the company's accumulated surplus or deficit since formation.

	Actual 2019 $	Actual 2018 $
Total equity		
Contributed equity	**2,957,001**	2,957,001
Retained earnings	**(1,677,318)**	(1,930,471)

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2019
(continued)

16 Reconciliation of equity (continued)

Balance at 30 June 2019	**1,279,683**	1,026,530

(a) Contributed equity

	-	-
Shares on Issue	**3,413,569**	3,413,569
Uncalled capital	**(456,568)**	(456,568)
Balance 30 June 2019	**2,957,001**	2,957,001
Balance at 1 July 2018	**2,957,001**	2,957,001
Shares Issued	**-**	-
Balance 30 June 2019	**2,957,001**	2,957,001

(b) Retained earnings

Balance at 1 July 2018	**(1,930,470)**	(2,157,327)
Surplus/(deficit) for the year	**253,152**	226,856
Balance 30 June 2019	**(1,677,318)**	(1,930,471)

The Company has issued 2,186,581 (2018 - 2,186,581) shares. The SVDS shares have been fully called and paid for at $1.00 per share. The WRTM shares have been fully called and paid for at $10.00 per share. The table below details the different types of shares and their value per share.

Shares are called when notice is given to shareholders by the Board of Directors.

Income	**Ordinary Shares**	**SVDS Shares**	**WRAPS Shares**	**WRTM Shares**
Hamilton City Council	1	220,514	79,152	50,625
Hauraki District Council	1	40,215	2,864	-
Matamata Piako District Council	1	56,380	4,708	4,500
Otorohanga District Council	1	-	5,716	-
Rotorua Lakes Council	1	126,703	7,516	-
South Waikato District Council	1	42,571	4,916	-
Taupo District Council	1	-	21,652	4,500
Thames Coromandel District Council	1	108,015	6,476	2,250
Waikato District Council	1	106,674	9,376	11,250
Waikato Regional Council	1	803,500	287,872	50,625
Waipa District Council	1	78,748	3,780	11,250
Waitomo District Council	1	23,681	10,540	-
	12	1,607,001	444,568	135,000
	1,000	1	1	10
	12,000	1,607,001	444,568	1,350,000
	(12,000)	-	(444,568)	-
	-	1,607,001	-	1,350,000

General Rights of Ordinary, SVDS, and WRAPS Shares

The rights conferred by section 36(1) of the Companies Act 1993 on holders of shares in the Company are altered as set out below:

(a) For Ordinary, SVDS and WRAPS shares the holders are entitled to participate in certain services to be provided by the Company, in terms that reflect their investment.

(b) Service shares (SVDS and WRAPS) do not have any right to share in the distribution of the surplus assets of the Company except to the extent provided for in Schedule 1 of the Company's constitution or in accordance with the terms of issue of those shares pursuant to Clause 6 of the Company's constitution.

(c) Except as provided in section 177 of the Act and Clause 6.1 of the Company's constitution, no class of service shares shall have any voting rights.

16 Reconciliation of equity (continued)

General Rights of WRTM shares

The following rights and obligations are hereby conferred on each WRTM shareholder:

(a) A right to one vote prior to further WRTM service shares being issued.

(b) A right to one vote on the application of any surpluses arising from the WRTM service (after NZTA have been allocated 40 per cent [or a portion based on NZTA's proportion of the total cost at the time] of any surpluses.)

(c) The right to receive monetary benefits that the Company generates through the sale of outputs of the WRTM service in proportion to the apportionment of the development costs as at that time after 40 per cent (or a portion based on NZTA's proportion of the development cost at the time) of the monetary benefits have been allocated to NZTA.

(d) No right to share in the distribution of the surplus assets of the Company except to the extent provided for in (c) above.

(e) No right to share in dividends authorised by the Company except to the extent provided for in (c) above.

17 Commitments

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Non-cancellable operating expenses

	Actual 2019 $	Actual 2018 $
Not later than one year	322,989	291,667
Total non-cancellable operating leases	322,989	291,667

18 Contingencies

As at 30 June 2019 the Company had no contingent liabilities or assets (2018 - $0)

19 Related party transactions

The Company is controlled by the councils listed on the directory page.

Transactions with key management personnel

Key management personnel include the Chief Executive and directors. Directors receive no remuneration. Expenditure paid to the Chief Executive(s) was for the provision of Chief Executive services.

	Actual 2019 $	Actual 2018 $
KRFConsulting - WLASS Chief Executive (June 2018 - March 2019)	**144,404**	9,825
Chief Executive Remuneration	**74,540**	-
Jowett Consulting - WLASS Chief Executive (July 2017 - April 2018)	**-**	134,133
Total key management personnel compensation	**218,944**	143,958

Related party disclosures have been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances.

Related parties have been limited to the directors, shareholders and company related roles. The following transactions were carried out with related parties:

	Actual 2019 $	Actual 2018 $
Income		
Hamilton City Council	**684,485**	696,771
Hauraki District Council	**242,217**	262,921
Matamata Piako District Council	**265,565**	303,686
Otorohanga District Council	**146,490**	218,981
Rotorua Lakes Council	**69,138**	79,150
South Waikato District Council	**202,851**	169,688
Taupo District Council	**115,592**	64,888
Thames Coromandel District Council	**268,865**	315,616
Waikato District Council	**583,011**	550,926
Waikato Regional Council	**490,506**	496,952
Waipa District Council	**471,646**	661,908
Waitomo District Council	**182,225**	242,298
	3,722,591	4,063,785

The income disclosed above includes revenue received relating to the 2018/19 financial year and revenue received which has been transferred to deferred revenue for 2019/20.

	Actual 2019 $	Actual 2018 $
Expenses		
Hamilton City Council	**71,800**	64,320
Taupo District Council	**4,240**	-
Waikato District Council	**364,889**	264,363
Waikato Regional Council	**142,432**	87,646
Waipa District Council	**632,990**	601,384
Waitomo District Council	**-**	2,356
	1,216,351	1,020,069

Expenses are related to services provided by the related parties.

The figures above exclude invoices from Councils that relate to bills paid on behalf of WLASS; Hamilton City Council $0 (2018 - $16,500), Waikato District Council $0 (2018 - $3,678) and Waikato Regional Council $0 (2018 - $12,942).

19 Related party transactions (continued)

	Note	Actual 2019 $	Actual 2018 $
Advances			
Trade & Other Receivables	8	-	-
Hamilton City Council		**79,572**	90,672
Hauraki District Council		**23,770**	24,463
Matamata Piako District Council		**72,455**	41,919
Otorohanga District Council		**10,271**	34,753
Rotorua Lakes Council		-	-
South Waikato District Council		**31,643**	18,867
Taupo District Council		**7,422**	13,766
Thames Coromandel District Council		**20,091**	20,642
Waikato District Council		**236,373**	46,330
Waikato Regional Council		**20,518**	9,378
Waipa District Council		**95,688**	85,097
Waitomo District Council		**35,347**	21,269
		633,150	407,156
Amounts outstanding at year end:			
Hamilton City Council	14	-	13,970
Jowett Consulting - Chief Executive		-	-
KFRConsulting Ltd - Chief Executive		-	11,299
Waikato District Council		85,199	42,130
Waikato Regional Council		32,939	10,111
Waipa District Council		312	171,484
		118,450	248,994

20 Director and executive disclosures

No Directors fees or other remmuneration was paid to Directors during the year. (2018: $0).

21 Events occurring after the balance date

There have been no events after balance date.

22 Financial instruments

The Company has policies to manage the risks associated with financial instruments. The Company is risk averse and seeks to minimise exposure from its treasury activities.

(a) Market risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to fair value interest rate risk is limited to short-term bank deposits.

Cash flow interest rate risk

22 Financial instruments (continued)

(a) Market risk (continued)

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Company to cashflow interest rate risk.

The Company currently has no variable interest rate debt or investments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not exposed to currency risk, as it does not enter into foreign currency transactions.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to fair value interest rate risk is limited to short-term bank deposits.

(b) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Company, causing the Company to incur a loss.

Due to the timing of its cash inflows and outflows, the Company invests surplus cash with registered banks.

The Company has processes in place to review the credit quality of customers prior to the granting of credit.

The Company's maximum credit exposure for each class of financial instruments is represented by the total carrying amount of cash equivalents (note 7), investments (note 10), and trade receivables (note 8). There is no collateral held as security against these financial instruments, including these instruments that are overdue or impaired.

The Company has no significant concentrations of credit risk, as it has a large number of credit customers and only invests funds with registered banks with specified credit ratings.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising funds to meet commitments as they fall due.

Prudent liquidity risk management implies maintaining sufficient cash and liquid assets, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

In meeting its liquidity requirements, the Company maintains a target level of investments that must mature within specified timeframe's.

The maturity profiles of the Company's interest bearing investments and borrowings would be disclosed in the notes, if the Company had any.

(d) Financial instrument categories

	Note	2019 $	2018 $
FINANCIAL ASSETS			
Loans and receivables			
Cash and cash equivalents	9	**1,459,803**	1,570,003
Receivables	8	**869,876**	564,213
Other financial assets	13	**-**	81,000
Total loans and receivables		**2,329,679**	2,215,216
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Payables and deferred revenue	14	**1,341,397**	1,502,183
Total financial liabilities at amortised cost		**1,341,397**	1,502,183

23 Explanation of major variances against budget

Explanations for major variations from the Company's budget figures in the statement of intent to 30 June 2019 are as follows:

Statement of comprehensive revenue and expense

Two new data sales contracts in 2018/19 meant SVDS data sales are $98k higher than budget.

Company administration revenue was higher as an additional $80k was raised for the company transformation.

RATA revenue was higher as the high speed data collection contract of $249k was not budgeted for.

Mayoral forum revenue was greater than budget due to revenue of $47k being received for the waters collaboration project.

Waikato LASS now has three employees therefore this year we had personnel costs of $149k which were not budgeted for.

Waikato Plan expenditure was under budget by $295k due to a delayed start on two key projects and the implementation phase of Waikato Plan being under budget.

SVDS expenditure is under budget by $321k. This is due to the SaaS implementation not being complete in the 2018/19 year which had a knock on effect to the other SaaS expenses.

Waikato Building Consent Group expenditure is under budget by $126k. The strategic review was expected to be completed in the 2018/19 year however this project is still ongoing.

Statement of Changes in Equity

The items as noted above have meant that the Company has made a gain of $253k against a budgeted loss of $949k.

Statement of Financial Position

The current assets are higher due to the cash balance being $939k greater than the budgeted $631k as a result of the increased profit noted above.

WLASS does not budget for having end of year receivables.

Current liabilities are higher than budgeted due to deferred revenue not being budgeted for.

Prepayments are higher due to two unbudgeted invoices for $147,500 and $60,700 - Insurance Broking and Service Fee and IDS license fee.

Intangible assets are higher than budget due to the useful lives of the SVDS and WRTM intangible assets being revised to March 2020 and June 2023 respectively.

Statement of Cash Flows

Payment to suppliers is less than budgeted due to the reasons noted above.

Waikato Local Authority
SHARED SERVICES
30 June 2019

Directory

Company number	1730380
Registered office	Waikato District Council 15 Galileo Street Ngaruawahia
Directors	ION, Gavin BOWCOTT, Blair CAVERS, Langley (resigned 30 June 2019) CLIBBERY, Dave (resigned 1 March 2019) DYET, Garry (resigned 30 June 2019) GREEN, Gareth HOBBS, Craig (resigned 28 October 2018) MCLEOD, Don (resigned 30 June 2019) PAYNE, Vaughan RYAN, Chris (resigned 30 June 2019) SMIT, Ben (from 12 March 2019, resigned 30 June 2019) WILLIAMS, Geoff (resigned 30 June 2019) WILLIAMS, Rob WINTER, Tanya (from 12 March 2019, resigned 30 June 2019)
Bankers	Bank of New Zealand Hamilton Banking Centre Victoria Street Hamilton
Auditors	Audit New Zealand (on behalf of the Auditor General)

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Lake Taupō Protection Trust's financial statements and performance information for the year ended 30 June 2019

The Auditor-General is the auditor of Lake Taupō Protection Trust (the Trust). The Auditor-General has appointed me, B H Halford, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the Trust on his behalf.

Opinion

We have audited:

- the financial statements of the Trust on pages 8 to 22, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Trust on pages 6 to 7.

In our opinion:

- the financial statements of the Trust on pages 8 to 22:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with the Public Benefit Entity Reporting Standards Disclosure Regime; and
- the performance information of the Trust on pages 6 to 7 presents fairly, in all material respects, the Trust's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Trust's objectives for the year ended 30 June 2019.

Our audit was completed on 5 August 2019. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Responsibilities of the Trustees for the financial statements and the performance information

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

The Trustees are responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

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

The Trustees' responsibilities arise from the Local Government Act 2002 and the Trust Deed.

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Trustees.

- We evaluate the appropriateness of the reported performance information within the Trust's framework for reporting its performance.

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

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Trustees are responsible for the other information. The other information comprises the information included on pages 2 to 5, but does not include the financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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

B H Halford
Audit New Zealand
On behalf of the Auditor-General
Tauranga, New Zealand

Lake Taupo Protection Trust
Te wai, te iwi

Chairman's Report

On Trust operations

For the Year Ended 30th June 2019

LTPT Doc # 22529

Report

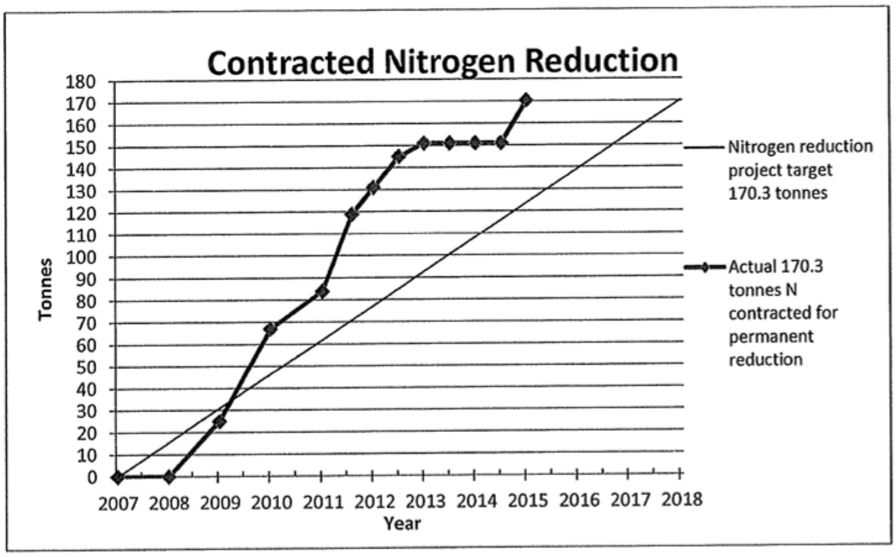
Background

As background, the Lake Taupo Protection Trust was formed and became operative at the time of establishment of the Lake Taupo Protection Project on 9th February 2007. The Trust's role is to protect Lake Taupo's water quality by reducing manageable nitrogen leaching into Lake Taupo by 20%. The Trust has been operating its activities and the use of the public fund based on the 20% figure being projected to be 153,000kgs. After a review of the project in 2011, and consideration of the final figures on the total nitrogen obtained from the benchmarking exercise undertaken by Waikato Regional Council, the projects nitrogen reduction target was increased to 170,300kgs.

The effect of that increase was that the remaining project funds were not able to achieve this new Nitrogen reduction target. As a consequence in April 2013 the Lake Taupo Protection Project Joint Committee overseeing the project, received confirmation of additional Crown funding which then enabled the two local authorities to subsequently release additional funds to enable the project to progress to the new nitrogen reduction target.

Contracted Agreements for the Nitrogen Reductions

The Trust completed the final nitrogen reduction agreement on 29th June 2015 to achieve the projects overall 'contracted' nitrogen reduction target of 170,300 kgs. During the ensuing four year period the remaining annual Nitrogen reduction payments were completed and 'on farm' Nitrogen reductions were achieved in accordance with the nitrogen reduction agreements.



Financial position:

Financially, the Trust remained in a positive position at balance date having operated with residual funds with no income apart from minimal interest earned on term deposit funds which will diminish with time.

The Trust, during the financial year being reported on confirmed to the Lake Taupo Protection Project Committee that is has sufficient residual funds to cover operating costs for the extended operating term on the proviso that no unforeseen expenditure arises.

LTPT Doc # 22529

Alongside the annual budget the Trust has in place a cash flow projection which set out the Trust's contractual obligations to June 2019. The cash flow has enabled trustees to have a big picture view of its expenses and obligations over its operating term. With the projects operating term now extended out to 30 June 2021 or when the Trust winds up, whichever comes first, the cash flow projection was also extended out to June 2021.

Trust operations:

Nitrogen reduction agreements:

The nitrogen reduction agreements continued to be monitored for compliance throughout the year which was achieved although two parties that the Trust contracted with have some partial remedial planting to undertake to fulfill their forestry obligations.

One party commenced remedial planting in June 2019; it is expected their remedial planting programme will complete during the winter 2019 season.

The other party has remedial planting agreements in place with the Trust with a compliance date of 1 November 2019. In the interim period the Trust has initiated contact with the parties and sent correspondence setting out its expectations as to compliance and should that not be the case, the Trust will consider exercising its formal remedies.

Waikato Regional Council undertook aerial monitoring in the second half of the financial year; apart from the two exceptions noted above no compliance concerns were detected in relation to nitrogen reduction agreements.

The Trust received and processed a number of requests from parties it has contracted with. Requests being considered required careful thought, consideration, and decision making by Trustees, particularly in cases where requests were complex and decisions potentially precedent setting.

Audit:

Audit New Zealand continues to scrutinize financial transactions and nitrogen reduction agreements for compliance purposes and in doing so provides an external review at arm's length together with their independent opinion. The annual audit process provides assurance to the Joint Committee and the general public alike that the expenditure of the public fund has been preserved.

Research:

The Trust continued with co-funding of the Lucerne research project 'nitrogen leaching from Lucerne grazed by stock'; this project is set to complete with a farm open day during the 2019 calendar year.

The Lucerne research results to date have been of value and a real benefit to farmers; in the Trust's view the Lucerne research has been a good investment both for the catchment and the wider farming community.
The Trust will not be committing any further funds towards research projects given it has no further income source as it heads toward wind up and transitioning of the agreements.

Project transition planning:

Trustees and staff participated in and provided detailed operational information to assist the Officials Working Group and the Joint Committee with the projects transition planning discussions and workshops that were held throughout the year.

Trustees and staff:

LTPT Doc # 22529

The Trust continued to operate with 4 trustees and 1 staff member during the reporting period (having downsized in 2015 from 7 trustees and 2 staff, to the current level).

Looking ahead:
The Trust will continue to:

- Focus on ongoing compliance with the nitrogen reduction agreements and process any requests in relation to those agreements; and
- Report as required by the project documents to the Joint Committee and report on any topical matters that may arise; and
- Maintain the cash flow projection keeping a watch on funds; and
- Report to the Joint Committee the cash flow position should it fall below $200K; and
- Support and assist member agencies with the planning associated with the future management of nitrogen reduction agreements and the transition process.

Project transitioning:
The Trust conveyed its views and shared its long held view that one of the cornerstone elements of the project's success to date has been the independence (in one sense) of the Trust from the political and daily management influences of the Joint Committee and its members. The Trust also signaled its representatives have been the one constant in the project, while at governance level there has been constant change in membership over the term of the project. Consequently it is the view of trustees that the future co-governance entity should comprise a body that is independent of any one party's control or influence. In the Trust's view the aforementioned factors have benefited the project and contributed to its success to date.

Thanks:
I wish to acknowledge and thank my fellow Trustees Sue Yerex, Jerry Rickman, and Gerald Fitzgerald, and the trust manager Marion Peck for their collective support and commitment, dedication and effort over the past 12-months.

I also extend my gratitude to the members of the Joint Committee, and staff from the member agencies, for their collective commitment, focus, and efforts during the past year.

Nature and Scope of Activities

➢ Fund Management

The Trust's Treasury Policy (incorporating Liability Management and Investment Policies) guides the Trust investments and financial transactions; this was reviewed, and approved by the Trust in May 2019.

As stated above the Trust operates a cash flow projection which projects operating costs up to 30th June 2021. This document allows Trustees to measure progress but also to support their financial management governance role.

Future Direction

➢ Annual Business Plan

The Trust has in place an approved annual business plan to manage and assist with its operations for the ensuing financial year; this is an internal document which will also be referenced for performance management purposes with staff. Progress is tracked monthly through staff reporting to Trustees.

Administration

LTPT Doc # 22529

- Report six monthly to the Joint Committee on progress both financial and qualitative.

The Trust fulfilled its 6-monthly reporting requirements to the Joint Committee and complied with the reporting timeframes.

- **Statement of Intent (SOI)**

The Trust undertook the SOI process in accordance with the requirements of Clause 14 of the Trust Deed. The draft SOI for the 2019/20 year was presented to the Joint Committee at its March 2019 meeting. The final SOI was approved by the Trust and endorsed by the Joint Committee in June 2019.

- **Meetings**

The Lake Taupo Protection Trust held 10 meetings throughout the year; despite previous projections that the workload of the Trust may lessen with the nitrogen reduction contracts being completed, that has proven not to be the case.

- **Service Level Agreements**

The Trust retained the ongoing external services for the provision of accounting and legal services, and forestry consultant services to a lesser degree on an 'as required' basis.

Ratio of Consolidated Shareholder Funds

Because of the nature of the Trust's business there was no specific target ratio of consolidated shareholders' funds to total assets.

Accounting Policies

Our operations which involve purchasing Nitrogen reductions over time and of allowing nitrogen reductions to take place over that time has had specialist accounting advice to ensure that we meet the requirements of GAAP and PBE IPSAS.

Estimate of Distribution to Shareholders

Other than agreed services there were no distributions to Funding Bodies or beneficiaries and none are envisaged.

Organisational Performance Measures for 2018/19 Financial Year

Action	Performance
The Trust will operate in alignment with the Trust Deed, the Statement of Intent, annual operating targets and in compliance with the provisions applicable to it under the Local Government Act.	Achieved.
The cash flow projection to be reported to the Joint Committee on or before December 2018 and to show the ability of the project to complete within budget.	The Trust reported it had sufficient funds to continue operating up to 30 June 2021, or when the Trust winds up, whichever comes first on the proviso that no financial surprises arise.

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Continue to administer Trust Nitrogen Reduction Agreements to ensure outstanding contractual requirements are fulfilled by 2019.	Achieved.
Operate and report on the outcomes of nitrogen research projects approved by the Trust.	Achieved.
Undertake responsibilities identified for the Trust under the Taupo Catchment Compliance Monitoring Plan and generally support the operation of those Plans by the other joint parties including the Trust's support of the Lake Taupo Protection Project's Communication Plan.	Achieved; ongoing.
Review Trust policies, report to Trustees and implement their requirements throughout the year.	Achieved.
Report to the Joint Committee on progress, both financial and qualitative.	Achieved.

Statement of Intent (SOI) Performance Targets

Actions	Performance Measures	Performance against Targets
Oversee the financial position of the Trust to meet and maintain a positive projected cash flow projection.	Cash flow projection in place and being operated to achieve a positive outcome at 30 June 2019.	Achieved. The cash flow projection was extended out to match the project 'term' extension up to 30 June 2021 or whenever the Trust winds up, whichever comes first.
Ensure that all LTPT nitrogen reduction contracts are being complied with to achieve the overall Nitrogen reduction target of 170,300 kgs and where relevant in conjunction with Waikato Regional Council.	Nitrogen reduction contracts are being met and any contractual failure is addressed to achieve repatriation of any loss of nitrogen reduction	Achieved. Two contractual breaches requiring partial remedial planting were reported on as to status. One party commenced remedial planting in June 2019 ; the other party has remedial planting agreements in place and communication with this party is ongoing Both breach parties are compliant with their 'total annual nitrogen discharge' caps as monitored and confirmed by Waikato Regional Council on an annual basis.
Monitor/track that compliance monitoring results are received on an	Monitoring compliance results received in accordance with monitoring plan timelines; Audit	Achieved.

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Actions	Performance Measures	Performance against Targets
ongoing basis for LTPT N reduction deals.	NZ notified.	
Report to trustees on compliance monitoring results (received from Waikato Regional Council) for LTPT N reduction purchases.	Trustees up to date with compliance monitoring results.	Achieved.
Manage Trust funded research projects that have been previously approved by the Trust.	Research outcomes reported on.	Achieved.
Participation and assistance in the annual audit of the Trust.	Positive audit result.	Achieved.
Carry out Trust responsibilities identified in the Taupo Catchment Compliance Monitoring Plan and provide support in the operation of the plan with other joint parties which includes the Trusts support of the Lake Taupo Protection Projects Communication Plan.	Trust actions completed and the Taupo Catchment Compliance monitoring plan supported on an ongoing basis.	Achieved; ongoing
Provide ongoing support as required in the operation of the Lake Taupo Catchment Compliance Framework.	Support provided as requested to achieve the aims of the Lake Taupo Catchment Compliance Framework	Ongoing.
Undertake any Trust actions arising from the Joint Committees consideration of the draft project review report recommendations, and work with project partners as required on any other related matters where Trust assistance or input is required including any transitional planning and action requirements.	Trust actions arising from the Project Review report (as approved by the Joint Committee) are achieved.	Achieved through involvement and discussions in the project transition planning process throughout the year.

Clayton Stent
Chairman

LTPT Doc # 22529

Meeting the financing needs of New Zealand councils

Mā te huruhuru ka rere te manu

Annual report

30 June 2019

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

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

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

Contents
Ihirangi

About us
Ko ngāi mātou

Establishment

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

Incorporated on 1 December 2011 under the Companies Act 1993.

Enabled by Local Government Borrowing Act 2011

Council-controlled organisation under the Local Government Act 2002.

Ownership

20 million of which remain **uncalled.**

20%
New Zealand Government

80%
30 councils

Share ownership is restricted to New Zealand Government or councils.

Guarantee structure

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

LGFA is not guaranteed by the New Zealand Government.

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

Credit rating

as at 30 June 2019

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

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

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

Face value of bonds on issue

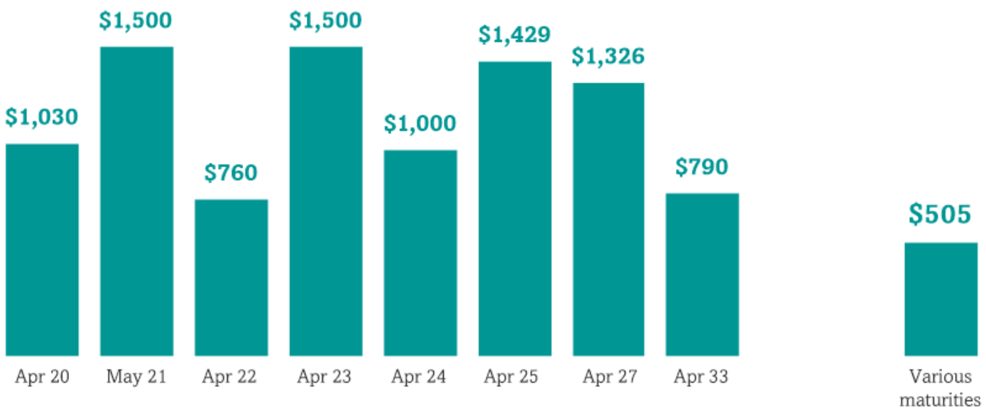
as at 30 June 2019 (NZ$ million)

$9,335 million

Bills on issue

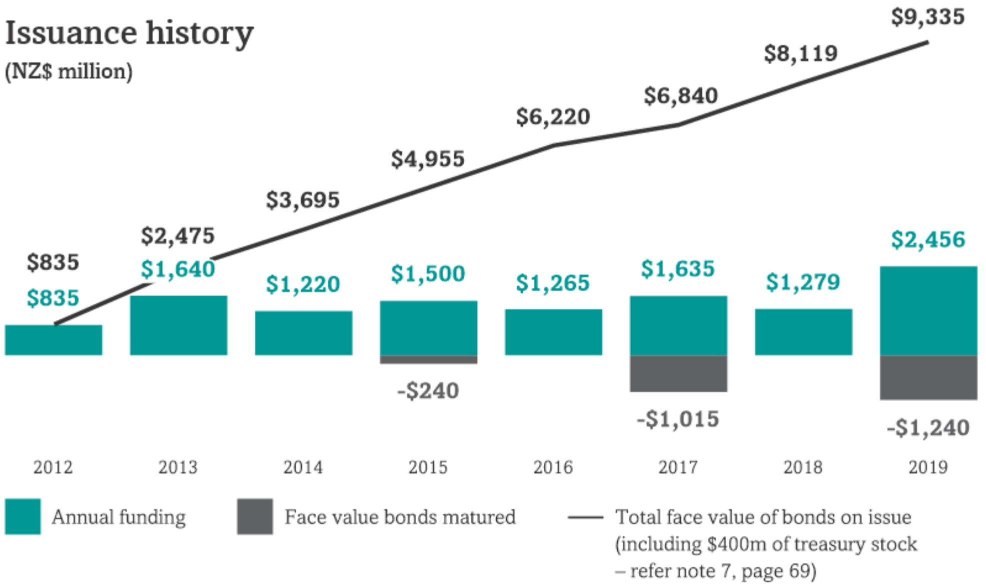
as at 30 June 2019 (NZ$ million)

$505 million



Issuance history

(NZ$ million)



Governance overview

20%
Shareholding
New Zealand Government

80%
Shareholding
30 councils

31 Shareholders

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

Shareholders' Council
Page 27

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

Review and report performance of LGFA and the Board;

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

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

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

LGFA Board
Page 17-26

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

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

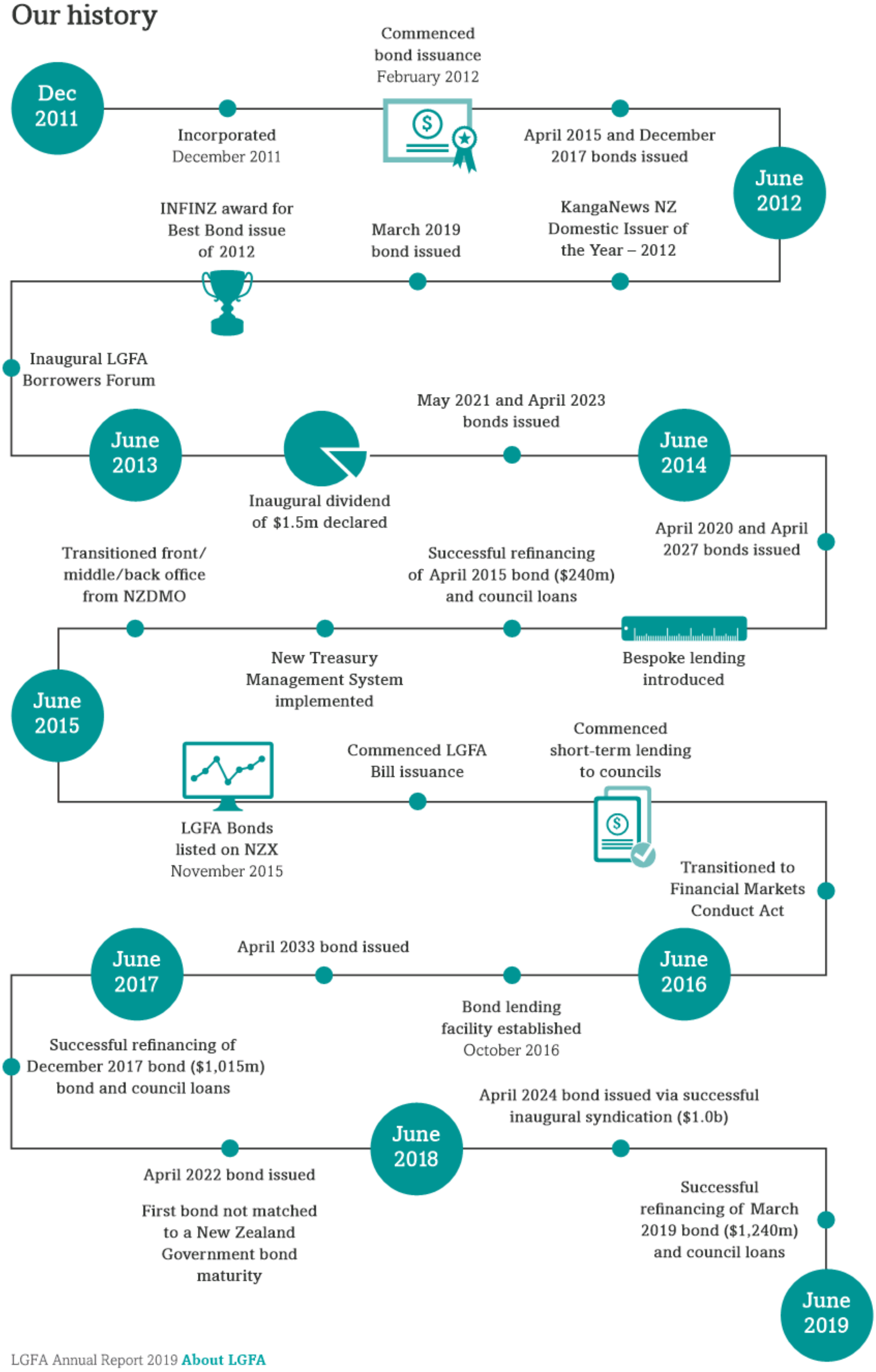
The Board comprises **five independent** and **one non-independent** directors appointed by shareholders.

Bonds listed on NZX Debt Market

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

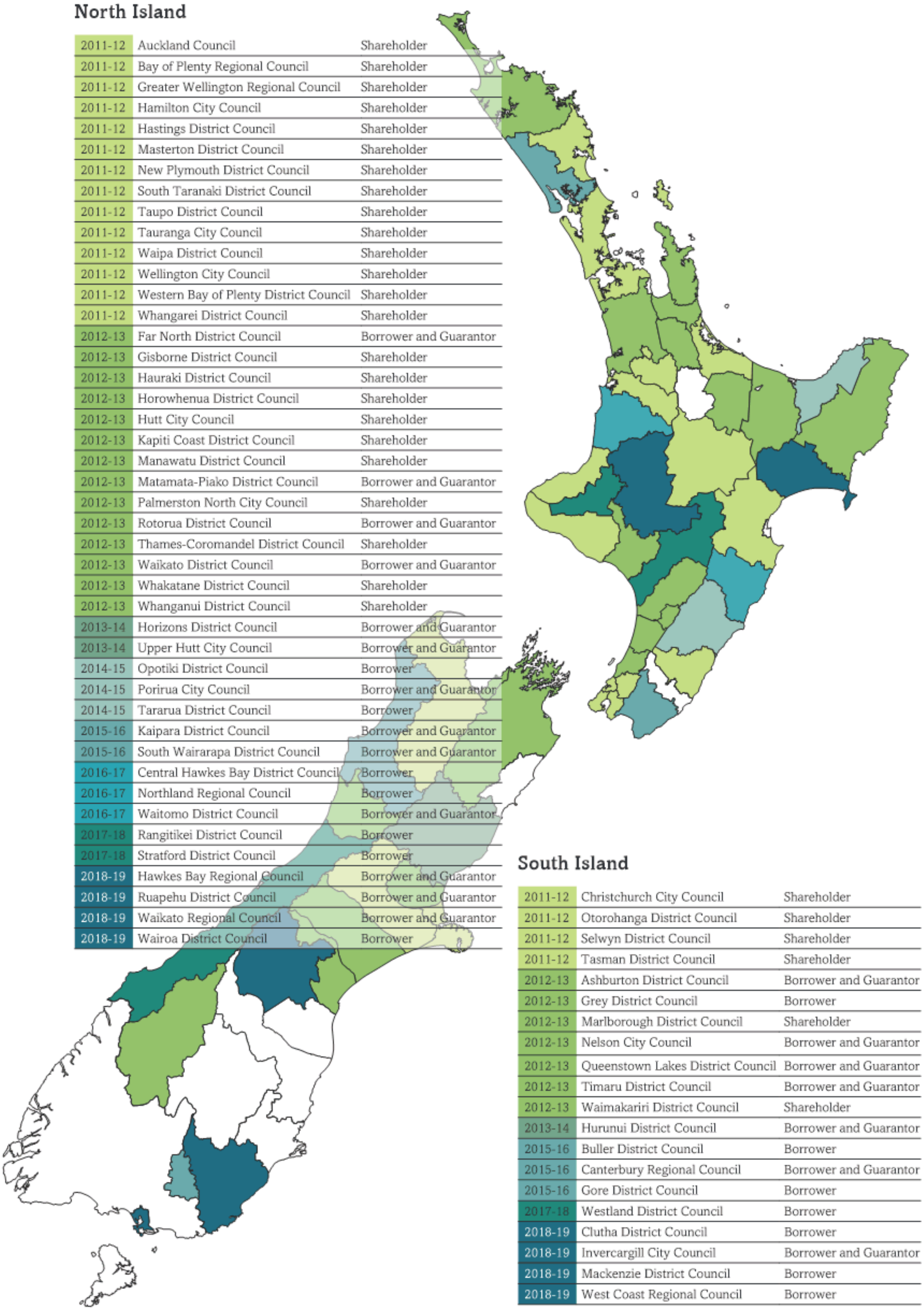
Supervised by independent trustee

Our history



LGFA Annual Report 2019 **About LGFA** 7

LGFA's 64 participating councils by year of joining



North Island

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

South Island

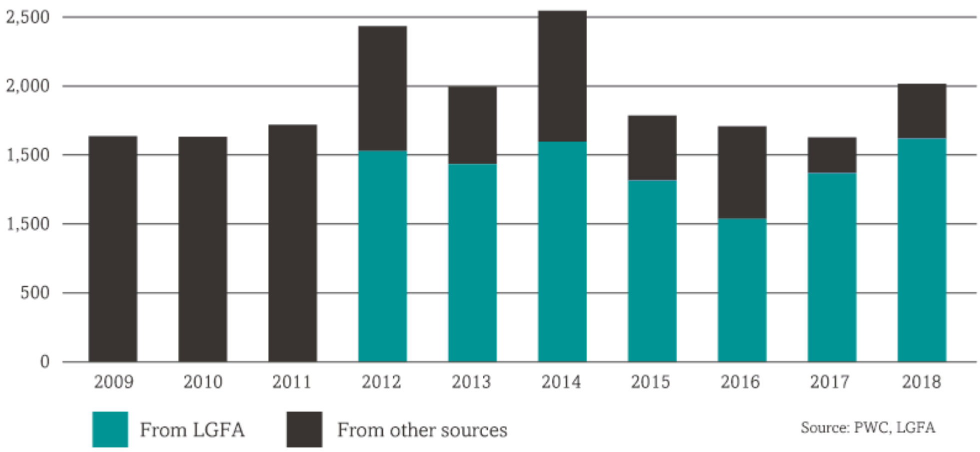
2011-12	Christchurch City Council	Shareholder
2011-12	Otorohanga District Council	Shareholder
2011-12	Selwyn District Council	Shareholder
2011-12	Tasman District Council	Shareholder
2012-13	Ashburton District Council	Borrower and Guarantor
2012-13	Grey District Council	Borrower
2012-13	Marlborough District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

Participating councils

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

Councils' borrowing

All councils (NZ$ million) calendar year



Source: PWC, LGFA

New member Councils

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

- Clutha District Council
- Hawkes Bay Regional Council
- Invercargill City Council
- Mackenzie District Council
- Ruapehu District Council
- Waikato Regional Council
- Wairoa District Council
- West Coast Regional Council

Message from the Chair

He karere mai i te Toihau

For the year ended 30 June 2019

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

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

Craig Stobo, Chair LGFA Board

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

Strong financial and operational performance

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

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

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

Investor relations

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

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

Borrowing activity

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

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

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

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

Lending to the sector

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

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

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

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

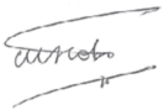
The sector outlook and impact on LGFA

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

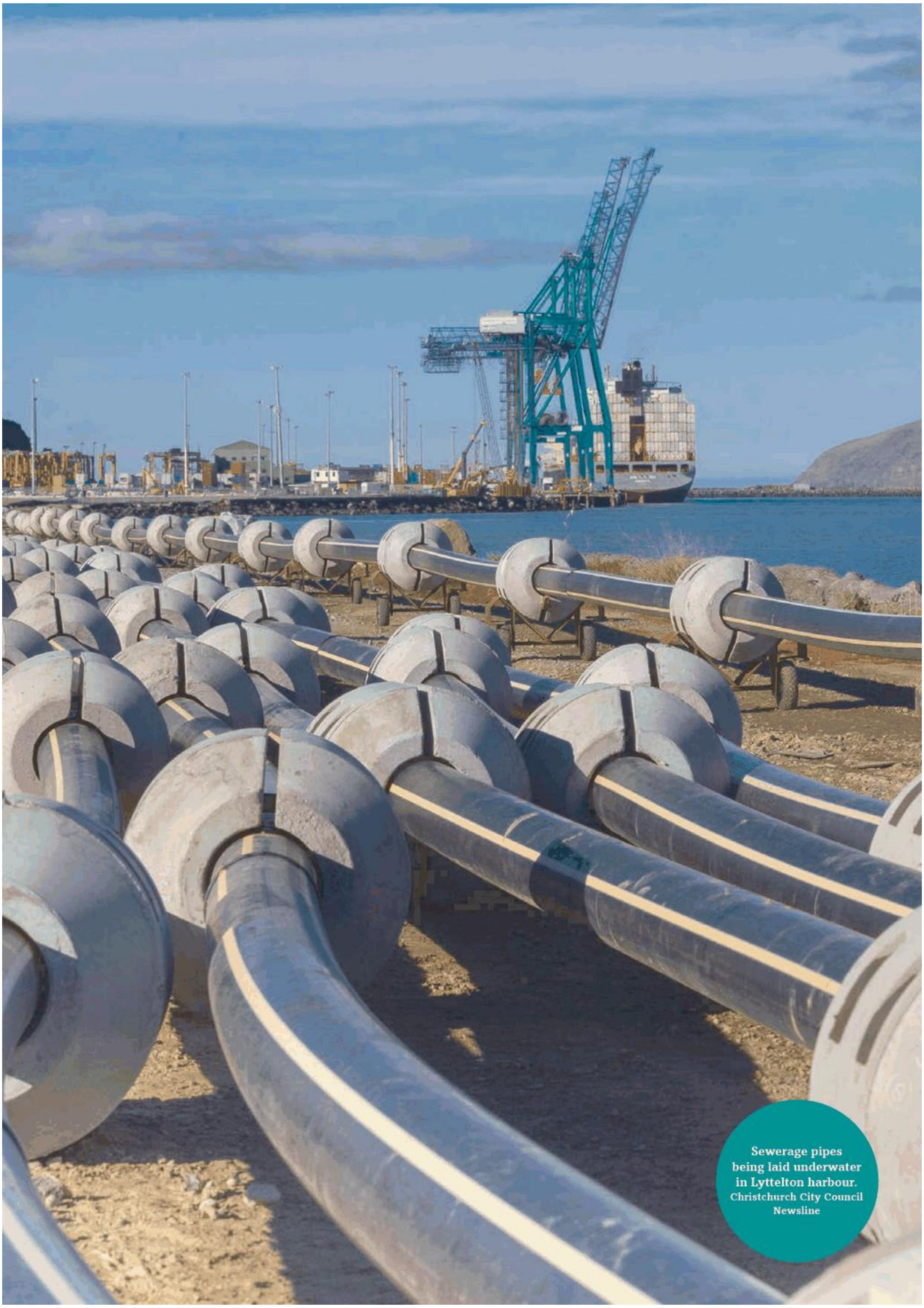
Councils have published their 2018-28 Long Term Plans in the past year and the sector is forecasting in aggregate a large increase in their potential debt levels as they look to invest in infrastructure. Some of the investment will be funded from other sources but LGFA is confident it can meet the borrowing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

Acknowledgments

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



Craig Stobo
Chair, LGFA Board


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

Performance highlights
Putanga mahi matua

Bonds issued over the financial year

$2.456 billion

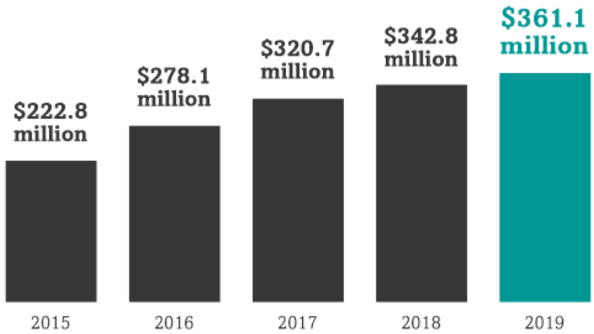
Lending to councils over the financial year

$2.446 billion

Total interest income

$361.1 million

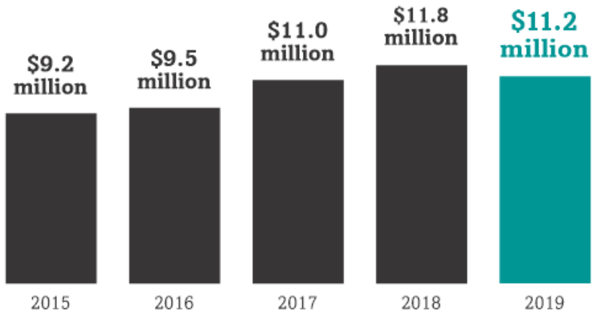
▲ **5.3%**
increase over the 2017-18 financial year



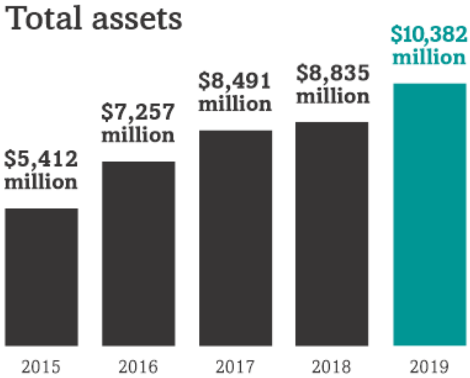
Net operating profit

$11.2 million

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



Total assets



Liquidity as at 30 June 2019

Cash
$56m

Marketable securities
$256m

Deposits
$136m

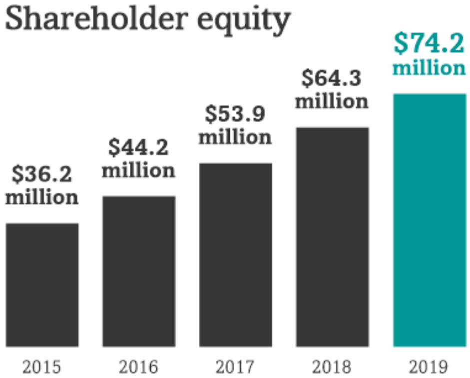
Government committed liquidity facility
$700m

Shareholder funds 30 June 2019

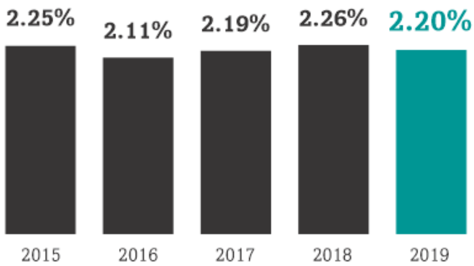
Fully paid shares
$25m

Retained earnings
$49m

Shareholder equity



Shareholder funds and borrower notes / total assets



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

Corporate governance
Ārahitanga ā-rangatōpū

NZX Corporate Governance Best Practice Code

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

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

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

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

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

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

Principle 1
Code of ethical behaviour

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

Code of Ethics

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

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

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

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

Protected Disclosures and Whistle Blowing

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

Financial Products Trading Policy

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

Principle 2
Board composition and performance

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

LGFA Board Charter

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

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

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

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

Board composition

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

The directors of LGFA as at 30 June 2019:

Craig Stobo
Independent Chair

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

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

John Avery
Independent Director

LLB, C.F.Inst.D

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

Philip Cory-Wright
Independent Director

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

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

Linda Robertson
Independent Director

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

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

Mike Timmer
Non-Independent Director

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

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

Anthony Quirk
Independent Director

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

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

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

Nomination of Directors

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

Retirement and re-election of Directors

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

Director tenure

As at 30 June 2019

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

Meetings of the Board

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

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

Board performance review

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

Director training

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

Diversity

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

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

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

Gender diversity of directors

2019
Female 1, Male 5

2018
Female 1, Male 5

Gender diversity of employees

2019
Female 2, Male 5

2018
Female 2, Male 4

Indemnities and insurance

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

Principle 3
Board committees

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

Audit and Risk Committee

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

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

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

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

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

Principle 4
Reporting and disclosure

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

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

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

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

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

Principle 5
Remuneration

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

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

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

Approved Director annual fee breakdown

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

Director remuneration

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

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

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

Chief Executive remuneration

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

Staff remuneration

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

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

Principle 6
Risk management

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

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

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

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

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

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

Internal audit

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

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

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

Health and safety

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

Principle 7
Auditors

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

External audit

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

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

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

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

Principle 8
Shareholder rights and relations

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

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

Foundation documents

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

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

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

LGFA Shareholders' Council

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

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

Members of the Shareholders' Council as at 30 June 2019

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

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

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

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

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

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

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

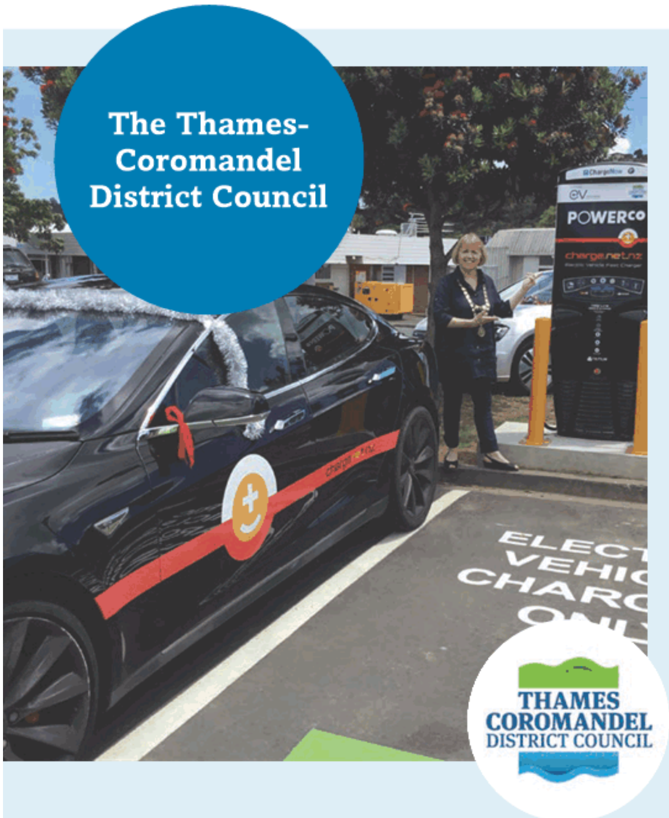
Craig Stobo
Chair, LGFA Board


LGFA staff assisted BNZ staff with planting of Kauri trees in the Coromandel region in June 2019. The planting commemorated BNZ's association with the Kauri 2000 Trust and the issue of LGFA's first syndicated bonds. BNZ was the Arranger to the issue.
Kauri 2000 evolved out of a project to mark the start of the new millennium with a goal to plant 2000 kauri. To date the Trust has planted over 50,000 kauri on the Coromandel Peninsula and continues to plant kauri throughout the Coromandel. The Kauri 2000 Trust is a non-profit charitable trust, established in 2000 and registered in New Zealand under the Charities Act 2005.
KAURI 2000

Enhancing local community wellbeing

Te whakarei i te oranga hapori ā-rohe

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



Clean green travel

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

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

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

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

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

Better Lighting, safer communities

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

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

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

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

Hamilton City Council
Te kaunihera o Kirikiriroa

Treasury risk Management
Whakahaeretanga ā-mōrearea

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

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

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

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

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

Liquidity risk

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

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

Interest rate risk / market risk

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

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

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

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

Counterparty credit risk

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

Counterparty credit risk is managed through:

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

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

Foreign currency risk

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

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

Operational risk

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

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

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

Lending risk

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

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

All Local Authorities that borrow from LGFA:

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

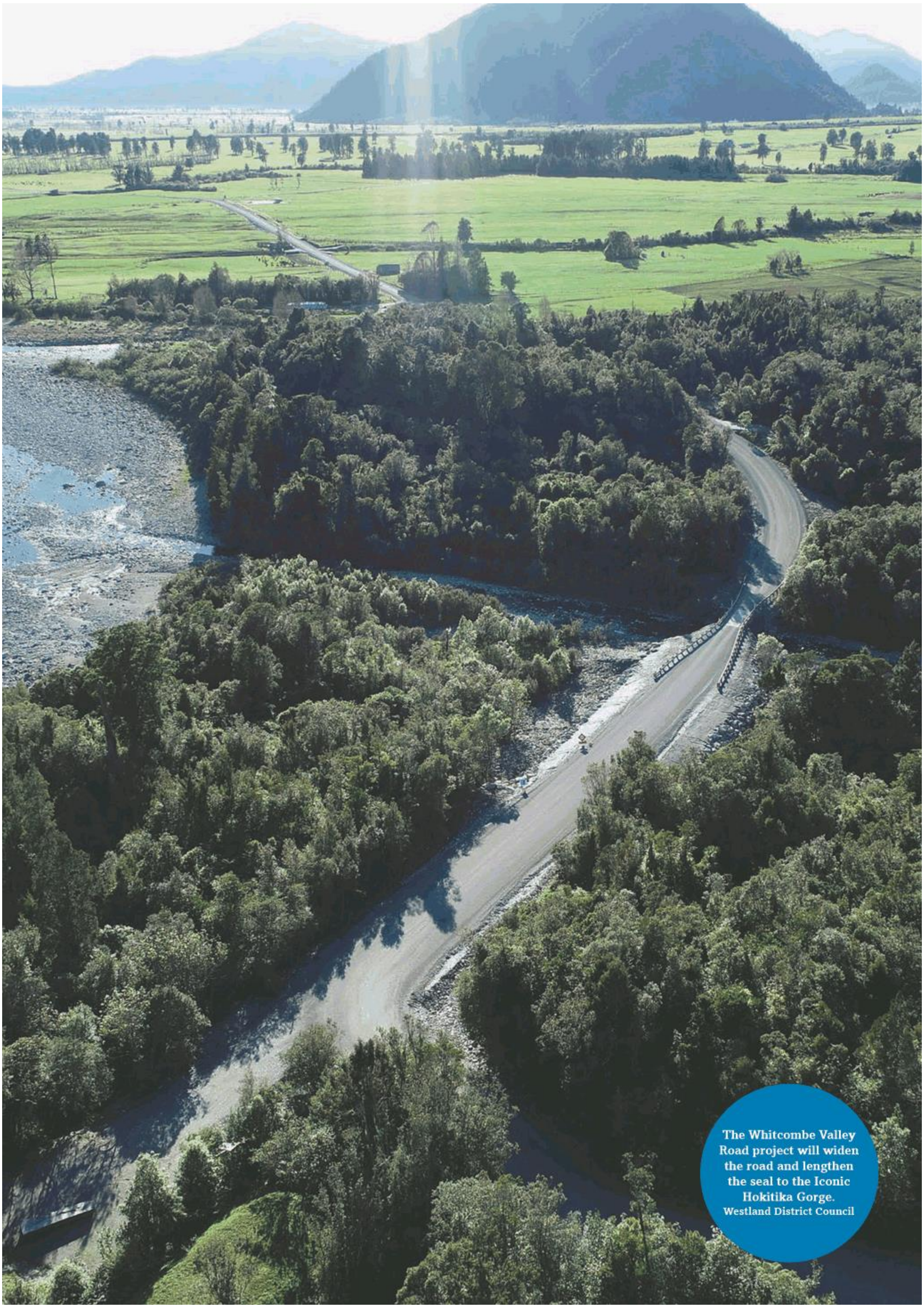
Financial covenant	Lending policy covenants Non-rated councils	Foundation policy covenants Rated councils
Net debt / total revenue	<175%	<250%
Net interest / total revenue	<20%	<20%
Net interest / annual rates income	<25%	<30%
Liquidity	>110%	>110%

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

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

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

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


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

Performance against objectives
Tutukinga mahi ki ōna whāinga

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

Performance against primary objectives

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

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

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

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

2018-19 performance objectives

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

Primary objectives

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

Additional objectives

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

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

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

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

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

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

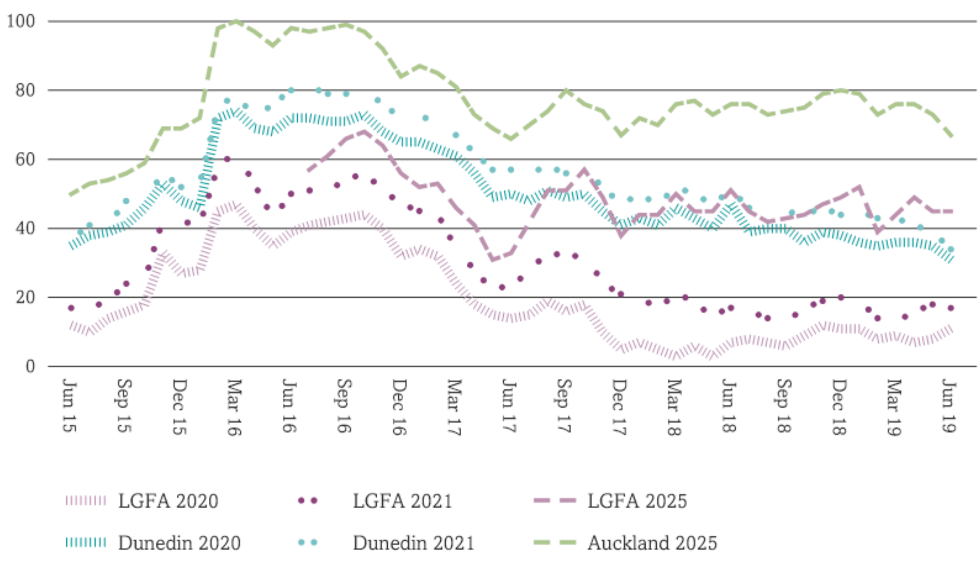
Some of the movement is due to the changes in the spread between swap rates and NZ Government Bond (NZGB) yields as over the same period LGFA spreads to NZGB have narrowed for all maturities.

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

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

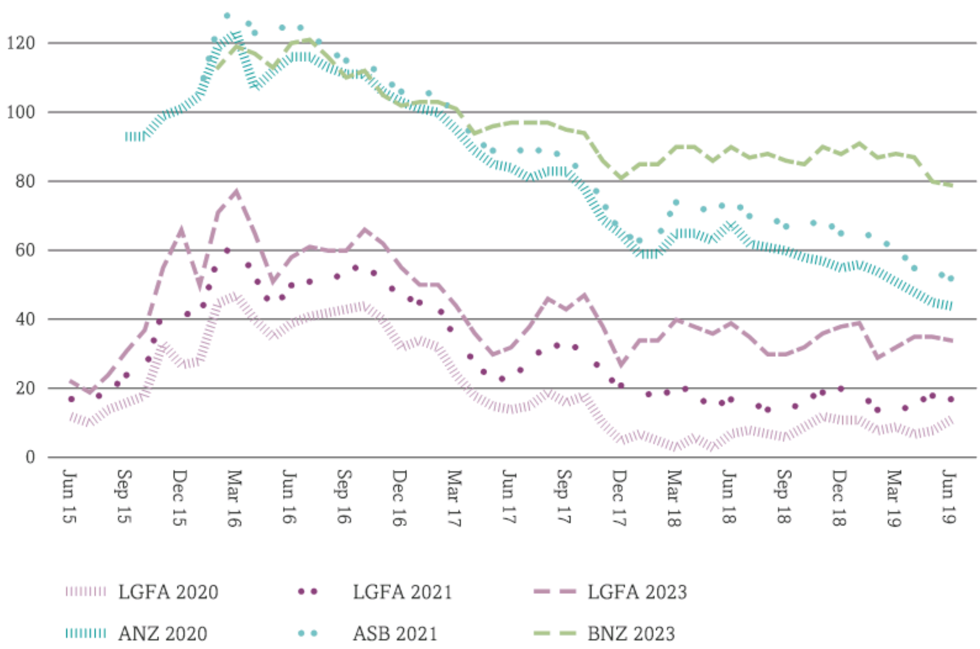
LGFA continues to provide savings in borrowing cost for councils relative to other sources of borrowing. LGFA compares secondary market spreads on its bonds to those of Auckland Council and Dunedin City Treasury (as a proxy for councils borrowing in their own name) and a mix of banks (as a proxy for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

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



Source: Bloomberg, LGFA

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



Source: Bloomberg, LGFA

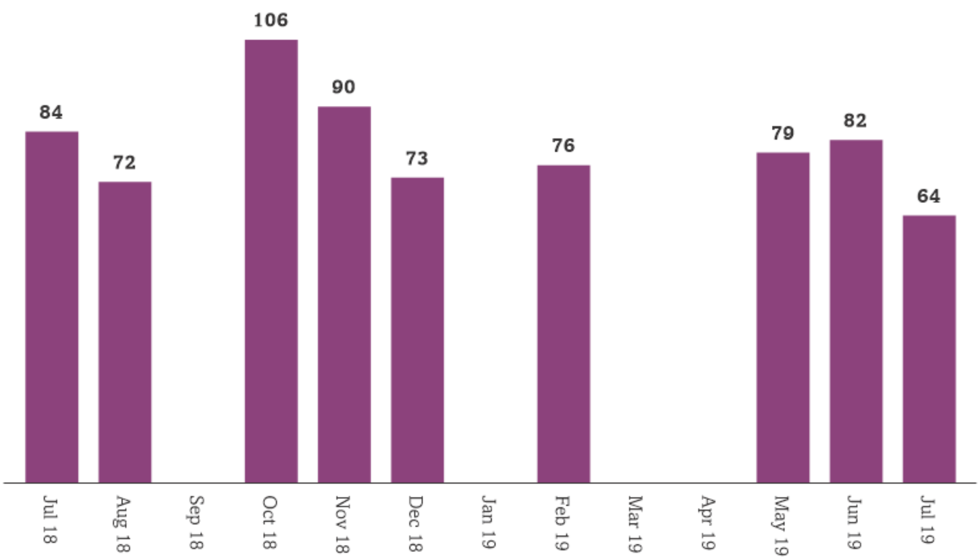
From the table below, based upon secondary market spread as at 30 June 2019, LGFA saved AA-rated councils an estimated 7 bps to 9 bps depending upon the term of maturity. This compares to savings of between 10 bps and 21 bps a year ago. The savings are less than a year ago due to (i) the relative size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

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

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

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

Average total months to maturity – on-lending to councils



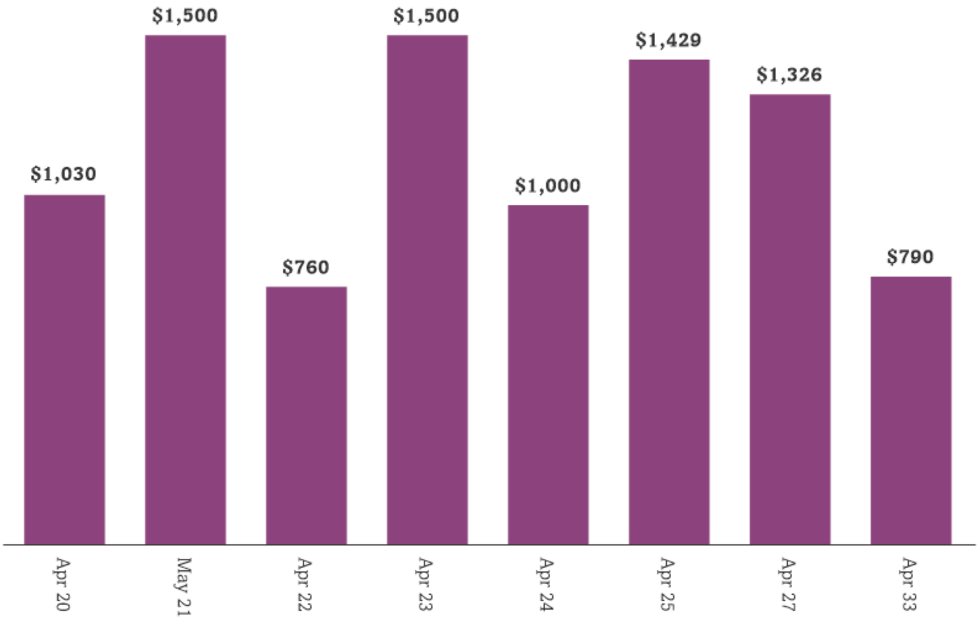
While LGFA provides councils with the ability to borrow from LGFA for terms from one month to 14 years, it is up to the councils to determine their preferred term of borrowing.

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

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

LGFA bonds on issue (NZ$ million)

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



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

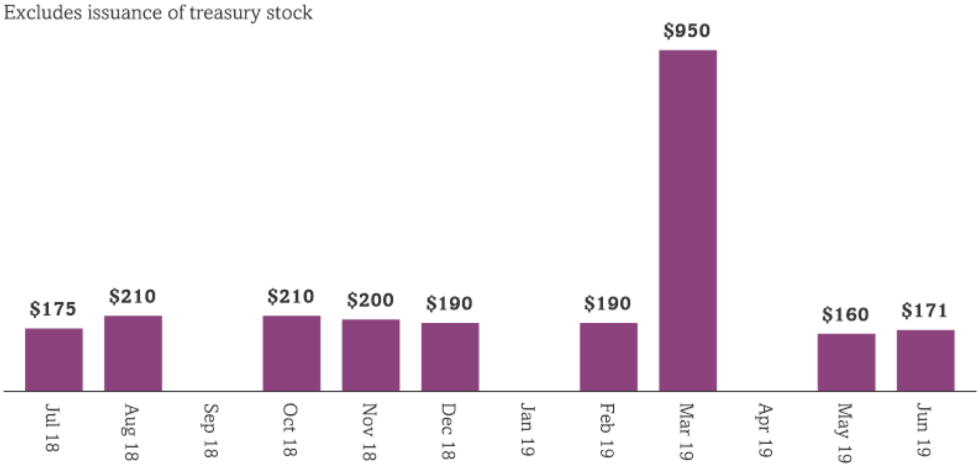
LGFA listed its bonds on the NZX Debt Market in November 2015 and this has led to greater awareness and participation in LGFA bonds by domestic retail and offshore investors. Average turnover on the NZX Debt Market since listing has been $11 million per month or 8% of the total turnover of the NZX Debt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

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

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

LGFA bond issuance by tender (NZ$ million)

Excludes issuance of treasury stock



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

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

* $1.0 billion issued via syndication.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Performance against additional objectives

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

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

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

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

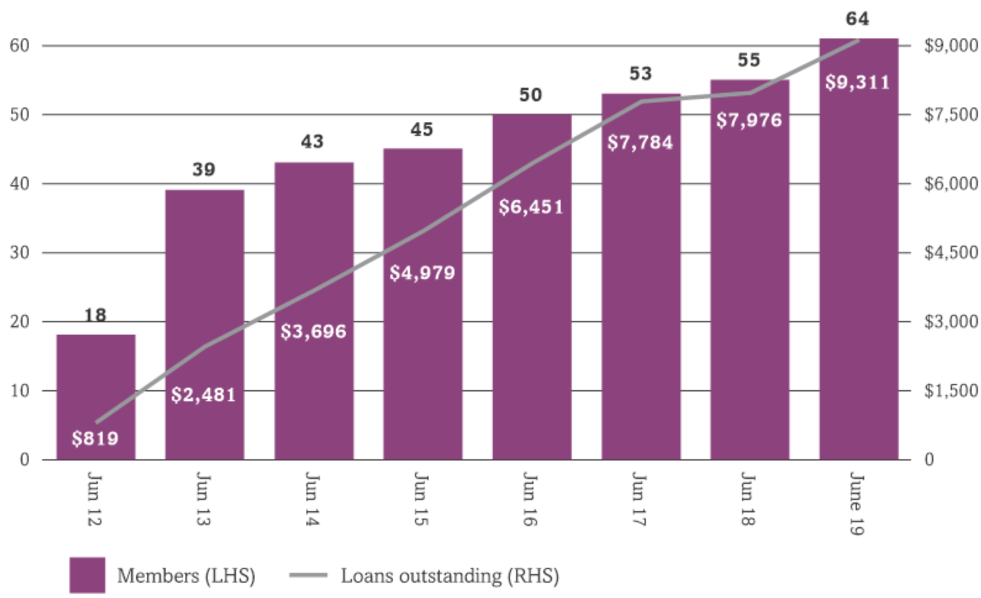
The impact from the current low interest rate environment is that LGFA has a lower cost of funds. While council borrowers benefit from lower borrowing costs, the dividend payment calculated on the above guidance is lower than it would otherwise be in an environment of higher interest rates.

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

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

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

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



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

LGFA council members and LGFA loans outstanding

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Performance targets

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

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

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

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

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

Financial statements
Taukī pūtea

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

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

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

For and on behalf of the Board of Directors

Craig Stobo
Chair, LGFA Board
30 August 2019

Linda Robertson
Chair, Audit and Risk Committee
30 August 2019

Statement of comprehensive income

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

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

Statement of changes in equity

For the year ended 30 June 2019 in $000s

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

Statement of financial position

As at 30 June 2019 in $000s

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

Statement of cash flows

For the year ended 30 June 2019 in $000s

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

1 Statement of accounting policies

a. Reporting entity

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

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

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

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

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

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

b. Statement of compliance

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

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

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

c. Basis of preparation

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

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

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

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

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

Hedge accounting

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

Impairment

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

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

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

Methodology to determine expected credit losses

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

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

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

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

Early adoption standards and interpretations

LGFA has not early adopted any standards.

New standards adopted

NZ IFRS 15. Revenue from Contracts with Customers.

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

Standards not yet adopted

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

NZ IFRS 16 Leases

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

Change in presentation. Statement of financial position

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

d. Financial instruments

Financial assets

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

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

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

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

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e. Other assets

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

f. Other liabilities

Employee entitlements

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

g. Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h. Lease payments

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

i. Segment reporting

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

j. Judgements and estimations

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

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

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

2 Analysis of financial assets and financial liabilities

a. Categories of financial instruments

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

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

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

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

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

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

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

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

Marketable securities and bonds

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

Deposits

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

Loans to local government

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

Borrower notes

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

Fair value of financial assets and financial liabilities

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

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

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

b. Financial risk management

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

Market risk

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

Interest rate risk

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

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

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

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

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

Interest rate sensitivity

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

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

Credit risk

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

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

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

Exposure to credit risk

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

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

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

Collateral and credit enhancements

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

Credit quality of financial assets

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

Liquidity risk

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

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

Contractual cash flows of financial instruments.

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

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

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

c. Hedge accounting

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

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

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

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

d. Offsetting

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

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

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

3 Issuance and on-lending expenses

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

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

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

4 Operating expenses

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

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

5 Loans to local government

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

5 Loans to local government (cont)

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

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

6 Bills on issue

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

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

7 Bonds on issue

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

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

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

8 Borrower notes

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

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

9 Treasury stock and bond repurchase transactions

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

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

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

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

As at 30 June 2019, bond repurchase transactions comprised:

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

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

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

11 2018/19 Bond issuance and loans advanced

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

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

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

12 Share Capital

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

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

Shareholder information

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

Capital management

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

Dividend

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

13 Operating Leases

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

14 Other assets

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

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

15 Capital commitments

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

16 Contingencies

There are no contingent liabilities at balance date.

17 Related parties

Identity of related parties

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

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

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

Related party transactions

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

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

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

Transactions with key management personnel:

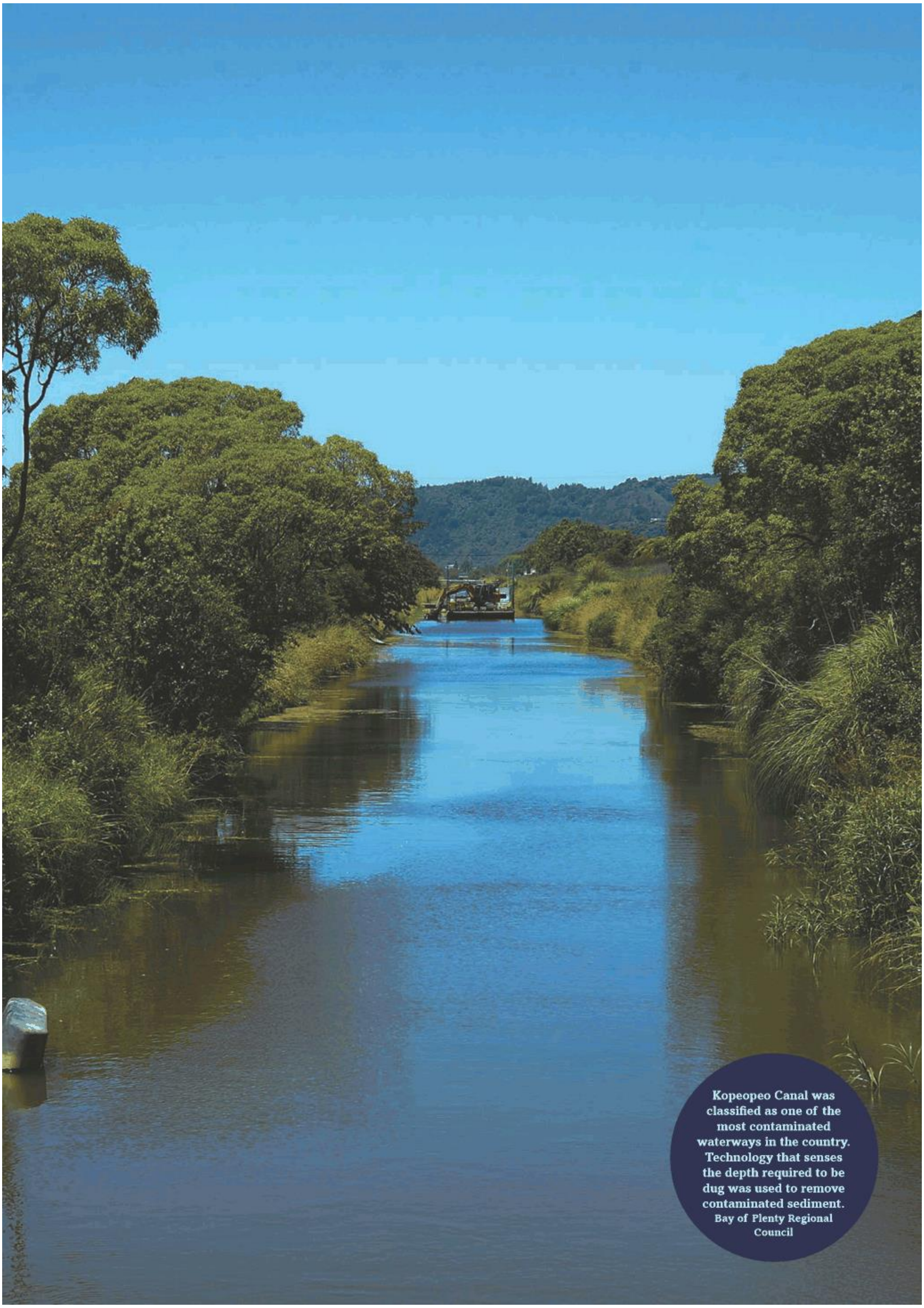
Salaries $904,300 (2018: $849,969)

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

18 Subsequent events

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

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


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

INDEPENDENT AUDITOR'S REPORT

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

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

Opinion

We have audited:

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

In our opinion:

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

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

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

Basis for our opinion

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

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

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

Materiality

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

KPMG

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

Key Audit Matters

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

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

KPMG

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

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

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

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

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

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

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

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

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

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

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

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

KPMG

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

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

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

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

Independence

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

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

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

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

Other disclosures
Whākitanga

Waivers from NZX Limited (NZX)

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

Waiver from Rule 5.2.3

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

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

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

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

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

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

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

Waiver from Rule 6.3.2

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

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

Donations

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

Net Tangible Assets

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

Earnings per security

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

Amount per security of final dividends

Not applicable

Spread of Quoted Security holders

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

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

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

Appendix: Sustainability
Tāpiritanga

GRI Index

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

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

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

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

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

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LGFA

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

www.lgfa.co.nz