



AGENDA

Commercial and Strategy Committee Meeting

Tuesday, 21 July 2020

Date Tuesday, 21 July 2020

Time following the Community Services Committee

Location Council Chamber
Timaru District Council
King George Place
Timaru

File Reference 1355200

Timaru District Council

Notice is hereby given that a meeting of the Commercial and Strategy Committee will be held in the Council Chamber, Timaru District Council, King George Place, Timaru, on Tuesday 21 July 2020, at the conclusion of the Community Development Committee meeting.

Commercial and Strategy Committee Members

Clrs Peter Burt (Chairperson), Allan Booth (Deputy Chairperson), Richard Lyon, Gavin Oliver, Paddy O'Reilly, Barbara Gilchrist, Sally Parker, Stu Piddington, Steve Wills and the Mayor Nigel Bowen

Quorum – no less than 2 members

Local Authorities (Members' Interests) Act 1968

Committee members are reminded that if you have a pecuniary interest in any item on the agenda, then you must declare this interest and refrain from discussing or voting on this item, and are advised to withdraw from the meeting table.

Donna Cross

Group Manager Commercial and Strategy

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- 1 Apologies**
- 2 Identification of Items of Urgent Business**
- 3 Identification of Matters of a Minor Nature**
- 4 Declaration of Conflicts of Interest**
- 5 Chairperson's Report**

6 Confirmation of Minutes

6.1 Minutes of the Commercial and Strategy Committee Meeting held on 9 June 2020

Author: Jo Doyle, Governance Advisor

Recommendation

That the Minutes of the Commercial and Strategy Committee Meeting held on 9 June 2020 be confirmed as a true and correct record of that meeting.

Attachments

- 1. Minutes of the Commercial and Strategy Committee Meeting held on 9 June 2020**



MINUTES

Commercial and Strategy Committee Meeting Tuesday, 9 June 2020

Ref: 1355200

**Minutes of Timaru District Council
Commercial and Strategy Committee Meeting
Held in the Council Chamber, Timaru District Council, King George Place, Timaru
on Tuesday, 9 June 2020 at 12.35pm**

Present: Cr Peter Burt (Chairperson), Cr Allan Booth (Deputy Chairperson), Cr Richard Lyon, Cr Paddy O'Reilly, Cr Barbara Gilchrist, Cr Sally Parker, Cr Stu Piddington, Cr Steve Wills, Mayor Nigel Bowen

In Attendance: Community Board Representatives

Geraldine Community Board – Jan Finlayson

Council Officers

Group Manager Commercial and Strategy (Donna Cross), Chief Financial Officer (David Codyre), Chief Executive (Bede Carran), Governance Advisor (Jo Doyle),

1 Apologies

Resolution 2020/16

Moved: Cr Paddy O'Reilly

Seconded: Cr Sally Parker

That the apologies from Cr Gavin Oliver and Raewyn Hessel of Pleasant Point Community Board be accepted.

Carried

2 Identification of Items of Urgent Business

There were no matters of urgent business.

3 Identification of Matters of a Minor Nature

There were no matters of minor nature.

4 Declaration of Conflicts of Interest

Cr Allan Booth declared an interest in Aoraki Development.

5 Chairperson's Report

Resolution 2020/17

Moved: Cr Peter Burt

Seconded: Cr Barbara Gilchrist

The Chairperson provided a brief report of attendance at Council meetings and workshops.

Carried

6 Confirmation of Minutes

6.1 Minutes of the Commercial and Strategy Committee Meeting held on 28 April 2020

Resolution 2020/18

Moved: Cr Steve Wills

Seconded: Mayor Nigel Bowen

That the Minutes of the Commercial and Strategy Committee Meeting held on 28 April 2020 be confirmed as a true and correct record of that meeting.

Carried

7 Reports

7.1 LGFA Trust Deed Amendment

The Committee considered a report on the amendment of specific Debenture Trust Deed documents presented by the Chief Financial Officer.

LGFA is where Council goes to in order to borrow funds. It was set up in 2010 by the National Government to help Local Authorities borrow funds for capital funding needs. The Council is a guarantor to the scheme as it has over \$20 million in borrowing from the scheme. \$20 million is the threshold when borrowers are required to sign on as a guarantor. While the quantum of potential liability is high, the risks as guarantor are considered low given LGFA's credit rating which is the same as the New Zealand government.

Proposed changes to the deed mean council controlled organisations such as TDHL could borrow at the same rates that are available to councils to ensure cheaper debt.

Resolution 2020/19

Moved: Mayor Nigel Bowen

Seconded: Cr Barbara Gilchrist

That Council resolves that it has considered the following three deeds, approves the entry by Timaru District Council into those deeds, and authorises two elected members to execute those deeds on behalf of Timaru District Council:

- a. Amendment and Restatement Deed (Notes Subscription Agreement)
- b. Amendment and Restatement Deed (Guarantee and Indemnity)
- c. Amendment and Restatement Deed (Multi-Issuer Deed).

Carried

7.2 Aoraki Development - Draft Statement of Intent

The Committee considered a report on the updated draft Statement of Intent (SOI) for Aoraki Development and for Council to determine the feedback to be provided to the Aoraki Development Board.

This is an updated SOI that now includes Tourism, and the focus for the next year.

A sustained and extensive promotion of the district was launched on 3 May "Escape to Timaru" around the South Island to protect the \$195m that comes from domestic spend.

The financial matters discussion will be held in the Annual Plan Council meeting on 23 June.

Resolution 2020/20

Moved: Cr Richard Lyon

Seconded: Cr Sally Parker

That the Committee considers the draft Statement of Intent for Aoraki Development & Promotions Limited (AD) and the feedback to be provided to the AD Board.

Carried

7.3 Aoraki Development and Promotions Limited - Quarterly Report - 1 January 2020 to 31 March 2020

To present to the Timaru District Council, as shareholder, the Aoraki Development quarterly report for the period 1 January to 31 March 2020. Raeleen De Joux was introduced as the Deputy Chair.

The quarterly report was extended to include March and provide commentary around Covid-19. Feedback from the community is that a significant impact has been felt and is expected to continue in waves. The business community are in support of the chamber and Council for work that has been provided, and Aoraki Development have walked down the main streets of Timaru, Temuka and Geraldine to talk directly with business about the challenges they are facing and assisting where possible.

Many businesses have taken the opportunity to reset and how they can operate to meet the market and look at whether their supply chains are right.

The suffering to the community is expected when the wage subsidy ends or when specific parts are ordered from overseas and can't be delivered as quickly as they usually would.

Generally the Timaru district is in a good place compared to other parts of the country.

During the Covid-19 period, Council, District Health Board, PrimePort, Sanfords and Fonterra came together to take a lead role in promoting a social procurement culture throughout their businesses and to socialised what this would mean for supporting local communities.

The re-ignition panel is setting clear objectives, and receiving good feedback, but it was noted it was important to get youth around the panel table as well. This should be finalised over the next week and will take in all aspects of the community who have been disadvantaged.

Resolution 2020/21

Moved: Cr Barbara Gilchrist

Seconded: Cr Steve Wills

That the Aoraki Development and Promotions Limited (Aoraki Development) quarterly report be received and noted.

Carried

7.4 Timaru District Holdings Limited - Quarterly Report - 31 March 2020

The Committee considered the TDHL quarterly report for the period 1 January to 31 March 2020 presented by the Chief Financial Officer.

It was reported that most of the content of this report are pre Covid-19 events.

The final paragraph of the letter was corrected to read "still in conditional phase".

The interest amount attributed to the Showgrounds was queried. This was explained as the loan for this property has not be paid as no income has been generated, when the sale is completed the entire debt will be cleared.

Resolution 2020/22

Moved: Cr Barbara Gilchrist

Seconded: Cr Steve Wills

That the Timaru District Holdings Limited (TDHL) quarterly report be received and noted.

Carried

8 Consideration of Urgent Business Items

There were no urgent business items.

9 Consideration of Minor Nature Matters

There were no minor nature items.

The Meeting closed at 1.05pm.

.....
Chairperson

7 Reports

7.1 2020 General Revaluation of District - Quotable Value valuation timeline

Author: David Codyre, Chief Financial Officer

Authoriser: Donna Cross, Group Manager Commercial and Strategy

Recommendation

That the report be received and noted.

Purpose of Report

- 1 To provide the Committee an overview of the general rates revaluation timeline to be completed in the 2021 financial year.

Assessment of Significance

- 2 The assessment of significance is low.

Discussion

- 3 The Council is required to undertake a valuation of its roll for rating purposes every three years. The last valuation was 1 September 2017. The valuation is used as a basis for the allocation of land value based rates for the 2021/22-2024/25 Annual Plans.
- 4 The valuation is carried out by Quotable Value as part of their contract for provision of rating valuation and database management services. The cost of the valuation is built into the contract price paid monthly.
- 5 Correspondence from Quotable Value is attached, outlining the timetable for the revaluation and other matters relevant to carrying out the revaluation.
- 6 The Office of the Valuer General will perform an audit on the valuation.
- 7 The effective date for the valuation is 1 September 2020 (but would not impact rates until the new rates year, commencing 1 July 2021) – also, this is subject to the consultation process below. Quotable Value will present to Council the outcomes of the revaluation. The date for the presentation is to be confirmed.
- 8 An increase in a property's land value does not necessarily result in an increase in rates. Consideration is given to the increase in an individual property value relative to the average property value increase. The rating impact on individual sectors of the community, such as primary, residential and commercial, as a result of the revaluation will be considered by Council as part of the Long Term Plan process.

Consultation

- 9 The valuations will be publicly notified on 2 December 2020 with objections closing on 29 January 2021.

Attachments

- 1. Quotable Value - Rate General Revaluation Schedule**

18 June 2020

David Codyre
Chief Financial Officer
Timaru District Council



Quotable Value Limited
www.qv.co.nz

Email: david.codyre@timdc.govt.nz

Dear David

A general revaluation of your district is scheduled to be completed this year.

The Valuer General's office has advised the following dates for your revaluation. These date will differ from any time frames advised to you earlier in the year with the changes made recently by the Valuer General to ensure sufficient property market evidence post COVID-19 is available to form the base for values for your District's 2020 revaluation.

	Date
Effective date of valuation:	1 September 2020
OVG basis and electronic file due at auditors:	6 November 2020
OVG site visit – 2 days commencing:	16 November 2020
Final OVG file delivery prior to implementation:	24 November 2020
Date of implementation:	28 November 2020
Date of public notice:	2 December 2020
Approximate date owners notices posted:	9 December 2020
Objection Closing Date	29 January 2021

The objection closing date above complies with the minimum statutory timeframes, but can be extended to allow for holiday times. Please contact me if you wish to extend the objection close off date from that stated. For any other timetable queries please contact the Office of the Valuer General (LINZ).

Level 1, QV House
22 Nevis Street, Petone
Private Bag 39818

Wellington Mail Centre
Lower Hutt, 5045
New Zealand

Phone: 04 576 4630
Fax: 04 576 4485
Email: enquiries@qv.co.nz



Revaluation Deferral Options

On 27 May 2020 you would have received a letter and guidance material from the Valuer General regarding applications for deferral of the 2020 general revaluation. Temporary legislation has been enacted by way of the COVID-19 Response (Further Management Measures) Legislation Act 2020. The Act allows, amongst other things for Chief Executives of Councils with a 2020 general revaluation to apply to the Valuer General to delay their next revaluation by up to 1 year from the statutory timeline.

Deferral can only be granted if, upon application, it is determined that a territorial authority is unlikely, or not reasonably able, to revise its roll to properly reflect values current as at the date of the revaluation.

QV considers that with the amended timetable sufficient sales and other evidence will be available to ensure that the 2020 revaluation reflects market value as at the effective date of your revaluation and doesn't consider that a deferral of your revaluation is required. Please contact me if you are considering a deferral so we can discuss this matter further.

Emailing option for delivery of revaluation owners notice

As an alternate to traditional mailing revaluation notices can be delivered to property owners by email. Quotable Value's experience is that standard style bulk mailing can prolong owners notice delivery. Emailing has significant advantages including prompt notification of the revaluation results to owners ahead of publicly available on line information such as Core Logic, Trade-me and Homes.co.nz, along with economic and environmental benefits.

Please contact me should you wish to discuss further email options for sending out your revaluation owners notices.

Property owner surveys

In preparation for the revaluation, QV will be asking owners of a selection of accommodation, commercial, farming, horticultural and forestry property to answer a brief survey about the use of their property and/or land.

For dairy, horticultural and pastoral units we particularly want to know about changing patterns of land use in the area. For business property owners surveys this year will have an emphasis on attaining post COVID-19 tenancy information as this will assist to form the best value conclusions. These surveys are being posted in July 2020.

For this year's surveys property owners are invited to complete the surveys through QV's on line portal. If they choose not to complete the surveys on line, owners may email their tenancy schedules or updates regarding their properties direct to QV. We are aware that these surveys generate additional enquiry to your Council call centre, with some FAQs on these surveys attached should you require them.



Underlying issues

There may be existing issues that could affect the revaluation, please let me know if you have:

- Identified any properties or areas of concern,
- Any issues arising from previous revaluation objections,
- Matters that need consideration in respect to a change in the district plan.

Our Area Manager, Kris Rodgers, will also be meeting with Timaru District Council staff to discuss matters affecting the revaluation.

Current sales data

The revaluation will be measured statistically against current sales data. In the lead up to the revaluation and audit period it is very important that sales data comes through to QV promptly. The revaluation and expected audit requirements will focus heavily on analysis of post COVID-19 lockdown sales information in an effort to identify any significant market trends.

Data integrity checks

In preparation for the revaluation we will shortly start working through a series of data integrity checks which may involve changes to the land use data, categories, production fields and some MAS data fields. These are unlikely to result in any value changes but may mean that you see a slight increase in roll activity. These checks may also identify further rating units that need splitting to comply with the rules.

Zoning information

We are reviewing the zoning information stored on the DVR and used in the valuation process. We find it very beneficial to spend time with your town planners, particularly in discussions relating to future developments within the district and would like to arrange a meeting prior to the revaluation commencing.

We will focus on the correctness of the zone codes held by QV to reflect any recent zone changes in your District Plan. We may contact you further to this to provide an up to date list that includes any recent changes.

Amalgamations of farms into one rating unit

In 2015 the Valuer General advised that all rating units must be correct in terms of section 2.4.1.2(d) of the Rating Valuation Rules. At the time of your 2017 revaluation a number of amalgamations were actioned. We are further reviewing the rural rating units as some changes to ownership and use may

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require additional amalgamations. We are aware of the significant volume of work created for you for the 2017 rural amalgamations and anticipate only a minimal number of additional amalgamations to be completed this year.

Weather tightness

Please supply a register of identified buildings with weather tightness issues, if available. The impact of weather tightness issues needs to be reflected in the proposed values. We would appreciate any information that you have been provided to us by 1 September 2020.

Earthquake prone buildings

There is growing awareness of the importance of ensuring buildings are not earthquake prone with those below code having a detrimental effect on the buildings values. If available, please supply a register of potential earthquake prone buildings

Methamphetamine contamination - (P Houses)

QV is required to identify houses that are known to be contaminated by P Labs, and reflect the effect of this contaminant in the value of the property. Please provide details of any known houses affected by this.

Maori Freehold Land

The Valuer General issued new guidelines in 2019 for valuing Maori Freehold Land. Previous guidelines from 2011 included that an owners notice issued for Maori Freehold Land must display: the values before any adjustment, the adjustment factors for multiple owners, any adjustment factor applied for sites of significance, and the adjusted rating valuation. The new guidelines to valuing Maori Freehold Land have added a standard base administrative cost of \$7000 to the adjustment factors that must also show on the owners notice. This change of methodology will become part of the process for valuing Maori land for the 2020 revaluation with owners' notices issued by QV also to show this additional allowance.

Utility Asset Valuations

Owners of utility rating units (including the Council) will be contacted separately for updated information regarding the utility to assist with the 2020 valuation of these properties.

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**Revaluation Audit**

You will be contacted by the Valuer General's office in due course regarding the entry interview. This is the first part of the onsite audit, and an invitation is extended to the Territorial Authority to attend.

I hope this has covered your key points. Please do discuss any particular requirements you have with me or Kris Rodgers.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'G Smits'. The signature is fluid and cursive, with a prominent 'G' and 'S'.

Gail Smits**National Revaluation Manager**

Phone: 03 341 1624 | Fax: 03 341 1635 | Mob: 027 244 3532

qvgroup.qv.co.nz

7.2 3 Waters Asset Revaluation Project**Author:** David Codyre, Chief Financial Officer**Authoriser:** Donna Cross, Group Manager Commercial and Strategy**Recommendation**

That the Committee receive and note the report.

Purpose of Report

- 1 To provide the Committee an update in relation to the water infrastructure asset revaluation project.

Assessment of Significance

- 2 The assessment of significance is low.

Discussion

- 3 Council resolved on 12 February 2019 to change the method of measurement for certain classes of assets from deemed cost to fair value. This affects how the classes of certain assets will be presented in the financial statements for Timaru District Council. Asset management advice from Waugh Infrastructure Management Limited (Waugh) was considered on the effect of transitioning from Deemed Cost to Fair Value. EY were engaged to provide technical accounting advice on the transition.
- 4 Council delegated transitional decisions around funding and timing of the change in accounting policy for each class of assets to the Commercial and Strategy Committee. The Committee considered a report on 26 November 2019 and resolved to revalue the Council water infrastructure assets from 1 July 2019 from deemed to cost to fair value. To assess fair value standard unit rates based on industry guidelines have been used.
- 5 An additional module to the Council IPS asset management system was purchased to specifically deal with revaluations. The software will enable Council to systemise the revaluation process and move away from spreadsheets. Additional asset classes will be added to the asset management system as they move from deemed cost to fair value.
- 6 The revaluation was completed internally by the Water and Drainage Unit. Waugh was engaged to provide technical assistance and training. Advice was sought from WPS on the Unit Rates and lives to be used in the revaluation. Recommendations and changes were then incorporated into asset management system.
- 7 The revaluation has been peer reviewed by Brian Smith Advisory, an experienced consultant in this field having previously conducted similar reviews for a number of Councils. This peer review has considered both the processes used by staff and the revaluation outputs with findings recorded in a formal Peer Review Statement.
- 8 The revaluation increases the carrying value of water infrastructure assets to \$418 million at 1 July 2019. This is an increase of \$216 million from what was presented in the 2018/19 Annual Report. The movement will show in the Statement of Comprehensive Income as a

revaluation of infrastructure and will increase the carrying value of the asset in the Statement of Financial Position.

- 9 The depreciation calculated for the revalued assets totals \$8.5 million. The 2019/20 Annual Plan included Depreciation funding of \$7.5 million. The shortfall in funding relates to the stormwater network which will require an increase depreciation funding over the life of the asset in order to cover the cost of replacing the network in future. This will be built into the Stormwater Asset Management Plans as part of the long term plan. There is no immediate effect on the current financial year. The major capital cost for the stormwater activity in the future will be upgrading the network to meet legislative and environmental requirements.
- 10 Audit New Zealand is performing an audit on the water infrastructure. This will focus on completeness of the assets revalued, the standard rates used, the useful lives assigned and that it was carried in line with the applicable Public Benefit Entity, PBE, reporting standards.

Attachments

Nil

7.3 Investments and Borrowing Treasury Report for quarter ending 30 June 2020**Author:** David Codyre, Chief Financial Officer**Authoriser:** Donna Cross, Group Manager Commercial and Strategy**Recommendation**

That the Committee

1. Note and receive the report.
2. Approve the amendments to the Liability Management Policy as set out in the attached policy.

Purpose of Report

- 1 To update the Committee on the status of Council treasury activities at 30 June 2020 and for the Committee to consider amendments to the Liability Management Policy.

Assessment of Significance

- 2 The assessment of significance is low.

Discussion

- 3 Council's treasury management involves holding a range of investments and borrowing to fund long term capital projects and operational expenditure as agreed in the Annual Plan.
- 4 Council treasury activities are managed in compliance within the limits of the Council's Investment and Liability Policy.
- 5 Bancorp Treasury Services Limited provide external treasury advice to Council on borrowing and investment decisions.

Investments

- 6 Timaru District Council

	30/06/20	31/03/20	31/12/19
	\$(000)	\$(000)	\$(000)
General Funds	15,761	\$25,773	\$27,108
Special Funds	26,082	\$22,079	\$26,525
Total	\$41,843	\$47,852	\$53,634

General and Special Funds

- 7 General Funds are cash reserves held for day to day operating activities. General Fund balances fluctuate across the quarter depending on operational income and expenditure cash flows. Council has a financial strategy to maintain a minimum of \$10 million general funds for

liquidity purposes. Council has been entering shorter term deposits in order to maintain cash availability during Covid-19.

- 8 Special Funds are held for specific purposes as set out in the Long Term Plan, Annual Plan and Annual Report. These funds are invested for approved future expenditure, to implement strategic initiatives, support intergenerational allocations, bequests and other reserves. The above balances sometimes drop to cover operational cashflow shortfalls and timing of general fund term deposits maturing.
- 9 The yields available for term deposits continue to be higher than those available for bonds of a similar term. This is reflected in the proportion of Term Deposits to Bonds held. This is not expected to change in the short term.
- 10 Based on market valuation the Council's bond portfolio increased by 3.15% over the June 2019 quarter, and outperformed the benchmark portfolio (a selection of market bonds from Bancorp) which increased by 2.85%. For the twelve months ending 30 June 2020 the portfolio value increased by 5.70% compared to the benchmark portfolio's increase of 4.53%. The value of the portfolio increases when the bond yield % falls below the bond coupon %.
- 11 The duration of the Bond portfolio is compliant with the policies 25% fluctuation band comparable to the benchmark portfolio's duration for this quarter. The portfolio duration is the remaining weighted average term to maturity.

Portfolio duration 2.29 years
 Benchmark portfolio Duration 2.22 years.

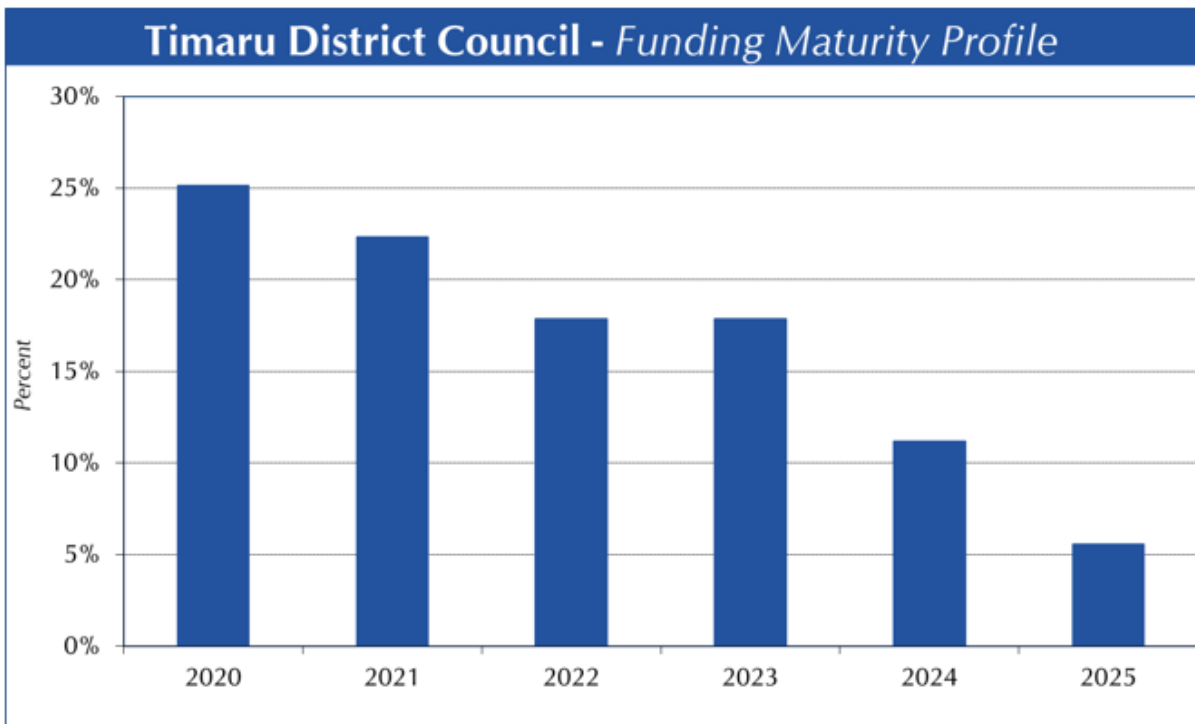
Borrowings

	30/06/20 \$(000)	31/03/20 \$(000)	31/12/19 \$(000)
Bank Debt	\$0	\$0	\$0
Bonds Issued	\$89,500	\$89,500	\$89,500
Total	\$89,500	\$89,500	\$89,500

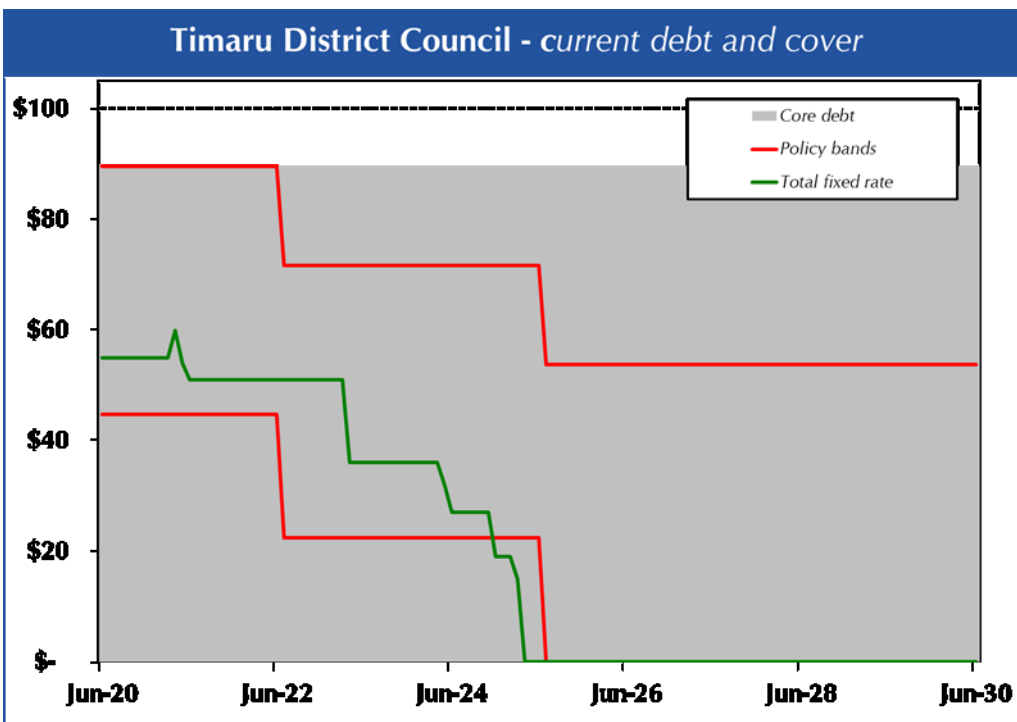
- 12 There has been a fall in the borrowing interest rates available to Council. This is a reflection of what has been happening in the COVID-19 economic environment. There is an expectation that any economic recovery will take time to happen indicating interest rates will remain low with the market currently pricing an 88% probability that the OCR will fall from 0.25% to 0% by May 2021.
- 13 During the quarter, Council renewed the following external debt:
- \$10 million at 0.65% per annum for 90 days.

We have continued to use shorter periods for finance to take advantage of low rates. There is \$22.5 million of existing debt maturing in the December 2020 quarter. We will continue to look to refinance maturing debt within the limits of the Funding Maturing Policy as well as using cash reserves to fund debt requirements.

- 14 Councils current funding maturity profile is as follows:



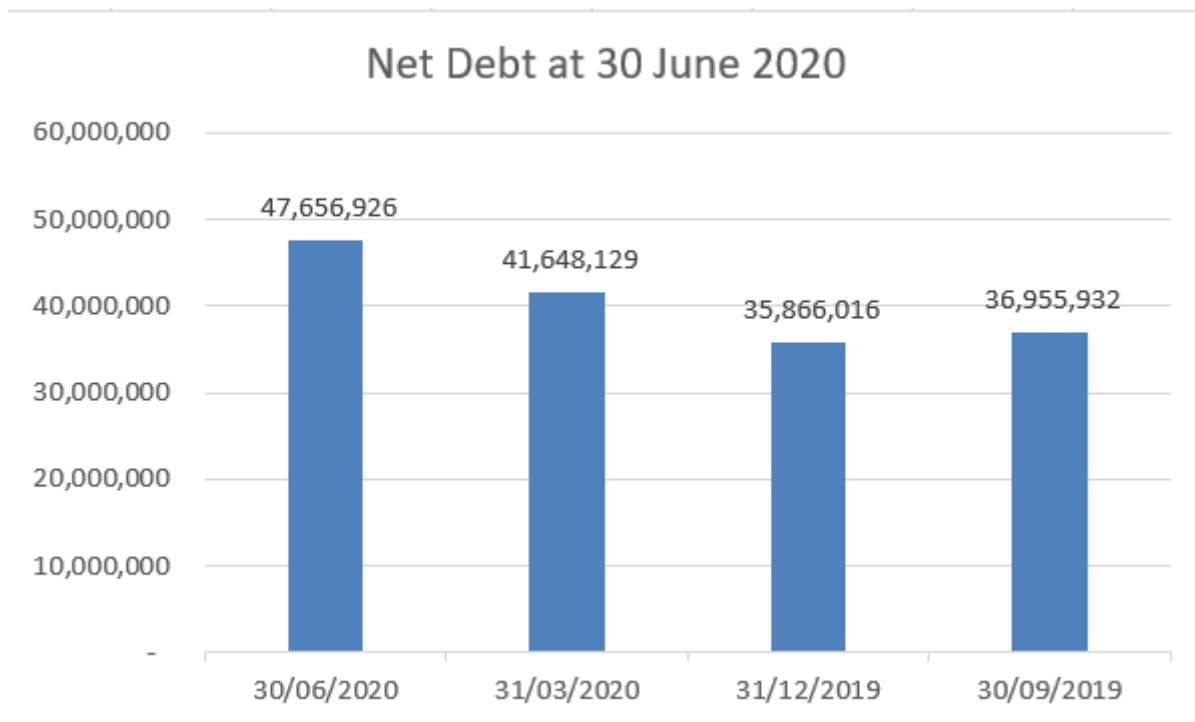
- 15 Council Policy requires no more than 33% of Council’s outstanding borrowings being subject to refinancing within any rolling 12 month period. The funding maturity profile above indicates Council is compliant with this requirement.
- 16 The weighted average cost of funds excluding margins fell from 2.70% to 2.40% over the quarter. This is still high, due to Council holding older more expensive debt, comparable to the benchmark rate of 1.34% as calculated on the Liability Management Policy. The weighted average cost of funds will continue to fall as older debt is refinanced at lower available rates.
- 17 The following chart illustrates the debt and cover profile set against the Liability Policy Control:



- 18 The chart indicates a Council will have a policy breach between December 2024 and June 2025. To keep within policy, Council needs to enter additional interest rate swaps (or as alternative

agree to amend the policy bands which has been recommended by Bancorp). Please refer to the discussion below in relation to the proposed policy amendment. If these policy amendments are adopted, Officers will seek advice on and determine hedging strategy (including quantum and term of interest rate swaps) under these new parameters and having regard to future debt levels.

- 19 The following table illustrates the Council’s net debt position as at 30 June 2020. Net Debt has increased over the period as Council has used available cash funds to fund its operational and capital programmes. Net Debt levels do fluctuate in response to the cyclical nature of Councils cashflow needs.



Amendment to Liability management policy

- 20 Council is required to have a Liability management policy, Local Government Act 2002 S104. The policy is reviewed every three years as part of Long Term Plan process, but may be amended at any time.
- 21 Section 4.3 of the policy relates to interest rate exposure. The Council enters into borrowing arrangements to fund, primarily, its Capital programme. When Council enters into a borrowing arrangement there is a risk of unfavourable interest rate movement. To mitigate the risk of interest rate movement, the Council counters by entering into hedging arrangements. This is most commonly in the form of an interest rate swap instrument with a registered bank.
- 22 The policy currently requires Council to maintain hedging within the following bands.

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate	Maximum Fixed Rate
Less than 2 years	50%	100%
2 years to 5 years	25%	80%

5 years to 10 years	0%	60%
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- 23 As mentioned above, Bancorp recommend a change to the fixed rate hedging bands in response to the paradigm shift that has occurred in the economic and monetary environment since the Global Financial Crisis (GFC), and forecast effects of COVID-19. The GFC has resulted in a low growth, lower inflation and a lower interest rate environment. This trend has continued during the COVID-19 pandemic and is forecast to continue for an extended period of time. Incorporating the new bands below would require Council to have lower levels of hedging for a shorter duration of time.
- 24 The new proposed bands are

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate	Maximum Fixed Rate
Less than 2 years	40%	100%
2 years to 4 years	20%	80%
4 years to 8 years	0%	60%

- 25 Not changing the bands will require Council to maintain higher levels of hedging cover for longer durations.
- 26 The policy has also been updated to reflect changes in roles and Committee name changes since the policy was last reviewed in 2017.
- 27 The policy will undergo a full review as part of the 2021/31 Long term plan process.

Options and Preferred Option

- 28 The Committee agree to changes of the policy bands and other changes as tracked in the attached liability management policy (Preferred option)
- 29 The Committee reject the changes to the policy. This will require the Council to enter additional hedging to maintain the current policy requirements.

Consultation

- 30 Consultation is not required for an amendment to the Liability management policy and has not been carried out.

Relevant Legislation, Council Policy and Plans

- 31 Liability management policy
- 32 Local Government Act 2002
- 33 Long Term Plan

Financial and Funding Implications

- 34 The financial implications of changing the policy are dependent on what is happening in the interest rate market. In a low interest environment additional cover has the potential to cost the Council more through having more fund more interest difference between the swap and

current interest rates. Likewise having lower cover is a risk when interest rates increase as Council is required to pay more in interest costs. It is expected rates will remain low for an extended amount of time.

Attachments

1. **Liability Management Policy (amended 21/07/2020)** [!\[\]\(cf5be311f7b2821912d8009884508fa2_img.jpg\) !\[\]\(9804e70d96ff9fe9899b264c06a33cd7_img.jpg\)](#)
2. **Bancorp - Amendments to Liability Management Policy 24/04/20** [!\[\]\(4f49380f3d6bce047bc47b2072cc076f_img.jpg\) !\[\]\(73944fd4f6fb83e4c64013731d1820cc_img.jpg\)](#) |



Liability Management Policy

Approved by: [Policy and Development Commercial and Strategy Committee](#)

Date Approved: ~~28 November 2017~~ [21 July 2020](#)

Keywords: Loans, borrowing, debt, interest, liquidity, security, credit, covenants, hedging

1.0 Purpose

This policy outlines how the Council will manage its borrowings and other liabilities as at **1 July 2018**.

2.0 Background

The Council must have a Liability Management Policy as required by section 102 (2) of the Local Government Act.

3.0 Key Definitions

Refer to Appendix 1.

4.0 Policy

1. General Policy

The Council borrows as it considers appropriate and exercises its flexible and diversified borrowing powers as outlined within the Local Government Act 2002. The Council approves borrowing by resolution arising from the Long Term Plan (LTP) and Annual Plan process. Projected debt levels are ascertained from cashflow forecasts prepared during these planning processes.

The Council acknowledges that there are various financial risks such as interest rate risk, liquidity risk and credit risk arising from its borrowing. Council is a risk averse entity and does not wish to incur additional risk from its treasury activities.

The Council's finance function in relation to its treasury activities is a risk management function focused on protecting the Council's budgeted interest costs and stabilising the Council's cashflows. The Council does not normally undertake any treasury activity which is unrelated to its underlying cashflows or is purely speculative in nature unless with formal prior approval of Council.

The finance function is broadly charged with the following responsibilities:

- Manage the Council's borrowings within its strategic objectives.
- Manage the impact of market risks such as interest rate risk on the Council's borrowings by undertaking appropriate hedging activity in the financial markets.
- Minimise adverse interest rate related increases on ratepayer charges and maintain overall interest expenditure within budgeted parameters.

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- Provide timely and accurate reporting of treasury activity and performance.

The Council raises debt for the following primary purposes:

- General debt to fund the Council's balance sheet, including borrowing to fund Council Controlled Organisations (CCO's) etc.
- Specific debt associated with "special one-off" projects and capital expenditure
- To fund assets with intergenerational qualities.

The Council is able to borrow through a variety of market mechanisms including:

- Commercial Paper
- Local Authority Bonds
- Medium Term Notes
- Floating Rate Notes
- From the Local Government Funding Agency ("LGFA")
- Funding from internal sources.

Refer to Appendix 1 for definitions of these funding sources.

The Council incurs risks arising from its borrowing and associated interest rate risk activity. In evaluating any new or renewal of existing borrowings (in relation to source, term, size and pricing) the Council will take into account the following:

- The size and the economic life of any specific project being funded
- The impact of the new debt on overall borrowing limits.

Relevant margins under each borrowing source:

- Overall debt maturity profile
- Prevailing interest rates
- Available term from bank and bond issuance
- Legal documentation and financial covenants.

This policy document details how the Council will manage its borrowing with regard to key risks faced including:

- Interest rate exposure
- Liquidity and funding risk
- Credit exposure
- Specific borrowing limits
- Provision of security.

2. Financial Covenants on Borrowings

In managing its borrowings, the Council will adhere to the following financial covenants:

- Gross annual interest expense not to exceed 15% of total revenue
- Net cash flow from operating activities to exceed gross annual interest expense by 2 times.
- Net debt shall not exceed 150% of total revenue.

3. Interest Rate Exposure

Interest is incurred on any bank funding facility, issuance of local authority stock and other borrowing arrangements. This policy recognises that the longer the term of borrowing, the greater the sensitivity to interest rate movements. Longer term

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borrowings may be of benefit if the market interest rates rise, but equally may not allow the Council to take advantage of periods of low interest rates.

Interest rate risks may be managed by the use of derivative instruments, and by issuing fixed rate bonds or sourcing fixed rate bonds from the LGFA.

The table below outlines the minimum and maximum hedged or fixed rate exposure requirements within various time buckets. The actual hedging percentages in place, within these bands, will be determined, and reviewed on a regular basis.

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate	Maximum Fixed Rate
Less than 2 years	50-40%	100%
2 years to 5-4 years	25-20%	80%
5-4 years to 10-8 years	0%	60%

Fixed rate hedging in excess of 10-8 years is permissible provided that it is carried out in conjunction with, or aligns with, an underlying debt instrument

When managing the interest rate risk of the Council the hedging percentages above relate to total core debt. Core debt cannot exceed borrowing projections as per the Annual Plan or LTP with the actual quantum used for policy parameters to be reviewed annually.

The hedging parameters are cumulative. For example if total debt was \$25 million, \$5 million of hedging entered into for a period of five years would increase the hedging profile for all time buckets up to five years, by 20%.

Fixed rate debt is defined as any debt that has an interest rate reset beyond 3 months.

The hedging parameters are dependent on the Reserve Bank of New Zealand continuing to implement monetary policy through adjustments to the Official Cash Rate (OCR).

The Council decides the interest rate risk management strategy by monitoring the interest rate markets on a regular basis, evaluating the outlook for short term rates in comparison to the rates payable on fixed rate borrowing

The following interest rate risk management derivative instruments may be used for interest rate risk management activity.

- Forward rate agreements
- Interest rate swaps
- Swaptions
- Interest rate collar type option strategies in a ratio not exceeding 1:1.

Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature.

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The use of Interest rate risk management instruments must have the formal prior approval of the Group Manager [Corporate Services Commercial and Strategy](#).

4. Benchmarking

The Council shall evaluate the performance of the interest rate management policy itself (i.e. the success and continued appropriateness of the risk control limits stipulated in the Liability Management Policy document) and their implementation at an operational level. This is achieved by measuring actual results (i.e. weighted average funding cost) against a market benchmark provided by an external source.

The benchmark standard shall consist of the following:

- 20% Average 90 day bank bill rate for the reporting month;
- 10% Average 1 year swap rate for the reporting month;
- 10% Average 1 year swap rate for the reporting month, 1 year ago;
- 10% Average 3 year swap rate for the reporting month;
- 10% Average 3 year swap rate for the reporting month, 3 years ago;
- 10% Average 5 year swap rate for the reporting month;
- 10% Average 5 year swap rate for the reporting month, 5 years ago.
- 10% Average 7 year swap rate for the reporting month;
- 10% Average 7 year swap rate for the reporting month, 7 years ago.

The above percentages are predicated off the midpoints of the risk control bands contained in the 'Fixed Rate Hedging Percentages' table.

The Council's cost of funds for benchmarking purposes is exclusive of margin.

For reporting of interest rate comparisons, rates rather than dollar values should be used.

Benchmarking is not required if total external borrowings are less than \$10 million.

5. Liquidity and Funding Risk Management

The Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong balance sheet as well as its ability to manage its relationship with its banker(s) and the capital markets.

To minimise the risk of large concentrations of debt maturing or being reissued in periods where credit margins are high for reasons within or beyond the Council's control, the Council ensures material debt maturities are spread over a number of years. The Council manages this by aiming where practical to have *no more than 33% of its outstanding borrowings subject to refinancing in any rolling twelve month period*.

The Council's treasury operation must also ensure that there are sufficient resources or "liquidity" to provide the funds to meet its immediate obligations such as creditors and current debt maturities.

Appropriate cash flow reporting mechanisms will be maintained to monitor the Council's estimated liquidity position over the next 12 months. In any case funding facilities must be in place to give headroom of at least 110% over and above the maximum net debt requirement as estimated in the Annual Plan or LTP.

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6. **Credit Exposures (Treasury)**

In general the Council borrows funds from a variety of registered banks, institutional investors and the LGFA. It is considered that the range and size of Council's individual borrowings together with the relative strength of these lenders offsets any institutional credit risk.
7. **Provision of Security**

For its general borrowing programme the Council offers security under its debenture trust deed, for which security is a charge over all rates.

In unusual circumstances, with the prior consent of the Council, security may be offered by providing a charge over one or more of the Council's assets.
8. **Repayment**

The Council repays borrowings from general or targeted rates, general funds or renewal loans.
9. **New Zealand Local Government Funding Agency Limited Investment**

Despite anything earlier in this Liability Management Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

 - a) contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA;
 - b) provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
 - c) commit to contributing additional equity (or subordinated debt) to the LGFA if required;
 - d) subscribe for shares and uncalled capital in the LGFA; and
 - e) secure its borrowing from the LGFA, and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.
10. **Management and Reporting Procedure**

The Council's ~~Commercial and Strategy Policy and Development~~ Committee (~~P&DCC&SC~~) oversees and monitors the risks arising from its treasury activities to ensure consistency with the Council's Long Term Plan and to evaluate the finance function's effectiveness in achieving its objectives. The ~~C&SCP&DC~~ is responsible for approving strategy and for monitoring compliance and performance of the Council's treasury activities.

The Group Manager ~~Corporate Services~~Commercial and Strategy has financial management responsibility over the Council's borrowing and investments. The Council is able to appoint an independent advisor to assist in the management of the financial market exposures that the council is subjected to. The scope of the appointment and the parameters within which the advisor operates, will be determined by the Group Manager ~~Corporate Services~~Commercial and Strategy and at all times will operate within the parameters of this policy document. The Council's borrowing and cash management activities are managed centrally through its finance function.

The Management of the Council's borrowing portfolio is carried out under delegated authority to the Group Manager ~~Corporate Services~~Commercial and Strategy (who has delegated the day to day operation to the Council's ~~Finance Manager~~Chief Financial Officer and Management Accountant). Reports on the Council's borrowings are prepared on a quarterly basis for the Council.

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Appendix I

Borrowing Instruments Definitions

1 Bank Sourced Borrowing

1.1 Committed Cash Advance Facilities

Committed Cash Advance Facilities provided by New Zealand Registered Banks can be arranged for varying terms, typically for a local authority up to three years but sometimes for longer tenors. Drawings are normally for terms between one and three months and are based off Bank Bill Bid Rate.

2 Capital Markets Programmes

Commercial Paper (CP.) programmes normally provide for issuance with tenors of between 7 and 364 days. The majority of CP. issued in the New Zealand market is for terms of 30, 60, or 90 days.

Corporate Bonds (including Floating Rate Notes) commonly in existence in the New Zealand market have essentially the same characteristics as Government Bonds. These are a source of longer term fixed or variable rate finance which can be sold either in bearer or registered form (normally registered). Bonds are normally issued with coupon interest paid in arrears on a six monthly basis for fixed rate instruments, and three monthly for floating rate instruments. Local Authority Bonds are issued by a variety of local authorities by private placement. The Bonds are registered securities. They are repayable on a fixed date, and are generally issued for terms ranging from one to fifteen years.

Local Authority Fixed Rate Bonds are priced on a semi-annual basis and issued at par. A fixed coupon payment is made semi-annually to the holder of the security or quarterly for Floating Rate Notes. The pricing formula is the same as Government Bonds.

3 Structured and Project Finance

Project and structured financing matches up debt to suit the quantifiable income stream from the project. This type of financing is appropriate for the funding of standalone assets which are able to be ring-fenced and over which security can be taken. The sort of assets to which this usually applies are assets which are transferable, and for which an international equity market exists, e.g. infrastructural assets. The owner of the asset usually retains an equity interest in the as.

4 Local Government Funding Agency

The Local Government Funding Agency was enabled under the Local Government Borrowing Act 2011 and was incorporated on 1 December 2011. The LGFA is owned by a group of shareholding councils and the Crown. It is a Council Controlled Organisation (CCO) operating under the Local Government Act 2002. The LGFA's primary purpose is to provide more efficient funding costs and diversified funding sources (including foreign currency) for NZ local authorities. It provides investors with a source of securities either in floating rate or fixed rate form and with a range of maturity dates. It is rated at AA+ (domestic long term) by international credit ratings agencies Standard and Poor's and Fitch Ratings. These ratings are the same as the NZ Government.

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5.0 Delegations, References and Revision History					
5.1 Delegations - Identify here any delegations related to the policy for it to be operative or required as a result of the policy					
5.2 Related Documents - Include here reference to any documents related to the policy (e.g. operating guidelines, procedures)					
5.3 Revision History – Summary of the development and review of the policy					
5.1 Delegations					
Delegation				Delegations Reference	Register
Oversight and monitoring the risks arising from treasury activities – Policy and Development Committee <u>Commercial and Strategy Committee</u>					
Appoint an independent advisor – Group Manager Corporate Services <u>Group Manager Commercial and Strategy</u>					
Approve interest rate risk management instruments – Group Manager Corporate Services <u>Commercial and Strategy</u>					
Management of borrowings – Group Manager Corporate Services <u>Commercial and Strategy</u> with further delegation to Finance Manager <u>Chief Financial Officer</u> and Management Accountant.					
5.2 References					
Title				Document Reference	
5.3 Revision History					
Revision #	Policy Owner	Date Approved	Approval by	Date of next review	Document Reference
1	Group Manager Corporate Services	14/10/14	Policy and Development Committee	March 2018	#901512, F335 #902012, F545
2	Group Manager Corporate Services	28/11/17	Policy and Development Committee	March 2021	
<u>3</u>	<u>Group Manager Commercial and Strategy</u>		<u>Commercial and Strategy Committee</u>	<u>March 2021</u>	

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BANCORP

BANCORP TREASURY SERVICES LIMITED

PO Box 173, Christchurch 8140, New Zealand
Tel: 64-3 374 2193, Fax: 64-3 374 2195

PRIVATE AND CONFIDENTIAL

24 April 2020

David Codyre
Chief Financial Officer
Timaru District Council
PO Box 522
TIMARU 7940

Dear David

AMENDMENTS TO LIABILITY MANAGEMENT POLICY

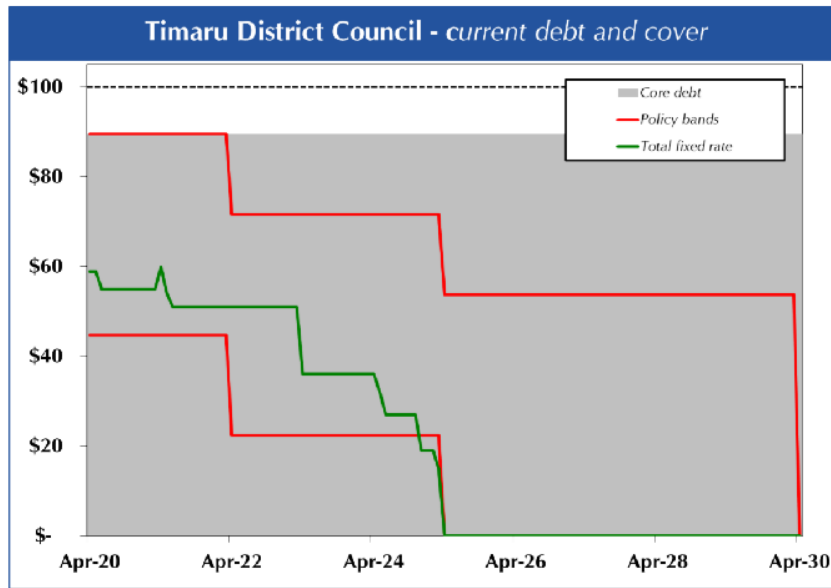
Further to our discussions, Bancorp Treasury Services Limited ("Bancorp Treasury") provides details of recommended amendments to the Liability Management Policy ("LMP") of Timaru District Council ("TDC").

TDC manages its interest rate risk using a set of parameters that are contained in Section 3 of the LMP and are titled 'Fixed Rate Hedging Percentages'. These parameters detail the minimum and maximum amounts of fixed rate cover that TDC shall adhere to when managing its core debt. The existing parameters are as follows.

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate	Maximum Fixed Rate
Less than 2 years	50%	100%
2 – 5 years	25%	80%
5 – 10 years	0%	60%

The debt and cover profile using the above parameters is depicted in the chart on the following page.

AUCKLAND • WELLINGTON • CHRISTCHURCH



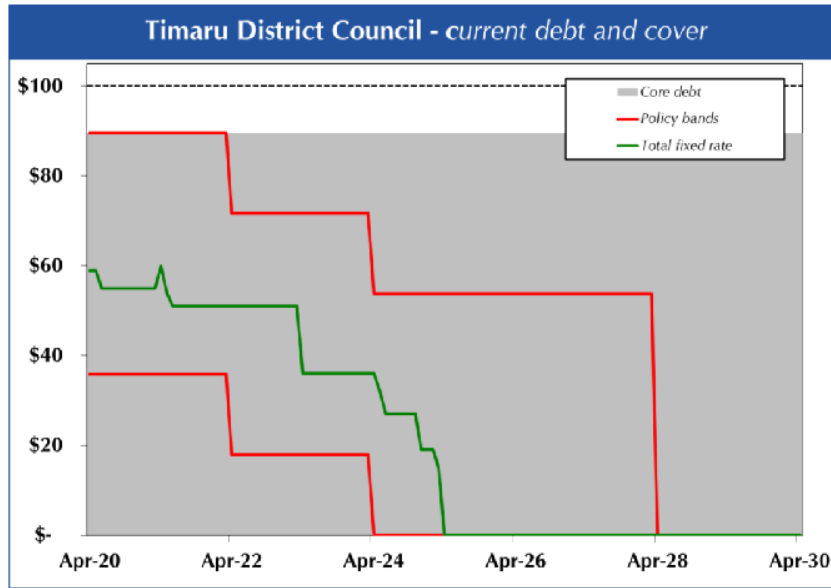
Bancorp Treasury believes that a change to the ‘Fixed Rate Hedging Percentages’ is justified due to two main reasons. Firstly since the Global Financial Crisis the world is in a lower growth, lower inflation and lower interest rate environment. This trend has been evident in New Zealand as well. Secondly the changes on the financial markets which have occurred as a result of the COVID-19 pandemic, where interest rates are significantly lower (and are likely to stay that way for a very long time) adds further validity to the lower interest rate environment. The new paradigm favours a reduction in fixed rate hedging timeframes (with the policy maximum now 8 years) and a slight decrease in the minimum fixed rate hedging percentage in the ‘Less than 2 years’ timeframe and the new 2-4 year timeframe.

It is important to note that the changes are not being recommended merely to enable the policy to suit the strategy. Rather, the new economic and monetary policy environment in which both the world and New Zealand are operating favours such changes to the policy. Furthermore, the amended parameters also alleviate, to some extent, the need to ‘micro manage’ exposures merely to achieve policy compliance that, in reality, adds little economic benefit.

Bancorp Treasury recommends new Fixed Rate Hedging Percentages for TDC as follows with the changes highlighted in red.

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate	Maximum Fixed Rate
Less than 2 years	40%	100%
2 – 4 years	20%	80%
4 – 8 years	0%	60%

The debt and cover profile incorporating the above parameters is depicted in the chart on the following page.



We will contact you shortly to discuss the recommended changes. In the meantime, please revert back to us if you have any questions.

Yours sincerely

MILES O'CONNOR
 Manager – Corporate Services

Direct: (03) 374 2193
 Mobile: 021 665 648

NICK REEVES
 Client Advisor

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This document has been prepared by Bancorp Treasury Services Limited ("BTSL"). Whilst all reasonable care has been taken to ensure the facts stated are accurate and the opinions given are fair and reasonable, neither BTSL nor any of its directors, officers or employees shall in any way be responsible for the contents. No liability is assumed by BTSL, its directors, officers or employees for action taken or not taken on the basis of this document.

7.4 Aoraki Development and Promotions Limited - Final Statement of Intent for 2020/21-2023/24**Author:** Donna Cross, Group Manager Commercial and Strategy**Authoriser:** Donna Cross, Group Manager Commercial and Strategy**Recommendation**

That the Committee note and receive the report.

Purpose of Report

- 1 To provide a copy of the final statement of intent (SOI) for Aoraki Development and Promotions Limited (AD).

Assessment of Significance

- 2 This matter is of low significance in terms of Council's significance and engagement policy.

Discussion

- 3 AD has updated its draft SOI having regard to feedback provided by Council. Updates include:
 - 3.1 Expanded commentary on COVID environment
 - 3.2 Additional Performance Measurements (Financial and Good Employer)
- 4 A copy of AD's final statement of intent for 2020/21 and the following two years is attached.
- 5 The statement of intent is reviewed and updated on an annual basis.
- 6 AD also provides quarterly reports to Council (via the Commercial & Strategy Committee) throughout the year.

Attachments

1. **2020-21 Aoraki Development SOI Final Submitted to TDC June 2020**  



STATEMENT OF INTENT

2020/2021 2021/22 2022/23

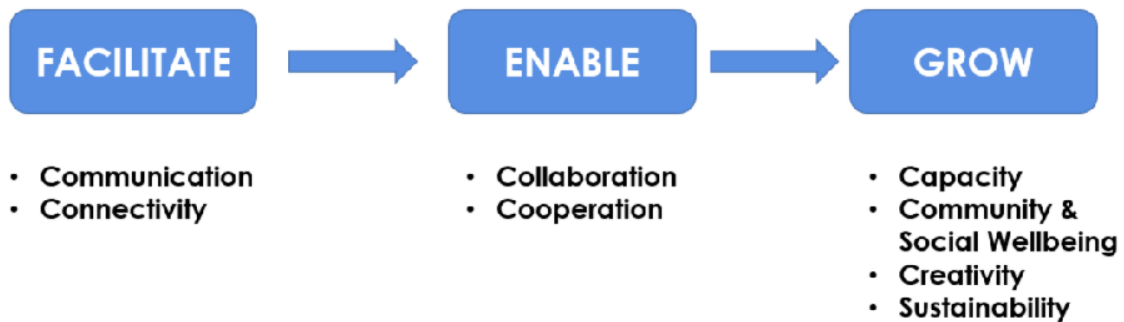
OUR VISION STATEMENT:

Every person and whānau is actively engaged in, contributing to, and benefitting from, a thriving Timaru District Economy

OUR VALUES



WHAT WE DO:





The recent COVID 19 event is a once in 100-year event which requires a once in 100-year response to revitalise our Timaru District by being coordinated, bold and inclusive. As the Economic Development Agency for the Timaru District, now also with responsibility for Tourism and Visitor Attraction, Aoraki Development will take a lead role in facilitating the economic recovery of our district over the next 12 months and beyond.

As detailed within this Statement of Intent, our objectives and associated nature of scope and activities proposed to be undertaken in the next 12 months, include priorities such as:

- A prominent role in the response, recovery and reignition of our wider district economy
- Sustained and extensive promotion of the district to visitors, new workforce, and new business
- A targeted approach to the retention, retraining and redeployment of our existing workforce.
- Supporting local business as they recover and reignite their businesses

Leading economists and others have recognised Timaru District as being one of the best placed districts to cope with, adapt, recover, and reignite as we head through the stages of this COVID 19 event. While this in no way understates the challenges we are facing, it is heartening for our business and wider community to know that we are very well placed to recover and reignite quicker than many other parts of the country.

In no way understating the challenges we are facing, and will continue to face, across our business and wider community as a result of the COVID 19 event, locally we are very well placed to recover and reignite quicker than many other parts of the country. Leading economists and others have rightly recognised us as being one of the best placed districts to cope with, adapt, recover, and reignite ourselves as we head through the stages of this COVID 19 event.

- We have substantially diversified industry sectors including primary sector, food processing & manufacturing, transport & logistics, trades along with health & social services.
- Our largest industry sectors are recognised nationally as those that will lead us through COVID recovery.
- We have an enhanced level of cooperation and trust across our businesses and wider community
- We are a central South Island “hub” with 80% of the South Island within two and a half hours drive.
- We have strong connectivity to markets, through road, rail, sea, and fibre.

Many of our local businesses are adapting to new work practices and meeting the challenges head on. The Timaru District will bounce back and bounce back stronger, and throughout 2020/21 Aoraki Development will take a leading role in facilitating this recovery.

KEY OBJECTIVES

1. Encouraging innovation and facilitating the growth of existing business
2. Assist business to re-deploy, retain, and attract a skilled workforce
3. Deliver Tourism and Visitor attraction services for the District
4. Create an environment to attract and assist new and developing business



Nature of Scope and Activities to be undertaken by Aoraki Development



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 3



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 4



PERFORMANCE

BUSINESS

Expand on Business Connection Groups successes, promoting the benefits of collaboration – progressing appropriate special projects

Further develop CBD Group relationship and prominence

Think and act “outside the box” with attraction strategies and activities

PARTNERSHIPS

Foster, expand and utilise networks for the benefit of local business

Facilitate the removal of barriers to business attraction & growth

Foster strategic partnerships to obtain a Centre of Vocational Excellence in Timaru

SUCCESS

Review the name Aoraki Development

Champion local business success

Expand Timaru by Numbers reports to include education, health and wellbeing



KPI's

Aoraki Development and Promotions Limited t/a Aoraki Development (AD) will **encourage innovation and facilitate the growth of existing business**, with success measured through year on year improvement via:

- a minimum of 20 new connections facilitated for existing businesses per month.
- feedback received via Annual Survey of local business and organisations evidencing value added by AD
- activity and achievements reflected in AD quarterly reporting to Council

AD will **assist business to re-deploy, retain, and attract a skilled workforce**, with success measured through year on year improvement via:

- quarter on quarter improvement in the district's unemployment rate
- feedback received via Annual Survey of local business and organisations evidencing value added by AD
- activity and achievements reflected in AD quarterly reporting to Council

AD will **deliver tourism and visitor attraction services for the District**, with success measured through year on year improvement via:

- quarter on quarter improvement in the district's tourism expenditure
- feedback received via Annual Survey of local business and organisations evidencing value added by AD
- activity and achievements reflected in AD quarterly reporting to Council

AD will continue to **create an environment to attract and assist new and developing business**, with success measured through year on year improvement via:

- a minimum of 10 new and developing business opportunities identified and engaged per quarter, with a minimum 10% conversion rate of new business established.
- a minimum of 30 "District Influencers" identified and supplied with the new quarterly Timaru District Heartbeat Report.
- feedback received via Annual Survey of local business and organisations evidencing value added by AD
- activity and achievements reflected in AD quarterly reporting to Council

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In developing and enhancing Aoraki Development's (AD) strategies consultation and reference has been made to Timaru District Councils (TDC) long term plan and four-pronged values and the Government's Economic Growth Agenda.

Timaru District Council's Values (adopted by AD)

- **Lifestyle** -Fantastic, sustainable lifestyle second to none
- **Economy** - Thriving and innovative economy where opportunities abound
- **Identity** - Strong and enviable reputation and identity
- **Leadership** - Inspiring, people-focused leadership

Governments Economic Growth Agenda

1. It is businesses that drive economic growth and build a more successful economy with more jobs for Kiwis.
2. Growing competitive businesses creates jobs and increases exports to the world. Nothing creates sustainable, high-paying jobs and boosts our standard of living better than business confidence and growth.
3. There are six key inputs that businesses need to succeed and grow. By focusing on these inputs, we will ensure businesses can lead economic growth. The Government's key areas in the Business Growth Agenda are:
 - Infrastructure, Export markets, Capital markets, Innovation, Skilled and safe workplaces, Natural resources

The Board of Aoraki Development and Promotions Ltd trading as Aoraki Development (AD) seeks to govern the organisation in a way that achieves the objectives stated and communicates with the Council in a timely and effective manner. Given the nature of the activities and the accepted role of similar organisations throughout the country, the performance is not measured in strictly commercial terms such as profit, share value or rates of return.

1. PERFORMANCE AND OTHER MEASUREMENTS

Performance shall be assessed against the KPI's / Indicators of Success for each objective via the Supply of a quarterly (and annual) report to the Timaru District Council including financial position. Other Performance measures include:

Financial - AD will prudently manage all financial matters, operating within its means predicated by the level of income and reserves received and held. Measured by financial performance v budget and adherence to all financial and reserves policies.

Good Employer - AD is committed and obligated to being a better than good employer of existing and future staff. Our well established policies and procedures clearly evidence the importance we place on the health, wellbeing, and ongoing development of our staff. Measured against staff retention rate, development opportunities and annual performance evaluations.

2. GOVERNANCE STATEMENT:

Aoraki Development and Promotions Limited was incorporated and adopted a constitution on 23rd June 2010. Aoraki Development and Promotions Limited Board Charter was adopted on 7th November 2016.

Structure, Function and Obligations of the Board

- a. The Role of the Board:
 - Ensuring AD meets its objectives as defined in this Statement of Intent.
 - Ensuring AD complies with all its lawful obligations.
 - Ensuring the Council is kept well informed on all relevant issues and that there are no "surprises" on matters likely to cause community or political concern.
 - Making any decisions as to policy that is not the preserve of the Chief Executive and day-to-day administration.
 - Employing the Chief Executive (including entering into a performance management agreement, reviewing performance, and setting remuneration).
 - Ensuring sound financial management of AD.
- b. Composition of the Board:
 - The Council, after consultation with the Board, will be responsible for appointing Directors to the Board.

Guidance and Resources Provided to Board Members

- a. Resources available to Board members to carry out their duties:

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Sound financial management and systems that provide reports to the Board as follows:

- Statement of financial performance for the preceding month and year to date.
 - Chief Executive's monthly and quarterly reports addressing issues related to AD's performance against objectives (financial and non-financial).
- b. The Board will ensure that relevant training opportunities are made available.
- c. Code of Conduct:
- All Board members will be required to comply with the New Zealand Institute of Directors' "Code of Practice for Directors".
 - All Board members will apply their best endeavours to ensure AD achieves its objectives defined within this Statement of Intent.
 - All Board members will ensure AD complies with the requirements of its constitution and this Statement of Intent.

Significant Policies in Place for Accountability

- a. The Board shall ensure AD complies with the reporting requirements outlined in Section 3 and 7 of this document.
- b. Risk Management Policies:
- The Board shall ensure that appropriate insurance is maintained on all insurable risks of AD, and in particular public liability insurance.
 - The Board shall ensure that AD has systems in place to achieve compliance with the Health and Safety at Work Act 2015 and subsequent amendments.
- c. Remuneration:
- The Council will set total remuneration for the Board.
- d. Reserves Policy (SOI)
- The Reserves Policy ensures the board has funds set aside for risk mitigation.
 - The Primary Objectives underlying the Reserves Policies for are:
 - To ensure that AD is operated in a prudent manner
 - To recognise that many streams of work and expenditure items are committed to and incurred for longer periods that the annual funding approved by the Timaru District Council (TDC) with multiyear projects.
 - To ensure that money is available, as required, to meet the needs of AD and its key stakeholders.
 - To recognise that AD generates income over and above the funding from the TDC and also spends the majority of that income on related economic development activities for the benefit of the district with a breakeven or close to breakeven annual budget
 - Reserves to be held are set at 3-4 months' trading / cash flow to be on hand
- e. Ratio of Accumulated Funds to Total Assets
- This ratio shows the proportion of total assets financed by equity
 - The Board will ensure that the ratio of Equity to Total Assets remains above 60%
 - For the purpose of this ratio, equity is as per the financial statements of AD
 - Total assets are defined as the total of current and non-current assets

3. ACCOUNTING POLICIES

Summary of Significant Accounting Policies

- a. Reporting Entity
- Aoraki Development and Promotions Limited ('AD') is a company incorporated and domiciled in New Zealand
 - AD is a CCO (as defined under section 6 of the Local Government Act 2002) based in Timaru and is a subsidiary 100% owned by the Timaru District Council.
 - The financial statements of AD are for the year end 30 June. The financial statements are authorised for issue by the directors.
- b. Statement of Compliance



- The financial statements are prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).
 - The financial statements are prepared in accordance with Public Benefit Entity Simple Format Reporting – Accrual (Public Sector) – PBE SF-A(PS).
 - All transactions 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 AD is New Zealand dollars.
- c. Revenue
- Revenue is measured at the fair value of the consideration received.
 - Contributions received from the Timaru District Council are AD's primary source of funding.
 - Contributions are recognised as revenue when they become receivable unless there is an obligation to return the funds if conditions of the contribution are not met. No such obligation is attached to the council contributions received.
- d. Interest revenue is recognised in the Statement of Financial Performance as it accrues, using the effective interest method.
- e. Income tax is accounted for using the taxes payable method. The income tax expense charged to the Statement of Financial Performance is the estimated tax payable in the current year, adjusted for any differences between the estimated and actual tax payable in prior years.
- f. Goods and Services Tax (GST): The financial statements have been prepared with income and expenditure items exclusive of GST. In the Statement of Financial Position, Accounts Receivable and Accounts Payable are both inclusive of GST. All other assets are shown exclusive of GST.
- g. Cash and Cash Equivalents includes cash on hand, deposits held at call with banks, other short – term highly liquid investment with original maturities of three months or less, and bank overdrafts
- h. Accounts Receivable are valued at their estimated net realisable value. Bad debts are written off during the period in which they are identified.
- i. Creditors and other payables are measured at the fair value of the consideration paid.
- j. Fixed Assets are recorded at cost less accumulated depreciation. AD has three classes of Fixed Assets, Computer Equipment, Furniture and Fittings & Office Equipment.
- k. Depreciation is calculated to allocate the cost or valuation of assets over their estimated useful lives, at the following rates:
- | | | |
|-----------------------------|----|--------|
| Computer Equipment | DV | 50% |
| Fittings & Office Equipment | DV | 20-67% |
| Furniture and Fittings | DV | 10-25% |
- l. Leases: AD leases certain office equipment, office space and a motor vehicle.

4. DIVIDEND POLICY

AD is a non-profit organisation that does not generate income or dividend for the Timaru District Council.

5. INFORMATION TO BE PROVIDED

The following information will be made available to the Council by AD:

- a. By **1 March** each year a DRAFT BUDGET for the following financial year together with a request for any changes requested to the Council's financial contribution to AD's activities.
- b. By **1 March** each year a draft STATEMENT OF INTENT, then consider any Council comments on it and deliver a final Statement of Intent by **30 June**.
- c. QUARTERLY REPORTS (September, December, March & June) covering an abbreviated Statement of Financial Performance and Statement of Financial Position, performance indicators, commentary on activities, and other such information as the Directors consider necessary to enable an informed assessment of AD's performance during the period in question. Due dates as prescribed by section 66 of the Local Government Act 2002
- d. Within three months after the end of the financial year (i.e. **by 30 September**), AD shall deliver to the Council an ANNUAL REPORT which fulfils the requirements of Section 67 of the Local Government Act 2002, and audited financial statements in respect of the financial year, containing the following information as a minimum:



- A Directors' Report including a summary of the financial results and a comparison of performance in relation to the objectives.
- A Statement of Financial Performance disclosing revenue and expenditure and comparative figures from previous annual reports.
- A Statement of Financial Position at the end of the year.
- An Auditor's Report on the above statements and the measure of performance in relation to objectives.
- The Chairman's Annual Report shall be made available for inspection at Council offices.
- Any other matters that the Council and AD agree shall be disclosed as appropriate.

6. PROCEDURE TO BE FOLLOWED WITH PURCHASE OF SHARES IN OTHER COMPANY OR ORGANISATION

The procedure to be followed before subscription for, or purchase of, or other acquisition of shares in any Company or organisation, shall be by resolution of the Directors, excepting that any significant diversification or addition to existing activities will be referred to the Council for approval.

7. COMPENSATION FROM LOCAL AUTHORITIES

Having utilised our Reserves over the past 4 years (on average \$70,000 per annum) Aoraki Development has not requested any increase over this period in our Development Operational Grant from Council, with this funding remaining at \$530,000 for the entire most recent 4 year period.

By 30 June 2020, we anticipate our Reserve Funds being at or near the minimum as allowed for in our Reserves Policy and therefore respectfully request the Development Grant increase for the ensuing year as proposed. Additional funding which also incorporates an increase in Board fees.

The Visitor Grant is included at a level advised by Council following transition of this operation to Aoraki Development April 2020.

Noting that Operational Grant and Project Funding for 2021/22 year and beyond are subject to annual application. Proposed funding levels are aligned to AD maintaining the high-quality economic development service and the skills needed within the organisation to deliver the variety of services and projects.

2019/20 Approved		2020/21	2021/22	2022/23
\$ 530,000	DEVELOPMENT OPERATIONAL GRANT	\$ 640,000	\$ 666,000	\$ 693,000
	VISITOR OPERATIONAL GRANT (est.)	\$ 350,000	\$ 364,000	\$ 378,000
\$ 58,500	PROJECT FUNDING**			
\$ (58,500)	provided ex AD Funds			
\$ 530,000	TOTAL FUNDS	\$ 990,000	\$ 1,030,000	\$ 1,071,000

8. BOARD'S ESTIMATE AD VALUE

The Directors estimate that the balance of funds in the Annual Report will represent the value of AD. The Directors will advise the shareholders on an annual basis if they believe the value to differ materially from this state.

Approved by AD on 4th May 2020


.....
for Aoraki Development - Mark Rogers Chairman

Approved by the Council on

.....
for Timaru District Council



FINANCIAL FORECASTS			
	2020/21	2021/22	2022/23
INCOME STATEMENT			
Regional Development Grant TDC	\$ 640,000	\$ 666,000	\$ 693,000
Regional Visitor Grant TDC	\$ 350,000	\$ 364,000	\$ 378,000
MyNextMove MSD Contract Youth Initiative	\$ 145,000	\$ 145,000	
Provincial Development Unit Grant - Capability & Capacity	\$ 50,000	\$ 50,000	\$ 50,000
Provincial Development Unit Grant - SC Transport & Logistics Panel	\$ 300,000	\$ 300,000	\$ -
Other income			
Total Income	\$ 1,485,000	\$ 1,525,000	\$ 1,121,000
EXPENSES			
Human Resources	\$ 364,354	\$ 377,000	\$ 390,000
Expenses	\$ 324,961	\$ 338,000	\$ 350,000
Regional Visitor Expense	\$ 350,000	\$ 364,000	\$ 378,000
MyNextMove MSD Contract Youth Initiative	\$ 145,000	\$ 145,000	
Provincial Development Unit Grant - SC Transport & Logistics Panel	\$ 300,000	\$ 300,000	\$ -
Total Expenses	\$ 1,484,315	\$ 1,524,000	\$ 1,118,000
Operating Profit (Loss)	\$ 685	\$ 1,000	\$ 3,000
BALANCE SHEET			
EQUITY			
	\$ 240,000	\$ 241,000	\$ 243,000
ASSETS			
Current Assets	\$ 280,000	\$ 290,000	\$ 300,000
Non Current Assets	\$ 64,000	\$ 54,000	\$ 44,000
TOTAL ASSETS	\$ 344,000	\$ 344,000	\$ 344,000
LIABILITIES			
Current Liabilities	\$ 104,000	\$ 103,000	\$ 101,000
TOTAL LIABILITIES	\$ 104,000	\$ 103,000	\$ 101,000
NET ASSETS	\$ 240,000	\$ 241,000	\$ 243,000

8 Consideration of Urgent Business Items

9 Consideration of Minor Nature Matters