



**AGENDA FOR A MEETING OF THE FINANCE AND OPERATIONAL PERFORMANCE  
COMMITTEE TO BE HELD AT WAITAKERE CENTRAL, 6 HENDERSON VALLEY  
ROAD, HENDERSON, WAITAKERE, ON MONDAY, 11 FEBRUARY 2008  
COMMENCING AT 9.30 AM**

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**PART A - OPENING OF MEETING**

**1 APOLOGIES**



**2 URGENT BUSINESS**

Section 46A(7) of the Local Government Official Information and Meetings Act 1987 provides that where an item of business is not on the agenda, it may only be dealt with at the meeting if:

- (i) the Committee by resolution so decides; and
- (ii) the Chairman has explained at the beginning of the meeting (when open to the public) that the item will be raised for discussion and decision, why the item is not on the agenda, and why it cannot be delayed until a subsequent meeting.

The Committee may make a decision on a matter determined to be urgent.

**NOTE:** Urgent Business need not be dealt with now and may be delayed until later in the meeting.



**3 CONFLICTS OF INTEREST**

The Council has acknowledged in its Code of Conduct that Elected Members need to be vigilant to stand aside from decision making when a conflict arises between their role as a member of the Council and any private or other external interest they might have. This note is provided as a reminder to members to check that no such conflicts arise in relation to any items on this agenda.



**4 CONFIRMATION OF MINUTES**

Meeting Minutes - Monday, 10 December 2007

**RECOMMENDATION**

That the minutes of the Meeting of the Finance and Operational Performance Committee held on Monday, 10 December 2007, as circulated, be taken as read and now be confirmed.



## **PART B - PRESENTATION**

### **5 PRESENTATION BY WATERCARE SHAREHOLDERS REPRESENTATIVE GROUP (SRG)**

A presentation will be made to the Finance and Operational Performance Committee by representatives from the Watercare Shareholders Representative Group (SRG) on a proposal by SRG for Auckland City Council to provide a guarantee to Watercare Services Limited supported by back to back guarantees from the other shareholding Councils. The proposed guarantee will have an impact on the reduction of future bulk water and wastewater price increases.



## **PART C - PROPERTY**

### **6 AMENDMENTS TO RATING SYSTEM**

#### **GLOSSARY**

Auckland Regional Council	(ARC)
Uniform Annual Charge	(UAC)
Uniform Annual General Charge	(UAGC)
2009-2019 Long Term Council Community Plan	(2009-2019 LTCCP)

#### **PURPOSE OF THE REPORT**

The purpose of the report is to outline to the Finance and Operational Performance Committee the current Rating Policy and identify changes to it arising from the triennial City-wide property revision applying from the 2008/2009 year that the Finance and Operational Performance Committee should consider and recommend to the Long Term Council Community Plan and Annual Plan Committee for inclusion into the consultation on the Annual Plan for the 2008/2009 year.

#### **BACKGROUND**

As reported to the Finance and Operational Performance Committee on 10 December 2007, changes in land values due to the City-wide revision of property values will require amendments to the stepped differentials used in the differential rating system.

Changes to the rating system must be included for consultation in the draft Annual Plan 2008/2009. To meet the timetable for adoption of the draft Annual Plan 2008/2009, recommendations will need to be made to the Long Term Council Community Plan and Annual Plan Committee as to the Rating Policy to be included for consultation, including the level of the Uniform Annual General Charge (UAGC).

On 10 December 2007, the Finance and Operational Performance Committee passed the following resolution:

- “1. That the City-wide Property Revaluations 2007 and Analysis of Impact on Rates report be received.*
- 2. That the Council defers any changes to the choice of rating system until after the Royal Commission of Inquiry concerning Auckland Governance has released its findings.*
- 3. That it be recommended to the Long Term Council Community Plan and Annual Plan Committee that funding be provided in the draft 2008/2009 Annual Plan for a review of the rating system pending the outcome of the*

*Royal Commission of Inquiry findings concerning Auckland Governance.”*

3925/2007

Rates modelling and budgets for the draft Annual Plan 2008/2009 year are in the process of being compiled and will be considered by the Long Term Council Community Plan and Annual Plan Committee in February and March 2008.

Rates modelling on the budget will be undertaken and presented to that Committee.

## STRATEGIC CONTEXT

Rates must be levied in accordance with the provisions of the Local Government (Rating) Act 2002, and any changes to the rating system, whether as a result of the new property values, or other changes proposed, must be adopted as part of the Long Term Council Community Plan/Annual Plan process.

As the Council currently levies rates based on land values, it is only movements in these values that will impact on rates. Changes in capital values will not affect the Council rates unless Council wishes to implement rating on a capital value basis. The new capital values will however be used by the Auckland Regional Council (ARC) for setting its rates from 1 July 2008. A copy of all the new values has been sent to the ARC.

The revised land values (subject to resolution of objections) are required to be used in the 2008/2009 year for the distribution of rates between ratepayers of their part of the total rate requirement that is to be levied as a rate in the dollar, and in accordance with the Council's Funding Policy.

## ISSUES

### New Steps for Differential Rating System on Residential Sector

The stepped differential rating system was introduced in the 1996/1997 year to reduce rates on higher valued properties which were excessive in the opinion of the Council of the time. The disproportionate level of rates paid between low, average and high valued properties before the stepped differential was introduced was the result of the relatively low number of high valued properties compared with the large number of average and below average valued properties.

Due to the changes in overall land values, amendments to the stepped differentials are necessary. These have been recalculated in the same manner as was used at previous revaluations. The first step for a single residential unit is set at the average value of that group (rounded to the nearest \$10,000). The second step is set at the point at which the rates would double if all other factors were the same but stepped differentials weren't used. The steps for the remainder of the multi-unit differential groups are adjusted accordingly.

The following table shows the suggested new steps. The old steps have been included for comparison.

Differential Group	Step	New Step	Old Step
Residential (1 unit)	Step 1	\$1 to \$270,000	\$1 to \$150,000
	Step 2	\$270,000 to \$950,000	\$150,000 to \$380,000
	Step 3	\$950,000 +	\$380,000 +
Residential (2 units)	Step 1	\$1 to \$540,000	\$1 to \$300,000
	Step 2	\$540,000 to \$1,900,000	\$300,000 to \$760,000
	Step 3	\$1,900,000 +	\$760,000 +
Residential (3 units)	Step 1	\$1 to \$810,000	\$1 to \$450,000
	Step 2	\$810,000 to \$2,850,000	\$450,000 to \$1,140,000

	Step 3	\$2,850,000 +	\$1,140,000 +
Residential (4 units)	Step 1	\$1 to \$1,080,000	\$1 to \$600,000
	Step 2	\$1,080,000+	\$600,000+
Residential (5-9 units)	Step 1	\$1 to \$1,350,000	\$1 to \$750,000
	Step 2	\$1,350,000+	\$750,000+
Residential (10-39 units)	Step 1	\$1 to \$3,000,000	\$1 to \$1,750,000
	Step 2	\$3,000,000+	\$1,750,000+
Residential (40+ units)	Step 1	\$1 to \$12,000,000	\$1 to \$7,000,000
	Step 2	\$12,000,000+	\$7,000,000+

### Level of UAGC

Under the current rating policy Council receives over half of its rates revenue from rates set from fixed charges. For the 2007/2008 year this is approximately 51% of the total rates revenue. This is possible due to the exclusion of targeted rates that are set solely for water supply or sewage disposal from the 30% limit imposed on the UAGC. In Waitakere's case these are the Uniform Annual Charge (UAC) for Wastewater on residential properties and the UAC for Rural Sewerage.

In the 2007/2008 period Council set the level of the UAGC at \$628 (incl GST). This combined with the targeted rate for Environmental Monitoring (\$34 incl GST) meant that the Council received 28.80% of rating revenue from these sources. These fixed rate charges are set slightly less than the maximum allowed under legislation (30%) to ensure that the level set is within the statutory limit and allows flexibility for the number of properties in the rating database as at 30 June 2008. Setting the UAGC near the maximum permissible limit has the effect of reducing the magnitude of the impact of revaluations on the rating base because a smaller amount of rates revenue would come from rates assessed against the land value.

### Business Differential

The current Rating Policy has a business sector differential of 20% of the total overall rate requirement (excluding water). This has the effect of ring-fencing both the business and residential sectors. This has the advantage of constraining any changes in valuation to within the respective sectors. This means the overall percentage of rate requirement from each sector remains the same and that neither the business nor residential sectors are impacted on by changes to non-related properties.

The draft Annual Plan 2008/2009 is currently being prepared and assessment of the indicative share of costs for the business sector will be reported to the Long Term Council Community Plan and Annual Plan Committee

Council's Strategy Unit has a full review of the Business Differential programmed for inclusion in the consultation process for the 2009-2019 Long Term Council Community Plan (2009-2019 LTCCP).

### Other Targeted Rates

Council has the following other rates:

- UAC for Wastewater on Residential properties, currently charged as a fixed charge per separately used or inhabitable part of a rating unit.
- UAC for Rural Sewerage (Outer Area) currently charged as a fixed charge per serviced septic tank, long drop or grease trap.
- UAC for Environmental Monitoring (Outer Area) currently charged as a fixed charge per property on all properties in the outer area.
- Water Supply Charge, currently charged per cubic metre as measured by meter.

### **Rates Modelling**

Budgets for the 2008/2009 year are still in the process of being compiled. Modelling analysis of the impacts will be undertaken as soon as possible and presented to the Long Term Council Community Plan and Annual Plan Committee during the deliberation process.

### **Potential Changes to Rating Policy**

At its meeting on 10 September 2007, the Finance and Operational Performance Committee approved giving money to business improvement groups. Council has undertaken pre-consultation on the possible introduction of a new targeted rate to business improvement associations. If this new rate was to be introduced in 2008/2009, an amendment to the current Revenue and Financing Policy would be required.

### **Remissions and Postponement Policies**

Council currently has four existing remission policies. Policy 1 assists ratepayers who have recorded excessive water rates due to a leak in their private water reticulation system. Policy 2 allows for the remission of penalties to allow the Council to act fairly and equitably in particular to a ratepayer or group of ratepayers. Policy 3 allows for the remission of the UAGC and/or targeted rate in situations where two or more rating units are in common usage. Policy 4 allows for the remission of all rates on non-revenue producing council owned properties.

Council also currently has three existing postponement policies in place to deal with impacts on residential and farmland properties affected by rezoning or for ratepayers facing severe financial hardship. Policy 1 has the objective to provide relief to the owners of farmland where the rateable value of a property that is used for farming purposes is in some significant way attributable to the potential use to which the land may be put. Policy 2 has the objective to ensure that the owners of residential properties are not penalised because of the increases in the value of property due to the rezoning decisions by Council. Policy 3 has the objective to assist ratepayers who are experiencing severe financial circumstances that affect their ability to pay their rates.

### **Methods of Payment**

Council has a wide variety of methods to accept payment of rates. These range from allowing for lump sum payment by second instalment due date, automatic payments and direct debits over the period of rates due and having the rates split into four instalments. Council also allows for telephone or internet banking, payment at any branch of the ANZ bank, at the council offices, at the drive through, counter service or at the New Lynn, Massey, Te Atatu Peninsula, Titirangi and Glen Eden Libraries and also via post.

### **RESOURCES**

The Council work programme for 2007/2008 provided for the analysis of impacts on rates due to the 2007 triennial revaluation as well as for the annual review of the business sector differential.

### **CONCLUSION**

Subsequent to the triennial property revaluation in September 2007 it is appropriate to review and revise the stepped differentials used in the differential rating system on the Residential Sector. The recommended new differentials have been included in this report.

To ensure consistency with previous years and the distribution between fixed and variable rates it is recommended that the UAGC be set as close to the maximum as possible.

Subject to changes to the Revenue and Financing Policy via consultation in the Annual Plan process and Council adoption there may be a new provision for targeted rates in order to provide funding to Business Improvement District Associations.

Council currently has robust remission and postponement policies and allows for a wide variety of methods of payment of rates. There is therefore no requirement to make further changes to these policies or payment methods.

A full review of the Business Sector Differential is taking place during the 2009-2019 LTCCP. Analysis of the Business Sector share of costs for the 2008/2009 year will be presented to the Long Term Council Community Plan and Annual Plan Committee following finalisation of the draft budget.

Indicative rates modelling based on the draft Annual Plan 2008/2009 will also be presented to the Long Term Council Community Plan and Annual Plan Committee during its forthcoming deliberations

### **RECOMMENDATIONS**

1. That the Amendments to Rating System report be received.
2. That it be recommended to the Long Term Council Community Plan and Annual Plan Committee that the following Rates Stepped Differential be included for consultation in the draft Annual Plan 2008/2009.

Differential Group	Step	New Step
Residential (1 unit)	Step 1	\$1 to \$270,000
	Step 2	\$270,000 to \$950,000
	Step 3	\$950,000 +
Residential (2 units)	Step 1	\$1 to \$540,000
	Step 2	\$540,000 to \$1,900,000
	Step 3	\$1,900,000 +
Residential (3 units)	Step 1	\$1 to \$810,000
	Step 2	\$810,000 to \$2,850,000
	Step 3	\$2,850,000 +
Residential (4 units)	Step 1	\$1 to \$1,080,000
	Step 2	\$1,080,000+
Residential (5-9 units)	Step 1	\$1 to \$1,350,000
	Step 2	\$1,350,000+
Residential (10-39 units)	Step 1	\$1 to \$3,000,000
	Step 2	\$3,000,000+
Residential (40+ units)	Step 1	\$1 to \$12,000,000
	Step 2	\$12,000,000+

3. That it be recommended to the Long Term Council Community Plan and Annual Plan Committee that the Uniform Annual General Charge be set near the maximum permissible limit and that the figure for consultation to be finally determined once the draft Annual Plan 2008/2009 to be consulted upon is known.

Report prepared by: John MacKenzie, Group Manager: Rates and Aaron Matich, Financial Analyst: Rates.

**PART D - LEGAL AND CONSTITUTIONAL**

**7 AFFIXATION OF COMMON SEAL**

**EXECUTION OF DOCUMENTS: 3 December to 31 January 2008**

No.	NAME	PARTICULARS
4326	WCC – Torquay Development Ltd	Drainage easement in gross – CT.357109 – 315 Glengarry Road, Glen Eden – SPW 22814 – RMA 20061062
4327	WCC – Torquay Development Ltd	Fencing Agreement – CTs.357110-357114 – 315 Glengarry Road, Glen Eden – SPW 22814 – RMA 20061062
4328	WCC – Shadow Trust Ltd	Memorandum of Encumbrance – CT.829/131 – 47 Kauri Loop Road
4329	WCC – Prishna Trading to M&D Patel	Landlord's consent to assignment of lease – 39 Glen Mall, Glen Eden
4330	WCC – Kensington Swan (Housing Corp)	Public Corporate Client Authority & Instruction for an Electronic Transaction
4331	WCC – Housing NZ Corporation	Local Government Housing Fund Assistance Relationship Agreement (in duplicate)
4332	WCC – Housing NZ Corporation	Local Government Housing Fund Loan Agreement (in duplicate)
4333	WCC – Te Akoranga Playcentre Assn Inc (Massey Playcentre)	Lease Agreement for Ground Lease, Lincoln Park Reserve, 3-5 Sunpark Place, Massey (in duplicate)
4334	WCC – BB & R Vaddiraju	Sale of Identifier 390544 – Waitemata Corner – Resolution 830/2007
4335	WCC – TD & AJ Kawana	Variation to consent Notice No.5627094.2 to cancel Point 2 (1 <sup>st</sup> schedule) re installation of sprinklers)
4336	WCC – Housing NZ Corporation	Memorandum of Mortgage re Housing Improvement Fund Loan from HNZA
4337	WCC – Housing NZ Corporation	Statutory Declaration under s.99A Land Transfer Act 1952
4338	WCC – Leataata O Le Lumanai Samoa Trust	Deed of Lease – Moire Park, Massey – Resolution 1294/2006
4339	WCC – Leataata O Le Lumanai Samoa Trust	Deed of Surrender – Moire Park, Massey
4340	WCC – Piha Tennis Club Incorporated	Lease Renewal – Piha Domain, Piha

No.	NAME	PARTICULARS
4341	WCC – Kaskuh Developments Ltd	Drainage easement in gross – CTs.327943-327945 – 113 & 121 Sunnyside Road, Sunnyvale – RMA 2006354
4342	WCC – Kaskuh Developments Ltd	Water supply easement in gross – CTs.327937-327945 – 113 & 121 Sunnyside Road, Sunnyvale – RMA 2006354
4343	WCC – MS & VC Mardon	Variation of Consent Notice No.5526178.2 – Computer Freehold Register 43416 – 160A & 160B Parker Road, Oratia – RMA 20061532
4344	WCC – Sandra Gardiner	Warrant of Appointment & Evidence of Identity – No.WCC369
4345	WCC – Tauloto Latasi	Warrant of Appointment & Evidence of Identity – No.WCC370
4346	WCC – BBS 2006 Ltd	Drainage easement in gross – CT.392115 – 12 Brick Street, Henderson – RMA 20071279
4347	WCC – BBS 2006 Ltd	Right-of-Way easement in gross – CT.392115 – 12 Brick Street, Henderson – RMA 20071279
4348	WCC – NZ Communications Ltd	Licence to install telecommunications on Council infrastructure – Resolution 717/2002
4349	WCC – ARA & JM Leslie	Drainage easement in gross – CTs.209429 & 209430 – 9 Angeline Place & 153 Don Buck Road, Massey – RMA 2004732
4350	WCC – C Zheng & Q Chen	Release of Financial Contribution Bond – 89 Rangeview Road, Sunnyvale – RMA 20040351 (as varied by RMA 20042506 & RMA 20051928) and RMA 20060182
4351	WCC – Oasis Family Trust Management Company	Memorandum of Encumbrance – CT.NA964/27 – 234 Konini Road
4352	WCC – LE Sargent & DJ Dallow	Drainage easement in gross – CT.327824 – 80 Taikata Road, Te Atatu – RMA 20052090
4353	WCC – White Rhino Holdings Ltd et ors	Consent to Variation of Mortgage – Rule 44.2 – 5 Hamlyn Place
4354	WCC – WCC for roading	Park and ride land, Swanson Road, Change of Status – Rule 44.2
4355	WCC – SH Davis	Drainage easement in gross – CT.298994 – 28 Gallony Avenue, Massey – RMA 20041403
4356	WCC – SH Davis	Fencing Agreement – CT.298994 – 28 Gallony Avenue, Massey – RMA 20041403
4357	WCC – NR MP Swan	Consent re Encumbrance No.7290162.1 – 90 Luckens Road, West Harbour

### **RECOMMENDATIONS**

1. That the Affixation of Common Seal report be received.

2. That the action taken in affixing the Common Seal on the documents as set out in the agenda report be adopted.

Report prepared by: Yvonne Donaldson, Team Leader: Legal Services.



## **PART E - FINANCE**

### **8 OPERATING AND CAPITAL EXPENDITURE SUMMARIES**

#### **PURPOSE OF THE REPORT**

The purpose of this report is to inform the Finance and Operational Performance Committee as to the level of operating and capital expenditure to date by unit compared to budget.

#### **BACKGROUND**

Through the Long Term Council Community Plan process, the Council approves operating and capital expenditure. The Council follows good practice for procurement of goods and services and ensures that funding has been provided from appropriate sources.

#### **ISSUES**

A1 This report covers expenditure for the six months to 31 December 2007. The financial summaries are attached on page A1.

If any further information is required in respect of this report, other than of a general nature, please contact either the writer or the Director: Finance prior to the meeting to enable the query to be researched.

As advised at a prior meeting of the Finance and Operational Performance Committee, the item for Auckland Regional Council Rates is greater than the budget because the budget was underestimated as it was based on the 2006/2007 figure.

Capital expenditure is well below budget at this stage, as the summer construction season has just commenced.

#### **CONCLUSION**

Total net operating costs for the six months to 31 December 2007 is within the approved operational budget.

#### **RECOMMENDATION**

That the Operating and Capital Expenditure Summaries report be received.

Report prepared by: Bob Preston, Group Manager: Financial Management.



## 9 **STATUS OF SPECIAL FUNDS**

### **PURPOSE OF THE REPORT**

The purpose of this report is to inform the Finance and Operational Performance Committee on the status of the Council's special funds.

### **BACKGROUND**

Special funds are those funds held or designated by the Council for a specific purpose or purposes. The balances of these funds are used to offset the Council's borrowing requirements. Interest is allocated to funds where applicable.

Special fund movements are recommended through the Long Term Council Community Plan and Annual Plan adoption process. Special funds are classified as either "Restricted Funds" or "Non-Restricted Funds". Restricted funds are those funds that have been received by the Council from a third party or parties and are to be used for a specific purpose or purposes. Non-restricted funds are funds established by a Council resolution to use and set aside its own funds and also to meet a specific purpose or purposes.

### **ISSUES**

A2 This report is separated into restricted and non-restricted funds. The balances and summary transactions for the period ended 31 December 2007 are attached at page A2.

If any further information is required in respect of this report, other than of a general nature, please contact either the writer or the Director: Finance prior to the meeting to enable the query to be researched.

No details are included for the Community Sport Fund as the transactions for this fund are being investigated to verify the balance of the fund.

The reconciliation of the Auckland Regional Services Trust Fund has been completed and a separate report on the fund will be prepared for the March meeting of the Culture and Community Committee.

### **CONCLUSION**

Special funds are being held or designated for a specific purpose or purposes. The fund balances have been reported as required.

### **RECOMMENDATION**

That the Status of Special Funds report be received.

Report prepared by: Bob Preston, Group Manager: Financial Management.



## 10 **BORROWING AND INVESTMENT REPORT**

### **PURPOSE OF THE REPORT**

The purpose of this report is to provide an update to the Finance and Operational Performance Committee on the estimated borrowing and investment activity for December 2007 and proposed changes to the Liability Management and Investment Policy.

### **BACKGROUND**

Waitakere City Council enters into treasury related financial contracts in the ordinary course of its business. It is the role of Council's Funds Management section to manage such contracts and the impact that they have on the organisation. All funds management transactions are governed by the Liability Management and Investment Policy, prepared in compliance with the Local Government Act 2002. As a requirement of that Policy this report informs the Finance and Operational Performance Committee on the current and future movements of Council's debt and cash investments, and provides a general commentary of financial market conditions.

A3-A8 The relevant portfolio and graphs reflect the estimated position as at 31 December 2007 and are attached at pages A3 to A8.

### **ISSUES**

Council's Funds Management function actively manages a large portfolio of various debt and investment instruments. The benefit of borrowing is that it enables Council to carry out the projects identified in the Annual Plan and Long Term Council Community Plan, while spreading the costs for those projects over time to recognise the future benefits. Borrowing funds therefore assist Council with its entire loans funded strategic initiatives. The Liability Management and Investment Policy requires that a report detailing the management of the portfolio be presented to the Finance and Operational Performance Committee on a regular basis. The report must include information on the following subjects:

- Cash/debt position;
- Forecasted borrowing profile;
- Interest rate profile;
- Risk management;
- Material transactions;
- Market commentary.

This report addresses the requirement of the Policy and may include other information that is relevant to the Funds Management function.

### **FINANCIAL IMPLICATIONS**

The active management of the treasury portfolio seeks to minimise Council's borrowing costs and maximise investment returns of liquid assets. The Funds Management function is also charged with seeking investors, thus ensuring that there is sufficient liquidity available for the Council to continue its work programme. New Zealand financial markets are significantly volatile and therefore interest rate risk management is a key responsibility of the Funds Management function. Detailed financial information included within this report is intended to give assurance of the prudent management of Council's portfolio.

Council maintains a Standard and Poor's Credit Ratings of A-1 short term, and A+ long term (stable).

## **LIABILITY MANAGEMENT AND INVESTMENT POLICY**

Under the Local Government Act 2002, the Council must adopt a Liability Management Policy and an Investment Policy. These policies provide predictability and certainty as to how the Council manages its borrowing and investment activities. The Council's current policies were adopted as part of the Long Term Council Community Plan 2006/2016. An annual review has been undertaken of the Policy. As part of the review, changes have been identified to clarify various aspects of the Policy and update certain transactional limits to reflect current and future financial market changes.

Changes to the Policy are required to be consulted upon through the Special Consultative Procedure, as prescribed in the Local Government Act 2002.

Proposed changes to the Policy are:

### **Shares**

The current Policy states:

#### Shares

- The Council holds shares in the following companies:
  - Watercare Services Limited;
  - Waitakere City Holdings Limited;
  - New Zealand Local Government Insurance Corporation Limited – T/A Civic Assurance;
  - Auckland Regional Transport Network Limited.
- Council will consider selling its non-strategic share holdings where the rate of return from owning the asset is lower than the financial benefit to ratepayers of selling and of using the proceeds of sale to repay debt. In its considerations the Council will take into account the risks associated with continuing to own the asset and the risks associated with the Council's total debt;
- Proceeds from share sales will go to repay existing debt, unless the Council specifically directs that the funds be put to another use.

While the Policy contains information about existing share holdings and the use of funds from the sale of shares, it is silent on the acquisition of shares. Elsewhere in the Policy, it is stated that if a transaction falls outside the Policy, the transaction must be approved by the Council.

The disclosures of shareholdings are made in the Annual Report. The acquisition of equity shares in any organisation is inherently risky. The approval of such transactions is best left directly with the Council.

It is proposed that the above section on shares be replaced with:

### **Shares**

- The acquisition of shares in any organisation must be approved by the Council or its delegated committee;
- Shares will only be purchased on a basis that it promotes the current and future interests of Waitakere City's community or for other sound business reasons;

- Council will consider selling its non-strategic shareholdings where the rate of return from owning the asset is lower than the financial benefit to ratepayers of selling and of using the proceeds of sale to repay debt. In its considerations the Council will take into account the risks associated with continuing to own the asset and the risks associated with the Council's total debt;
- Proceeds from share sales will go to repay existing debt, unless the Council specifically directs that the funds be put to another use.

### **Guarantees**

The current Policy states:

#### *Loans and Advances*

- *The Council has adopted a Community Assistance Policy to cover procedures and guidelines encompassing loans and guarantees.*
- *The Council does not normally give out loans or guarantee loans to Community groups and will only consider doing so in exceptional circumstances.*
- *Guarantees will only be given after the receipt and the satisfactory analysis of the requesting entities financial statements. Annual Financial Statements will continue to be presented to the Council as long as the Guarantee exists.*
- *Council will maintain a register of all guarantees it has undertaken.*

From time to time guarantees fall outside the scope of the existing policies, such as the Community Assistance Policy. Disclosure of guarantees is made in the Annual Report. The granting of guarantees is inherently risky and any decision on the provision of loans, advances and guarantees must be made by the Council or its delegated committee.

It is proposed that the following changes be made to the Policy:

#### Loans, Advances and Guarantees

- The Council does not normally give out loans, advances or guarantees to external organisations and will only do so in exceptional circumstances, or where it will promote the current and future interests of Waitakere City's community, or for other sound business reasons.
- Other policies such as the Community Assistance Policy cover the procedures and guidelines encompassing loans and guarantees to community groups.
- All guarantees will only be given after the receipt and satisfactory analysis of the requesting entity's business case, any other supporting information that maybe required, and any legal or other professional advice required during the analysis and evaluation of the business case.
- The granting of loans, advances or guarantees to any organisation must be approved by the Council or its delegated committee.

### **Approved Financial Instruments**

The current Policy contains references to:

Interest rate swaps including:

Forward start swaps (start date <24 months).

The Policy restriction often does not allow for opportunities that present themselves in the forward swap market with dates greater than 2 years. It is proposed that this limitation be changed as follows:

- forward start swaps (start date <24 months, or for start dates >24 months only if the start date is matched against the maturity date of an existing swap).

### Interest Rate Risk Controls

Fixed Rate Maturity Profile Limit		
Period	Minimum Cover	Maximum Cover
1 to 3 years	15%	50%
3 to 5 years	15%	50%
5 years plus	15%	65%

The Policy provides for minimum and maximum coverage in various maturity profiles. However, it is often difficult under existing market conditions to maintain minimum levels or prevent breaching maximum levels as existing hedging instruments move towards maturity. As a result, to maintain the prescribed coverage, the Council may be forced to enter into financial instruments that cause long term fair value losses in order to rebalance the portfolio.

It is proposed that the following limits be introduced:

Fixed Rate Maturity Profile Limit		
Period	Minimum Cover	Maximum Cover
1 to 3 years	10%	65%
3 to 5 years	10%	65%
5 years plus	10%	65%

### Sinking Funds

With the final release of Sinking Funds completed on 1 July 2007 it is proposed that references to Sinking Funds contained in the Policy be deleted.

The proposed changes above are required to be contained in a Statement of Proposal, including an Audit Certificate, and also require a Council resolution. The Statement of Proposal is intended to be prepared for the March meeting of the Council.

## FINANCIAL MARKET COMMENTARY

### Market Overview

Continued volatility has remained in the financial markets over the past few months. Largely, this is a continuation of US sub-prime mortgage problems and the effects this is having globally. Locally, this has manifested in increased borrowing costs as local banks are forced to fund themselves at higher credit risk margins. Fixed rate mortgages have increased, not because base interest rates have moved, but because the bank's own funding costs have increased.

Wholesale markets in which the Council trades are equally suffering from this, with higher credit margins being demanded from investors. These credit margins or spreads are also volatile and have become dependent on larger benchmark trades from entities, both local and international. Local authorities are seeing credit spreads more than double, dependent on the duration of the new debt they are issuing. Examples of 5 year placements that were once sold on a margin of 0.12% - 0.15% a year ago are now priced at more than 0.30%. Historically, the current spreads were once considered normal and it is not impossible for them to continue to increase. It has only been in the past few years, where there has been a flood of investor funds, that credit spreads decreased to unrealistically low levels.

The volatility in credit spreads is generally managed by having sufficient Bank Committed Cash Facilities with fixed margins. If credit spreads move to positions greater than those contained in bank facility documents, the borrower can draw on those facilities with greater repayment flexibility than issuing directly into the wholesale market at the time. The borrower then has the option to issue into the wholesale market when credit spreads improve, using those funds to repay the bank facility.

New Zealand Base wholesale interest rates have been relatively stable over the past few months, with 90 day bank bills currently holding around 8.70%, similar to where they were 6 weeks ago (though in mid to late December these did increase rapidly to over 9% temporarily). Longer dated interest rates have also tended to move sideways, though significant short term swings have occurred from day to day. 10 year swap rates are currently around 7.40%, almost 0.30% lower than last reported, though again this cannot be considered a trend in such a volatile market.

A similar trend has developed in the foreign exchange market, with the NZD/USD rate weakening over the earlier course of January from mid 0.78 cents to mid 0.74 cent, only to return again to a current mid to high 0.78 cent position.

The Governor of the Reserve Bank of New Zealand maintained the Official Cash Rate at 8.25% at the Official Cash Rate Announcement on 24 January 2008. The Consumer price index, the measure of New Zealand inflation, was reported at 3.2% year on year for the December quarter, which is outside the Bank's medium term target range of 1% to 3%. The Bank expects that the inflation rate is likely to persist in this way for much of 2008, though the current cash rate setting should be sufficient to contain inflation. Growing uncertainty, however, may result in the Reserve Bank of New Zealand having to make adjustments to the Official Cash Rate sooner than is currently expected.

### **Up-Coming Dates**

6 March 2008                      Monetary Policy Statement and Official Cash Rate Announcement.

### **CONCLUSION**

All transactions covered by this report have complied with the requirements of Council's Liability Management and Investment Policy.

### **RECOMMENDATIONS**

1. That the Borrowing and Investment report be received.
2. That the proposed changes to the Liability Management and Investment Policy be endorsed and that a Statement of Proposal for public consultation be prepared for Council's consideration.

Report prepared by: Bruce Wilkin, Treasury Manager.



## 11 PAYMENTS FOR APPROVAL

### PURPOSE OF THE REPORT

The purpose of this report is to advise the Finance and Operational Performance Committee of payments made by the Council.

### BACKGROUND

This report provides details of payments made to external suppliers in excess of \$5,000. In addition there is a summary listing, which aggregates payments made to various organisations and suppliers for the Committee's information. These payments have already been processed as allowed by delegations approved by the Council. If any Councillor requires information regarding the nature of any payment, that information can be provided.

### STRATEGIC CONTEXT

The Council makes various payments as provided for in its Long Term Council Community Plan and Annual Plans. The Council follows good practice for procurement of goods and services and ensures that funding has been provided from appropriate sources.

### PAYMENTS

*A9-A19*

A summary schedule of payments made for the period 12 November 2007 to 6 January 2008 is attached at pages A9 to A10. A further schedule of all payments of \$5,000 and above, together with the reason for the payment, is attached at pages A9 to A19.

If any Councillor wishes to ask specific questions relating to any of these payments prior to the meeting, then such questions can be directed to the Director: Finance.

### CONCLUSION

The summary schedule of payments is shown for the period 12 November 2007 to 6 January 2008. Payments have been provided for in accordance with approved budgets.

### RECOMMENDATIONS

1. That the Payments for Approval report be received.
2. That the contracts let and payments made, be approved.

Report prepared by: Andrew Pollock, Director: Finance.



## **PART F - GENERAL**

### **12 AUCKLAND WAR MEMORIAL MUSEUM AND THE MUSEUM OF TRANSPORT AND TECHNOLOGY - ELECTORAL COLLEGE UPDATE**

#### **GLOSSARY**

Auckland War Memorial Museum	(AWMM)
Museum of Transport and Technology	(MOTAT)
Long Term Council Community Plan	(LTCCP)

#### **PURPOSE OF THE REPORT**

The purpose of this report is to update the Finance and Operational Performance Committee on recent deliberations of the Territorial Local Authority Electoral College with regard to the Auckland War Memorial Museum (AWMM) and the Museum of Transport and Technology (MOTAT).

#### **BACKGROUND**

Council is a contributing member (two voting representatives) on the Territorial Local Authority Electoral College. The Electoral College exercises a governance role over the respective Boards of the AWMM and MOTAT. By legislation, territorial local authorities within the Auckland Region are required to contribute to the running costs of these organisations, the share of which is allocated based on the respective capital values (rating) within the contributing authorities. As revaluations are carried out every three years, with local authorities not all on the same three year cycle, this Council's percentage share of the levy will vary from year to year. Waitakere City's new valuations come into effect from 1 July 2008 (this year), which is likely to result in a percentage increase in this Council's share of the levy in the 2009/2010 year. The cyclic effect of the revaluations is illustrated further on in this report.

#### **STRATEGIC CONTEXT**

The AWMM and MOTAT are facilities contributing to the preservation of cultural and heritage history on a regional basis.

#### **ISSUES**

##### **Electoral College Administration**

A20-A23

On Friday 14 December 2007, the Electoral College met for the first time following the Local Body elections. Minutes are attached at pages A20 to A23. At that meeting Councillor Neeson was elected to the Chair of the Electoral College. This is a position which was traditionally held by an Auckland City Council representative due to the fact that the administration for this Committee has, up until now, been handled by that Council. Discussions are currently taking place as to how the administration of the Electoral College will be handled in the future, the outcome of which will be reported to the Finance and Operational Performance Committee through the next update.

##### **2008/2009 Proposed Levies**

The Finance and Operational Performance Committee also received delegations from the management of the two Museums presenting their intended Local Authority levies to be included in their respective 2008/2009 draft annual plans. The levy submitted by the AWMM was \$22,232,000. This represents a 4.3% increase over the 2007/2008 levy. The levy requested by MOTAT was \$8,536,000. This represents an 18% increase over the 2007/2008 levy. The increase in the MOTAT levy equates to an increase of approximately \$100,000 over the current year's levy (\$662,113) to Waitakere City Council.

There was considerable discussion around the seemingly high level of increase sought by MOTAT. However, the Electoral College resolved to approve the publication, within their respective draft plans, of the levies as requested. The Electoral College is intending to prepare submissions to those draft annual plans at its next meeting, scheduled for 1 February 2008.

This Finance and Operational Performance Committee may wish to formulate and present separate submissions on behalf of Council. The closing dates for submissions on the two annual plans are as follows:

AWMM            Thursday, 21 February 2008, 5pm.  
MOTAT           Friday, 15 February 2008, 5pm.

Copies of the draft 2008/2009 annual plans in respect of the two Museums are available in the Councillors lounge.

### **Auckland Regional Amenities Bill**

The Electoral College also discussed the role that the Electoral College may play if the Auckland Regional Amenities Bill, currently before Parliament, is enacted.

## **RESOURCES**

### **Electoral College Administration**

If Waitakere City Council assumes the administration of the Electoral College, extra staffing resource, venue servicing and possible catering will need to be provided. At present Auckland City Council provides these resources and covers any associated costs.

### **2008/2009 Proposed Levies**

It is intended that budget provision will be provided in Council's 2008/2009 draft Annual Plan to reflect the level of levy funding being sought by the respective museums, unless otherwise directed. The proposed 2008/2009 levies (this Council's share) are as follows:

	<b>2008/2009 Proposed</b>	<b>2008/2009 LTCCP</b>	<b>2007/2008 Actual</b>
AWMM	\$1,996,774	\$2,721,000	\$1,949,311
MOTAT	\$767,082	\$875,000	\$662,113

Note that the proposed levies are well within Council's LTCCP forecasts. This is due to the fact that Council's LTCCP reflects increases on a linear basis, whereas Council's actual share of the levy fluctuates with the varying revaluation cycles of the participating local authorities.

## **CONCLUSION**

### **Electoral College Administration**

At the last meeting of the Electoral College, held on Friday 14 December 2007, Councillor Neeson was elected to the Chair of that Committee. This is a position which was traditionally held by an Auckland City Council representative due to the fact that the administration for the committee has, up until now, been handled by that Council. Discussions are currently taking place as to how the administration of the Electoral College will be handled in the future, the outcome of which will be reported to this Committee through the next update.

### **2008/2009 Proposed Levies**

The Electoral College approved the publication of the levies as requested, within their respective draft plans of the Auckland War Memorial Museum (AWMM) and the Museum of Transport and Technology (MOTAT). There was general concern with regard to the level of increase requested by MOTAT (18%), with the Electoral College likely to prepare a submission to that draft annual plan at the next meeting, to be held on 1 February 2008. This Finance and Operational Performance Committee needs to consider as to whether it wishes to prepare a separate submission on behalf of the Council.

### **Auckland Regional Amenities Bill**

No conclusions were reached in respect of the discussions relating to the Auckland Regional Amenities Bill other than to recognise that the Electoral College may have an increased role to play if the bill were enacted.

### **RECOMMENDATIONS**

1. That the Auckland War Memorial Museum and the Museum of Transport and Technology - Electoral College update be received.
2. That the Finance and Operational Performance Committee consider the formulation of submissions to the 2008/2009 draft annual plans of the Auckland War Memorial Museum and the Museum of Transport and Technology.

Report prepared by: Alec Third, Group Manager: Financial Operations.



## **13 LEISURE FACILITY PARTNERSHIP FUND STAGE TWO APPLICATIONS**

### **GLOSSARY**

Leisure Facility Partnership Fund Management Team	(the Management Team)
Leisure Facility Partnership Fund	(LFPF)
Starling Park Sports Club Inc	(the Sports Club)

### **PURPOSE OF THE REPORT**

This report seeks the Finance and Operational Performance Committee's endorsement of the recommendations made by the Leisure Facility Partnership Fund Management Team (the Management Team) about which applications should progress to stage three of the Leisure Facility Partnership Fund (LFPF).

### **BACKGROUND**

The purpose of the LFPF is to enable Council to strategically direct capital development assistance to community leisure and sporting projects. Traditionally Council responded to such capital development requests on an ad hoc basis, which raised the potential risk that worthy projects may have gone unsupported for the simple reason that they were presented before Council at an inopportune time.

The fund has been set up to compare potential projects at the same time, and to work with organisations through the design and consultation process in support of best community outcomes.

In any given year a total funding pool of \$500,000 is available under The Leisure Facilities Partnership Policy. The total funding pool will be shared amongst successful applicants. This funding is contested with final allocation resting solely at Council's discretion. Council may choose not to fund any of the proposed projects in a given year or alternatively may forward fund in another year.

Proposals to the LFPF will be analysed in three distinct stages, each with their own evaluation criteria by the Management team. The policy has been set out this way so as to minimise the level of work community organisations are required to undertake when making an initial proposal.

Five applications were accepted to move forward to stage two of the 2007-2008 LFPF and were asked to provide more in-depth information about their project which was to be assessed against the stage two criteria. These applicants were given details of what was required and were assigned a Council officer to assist them in putting together an application for stage two.

### **STRATEGIC CONTEXT**

Through the adoption of Strong Communities, Council outlines its commitment to undertaking initiatives that will contribute to making Waitakere City a safe, healthy place to live and to improving local leisure and recreation opportunities and choices. Through adoption of First Call for Children, Council has also stated its commitment to proactively supporting children, young people and their families in Waitakere City. Direct financial assistance to organisations and facilities providing active/passive leisure which allow people to be more active and involved within the community, assists Council's commitment to these policies.

### **ISSUES**

Applications for stage two of the 2007-2008 LFPF closed on 14 December 2007 and four applications were received. As with stage one the Management Team (made up of members from Leisure Services, Parks Planning and Parks Assets) along with two members from Sport Waitakere's Sport Development team assessed the applications against the stage two criteria as outlined below:

#### **Stage Two Criteria**

1. The extent to which the proposal would support increased community participation in particular leisure or sporting activities, i.e. how will the facility create more leisure opportunities?
2. The extent of community support for and involvement in the project, i.e. finding out what the community wants through consultation?
3. Detailed investigation into the likely community use of the proposed facility and the degree to which these levels align with the size of capital grant being sought, i.e. what community groups have registered a commitment to use the facility?
4. The potential of the project to resolve existing community facility or capacity building problems, i.e. what else is in the community and is there a shortfall in facilities to meet the current and future needs of the community?
5. Detailed evidence of the financial viability of the project, including how the applicant proposes to fund the project, what funding agents have signalled support for the project and the funds the organisation intends to provide?
6. The degree to which the applicant has shown the ability and willingness to develop and share in a joint vision in a facility?
7. How the applicant intends to fund the ongoing operational and maintenance costs of the facility once completed?
8. Where the facility is located on the site and how that will impact the community use?

One of the applications did not meet the criteria and therefore was not eligible to be considered for stage three of this fund.

## SUMMARY OF ELIGIBLE APPLICATIONS

### Waitakere College

Waitakere College is proposing to build a semi enclosed all weather playing surface with lighting. At the same time the school plans to upgrade its other sport and recreation facilities (which will be fully funded by the school) to create a high quality sports precinct to be used by both the school and the wider community.

### Size and location

The all weather surface will be approximately 27.5m by 38.5m. This is big enough for a full size basketball court or two tennis courts.

A24

It will be located beside the school gymnasium and active recreation room (see site plan on appendix 1 attached at page A24) and will have direct access to existing toilets, changing rooms and playing fields. The school has recently built a new car park close to the facility and as part of the upgrade of existing facilities; plan to redevelop the access way from the car park to the facilities.

### Funding

Funding	Guaranteed	Proposed
Waitakere College contribution towards redevelopment of existing facilities	\$321,526	
Waitakere College contribution towards the All Weather playing surface	\$525,473	
WCC - LFPF		\$250,000
Required from other Funding Agencies		\$303,001
<b>Estimated Total Costs of Project</b>	<b>\$1,400,000</b>	

The school is able to include the new facility in their operational plan and therefore will receive Ministry of Education funding to maintain the facility. They also have a Business Manager who will handle all community bookings for this and the other facilities available to the community after hours.

### Community Support/Community Use

The school has had a strong history of hiring out their facilities to community groups. The existing gymnasium and active recreation room are used almost every night of the week and during the weekend. A number of groups have already indicated a strong interest in using the all weather training surface, such as the Waitemata Rugby Club, Waitakere Cricket Club, Oratia United Football Club and the Western Districts Cricket Association. It appears that there will be no shortage of demand for this facility as there is a real shortage for alternative all weather training facilities in Waitakere. The Massey High School all weather playing surface for example is consistently used after school and during weekends and highlights the needs and demand for this type of facility.

### Recommendation

The Management Team is recommending Waitakere College progress onto stage three of the LFPF and that \$250,000 is allocated to this project.

### Marina View School

Marina View School want to build a school gymnasium. It currently only has a school hall and has identified in their strategic plan the need to build a gymnasium to cater for the growing sport and recreation demands of their pupils and the community.

### Size and location

A25

The planned location for the facility is in the back of the school where its current tennis courts are located (see site map in Appendix 2 attached at page A25). This is ideally located for the school as it has links onto the fields and will also be close to the proposed Astroturf surface they intend developing at a later stage. The Management team would prefer the gymnasium to be located on the road frontage but understand the school's desire to have it located beside their other sport and recreational facilities. The Management Team believe community access maybe an issue and needs to be worked through with the school during the next stage of this fund.

The gymnasium will be big enough to house a full sized basketball court, or two half courts.

### Funding

Funding	Guaranteed	Proposed
Marina View School contribution	\$800,000	
WCC - LFPF		\$300,000
Required from other Funding Agencies		\$500,000
<b>Estimated Total Costs of Project</b>	<b>\$1,600,000</b>	

The school has asked Council to contribute \$300,000 which the Management Team felt was slightly too much given previous grant allocations and the amount of community use so are suggesting a sum of \$250,000 be allocated to this project. This would leave approximately \$550,000 for the school to raise from funding agencies which the Management Team believed to be achievable.

The school will fund the ongoing operational and maintenance cost through their Ministry of Education funding.

### Community Support/Community Use

The school consulted with the YMCA and Massey Basketball as it was aware that there was a lack of available indoor court space for sports such as Basketball in Massey. The YMCA who runs the Basketball leagues on behalf of Massey Basketball indicated a strong interest to form a relationship with the school as it is nearing capacity at the Massey Leisure Centre and is having difficulty catering for the growing sport and recreation needs of the Massey community. If the new gymnasium was equipped with a full size Basketball court the YMCA believes it could run extra sport leagues out of the facility after school and during the weekend. It is anticipated that the YMCA will be in charge of running and administering the gymnasium after school and during the weekend and the school will manage it during school hours.

The Management Team was a little concerned that Basketball would monopolise the community use of the gymnasium and would like to ensure that other users are given the opportunity to use the facility as well. This could be written into the partnering or management agreement between the YMCA and the school to ensure a variety of community groups can gain access to the facility. Basketball, however, appears to have the greatest need in terms of court space in this area and with the development of this facility it will greatly help in reducing this capacity issue and provide the school with a regular after hour's user group.

### Recommendation

The Management Team is recommending Marina View School progress onto stage three of the LFPF and that \$250,000 be allocated to his project.

### Starling Park

The Starling Park Sports Club Inc (the Sports Club) is proposing to rebuild their clubrooms after they were burnt down in December 2005. The Sports Club was formed in 1990 by the Ranui-Swanson Association Football Club and the Waitakere Bears Softball Club and is currently working out of a container located on Starling Park. The Sports Club has almost 1,000 members and is growing. The Sports Club is actively looking for a third party to join the club and have had discussions with various community and sporting groups about joining their multi-sport club and utilising the proposed new clubrooms.

### Size and location

A26-A30

The Sports Club was given funding through the Sports Club Development Fund to do initial concept drawings and feasibility study (see appendix 3-7 attached at pages A26 to A30 for site plan and concept drawings). The concept plan shows a two-storey facility approximately 750 square metres which provides excellent viewing over the number one softball diamond and the number one football field. The indoor space is large enough to cater for another indoor user should a viable option be identified.

The initial concept design has already been presented to the Parks Design Review Team who accepted the design subject to some minor amendments.

### Funding

Funding	Guaranteed	Proposed
Starling Park Sport Club fundraising contribution		\$200,000
WCC - LFPF		\$250,000
Required from other Funding Agencies		\$1,450,000
<b>Estimated Total Costs of Project</b>		<b>\$1,900,000</b>

Initial Quantity Surveyors' estimates suggest the clubrooms would cost upwards of \$1.9 million. The Sports Club is already actively fundraising and has a target of \$200,000 to raise and is well on its way of achieving that figure. However, that still means that the Sports Club will have to raise another \$1.7 million from other funding agencies. The Sports Club has approached both the ASB Community Trust and the Waitakere Licensing Trust and were given positive indications of support, but the Management Team believes that this may be too much for the Club to raise given the current funding environment.

## **Community Support/Community Use**

There is a lot of community support for this facility in the Swanson and Ranui community. There are almost 1,000 members already in the Sports Club and membership in both codes is on the increase. There is interest from other community groups to share the facility which should see strong all year use of the facility if it were to go ahead.

There is without question a need for this facility as there is no other facility in the area that can accommodate the needs of the Sports Club. The Sports Club was one of the first multi-sport clubs in Waitakere and has a strong and proven history of working together for the local community. It is a credit to the Sports Club and a sign of their importance in the community that even without clubrooms the Sports Club has been able to increase membership in both codes and maintain a strong and committed committee. If it went ahead the facility would undoubtedly become a central point for the community to come together to socialise and participate in sport and recreation.

## **Recommendation**

The Management Team believes that this particular proposal sits outside the scope of the LFPF and needs to be considered as a stand alone project. This is an important facility for the community and without significant contributions from the key funding agencies will not happen. Although there is scope to reduce the total costs of the proposed facility the Management Team believes that the proposed design would meet current and future needs of the Sports Club and local community, and therefore should be supported.

The Management Team is therefore not recommending that the Sports Club's proposal goes through to stage three as even with funding from the LFPF the project will not go ahead within the next eighteen months. The Management team believes this project still a worthy project and should be considered at a later date once significant funding is secured.

In the meantime, to assist the Sports Club with ongoing design costs and resource consent fees, the Management Team is recommending that Council allocates \$15,000 from the LFPF to the Sports Club to assist with these ongoing costs and enable the project to keep moving forward.

## **RESOURCES**

Council has set aside \$515,000 in the 2007/2008 budget for the LFPF. Other resources include staff time to review and assess the applications and assist and direct the organisations with the gathering of information.

## **CONCLUSION**

Three applications were deemed eligible by the Management Team to be considered for stage three of the LFPF. From those three the Management Team felt that the Starling Park Sports Club application was too big a project to be considered under this fund at this time and would need to be considered as a stand alone project if were to go ahead within the next eighteen months. The Management Team is, however, recommending that \$15,000 be allocated to the Starling Park Sports Club project to assist them with design and resource consent fees which would enable the project to continue to move forward.

The Management Team deems that both the Marina View School and Waitakere College applications met the criteria for stage two and are recommending that Council allow them to move onto stage three of the LFPF. It is also recommending that \$250,000 be allocated to each school and is made available once they meet all of the stage three criteria and any other conditions that may be stipulated by Council.

## **RECOMMENDATIONS**

1. That the Leisure Facility Partnership Fund 2007-2008 Stage Two Applications report be received.
2. That the Finance and Operational Performance Committee approve the application by Waitakere College to move onto stage three of the Leisure Facility Partnership Fund and allocate \$250,000 to the project, subject to the applicant meeting, by 30 June 2009, the stage three criteria and any other conditions as set out by the Management Team or else the Finance and Operational Performance Committee can withdraw all remaining funding and require the applicant to reapply.
3. That the Finance and Operational Performance Committee approve the application by Marina View School to move onto stage three of the Leisure Facility Partnership Fund and allocate \$250,000 to the project, subject to the applicant, by 30 June 2009, meeting the stage three criteria and any other conditions as set out by the Management Team or else the Finance and Operational Performance Committee can withdraw all remaining funding and require the applicant to reapply.
4. That the Director of Finance be authorised delegated authority to release part funding to the applicants to allow the applicants to produce design work for the successful completion of stage three.
5. That the Finance and Operational Performance Committee endorse the recommendation by The Management Team that \$15,000 be allocated from the Leisure Facility Partnership Fund for the Starling Park Sports Club to assist them with design and resource consent fees and that the Management Team be given the authority to manage and distribute these funds as required.
6. That a report be brought back to the Finance and Operational Performance Committee in March 2008 providing an update on the status of the Ken Maunder Park and Green Bay High School projects and evaluating the success and learning's of the Leisure Facility Partnership Fund to date and suggesting possible amendments to the Leisure Facility Partnership Policy.

Report prepared by: Rob McGee, Leisure Services Projects and Contracts Officer.



## **14 PROPOSAL FOR THE GUARANTEE OF WATERCARE SERVICES LIMITED'S DEBT**

### **GLOSSARY**

Watercare Services Limited	(Watercare)
Watercare Shareholder Representative Group	(SRG)
Officers Working Group	(OWG)
Local Government Act	(LGA)
Asset Management Plan	(AMP)
Funding Plan	(FP)

## **PURPOSE OF THE REPORT**

The purpose of this report is to seek the Finance and Operational Performance Committee's approval in principle of the proposal by the Watercare Shareholder Representative Group (SRG) to provide a guarantee or, as a fall back option, a central borrowing service to Watercare Services Limited (Watercare).

## **BACKGROUND**

Watercare is the bulk water and wastewater service provider for much of the Auckland region. It's main responsibilities are the collection, treatment and supply of drinking water, and the collection, treatment and disposal of bulk wastewater. Watercare is classified as a "Council organisation" and is governed by specific legislative provisions set out in the Local Government Acts 1974 and 2002.

Watercare's primary customers are six water and wastewater retailers, five of which (including EcoWater) are owned by or are part of the local Councils. United Water, which services the Papakura District is a franchised operation.

The six local Councils are Watercare's shareholders. The Councils have appointed a SRG which appoints the Board of Watercare, provides input to Watercare's Statement of Corporate Intent, and monitors the performance of the Board of Watercare against the Statement of Corporate Intent. Watercare negotiates the Statement of Corporate Intent with the SRG each year. The Statement of Corporate Intent is effectively the Board of Watercare charter for running Watercare on the shareholders' behalf. It lays out the activities to be undertaken by Watercare and sets specific environmental, social and economic objectives for Watercare for a three year period. It also sets performance targets that will be used to measure Watercare's performance.

Waitakere City Council has two representatives on the SRG, Councillors Clow and Clews. An Officers Working Group (OWG) with representatives from the shareholder Territorial Authorities supports the SRG. The Local Network Operators Group (Auckland Water Group), comprising the six retailers often provides advice to the OWG on matters of common interest.

Council officers have invited representatives of the OWG (supporting the SRG) to present to Council's Finance and Operational Performance Committee the business case supporting the Watercare Guarantee proposal.

## **STRATEGIC CONTEXT**

The Council's strategic goal of sustainable management of the three waters (water supply, wastewater and stormwater) is integral to its relationship with Watercare, and to its role on the SRG.

The Council has two major roles in connection with Watercare, one as shareholder/owner, the other as customer. The extent to which this Council can add strategic input to the governance of Watercare through its ownership and governance role heavily influences the extent to which it can supply retail services to the City's ratepayers that meet the Council's own strategic goals, and at the most efficient price possible.

## **ISSUES**

The SRG considers the Asset Management Plan (AMP) and the Funding Plan (FP) of Watercare on an annual basis, and provides submissions to Watercare before the finalisation of its Statement of Corporate Intent (Local Government Act (LGA) 1974 S707 ZZZS 1(K) and 1(L)).

Watercare is empowered by section 707 ZZZS (b) (1) and (2) of the LGA 1974 to charge for its services or enter into any financial instrument, financial arrangement or financial transaction of a debt raising nature to fund its business. In normal circumstances, the SRG is not involved in operational matters relating to Watercare.

Watercare's recent forecast cost increases relate to capital expenditure, financing costs and operating costs.

The SRG review of Watercare's 2006 AMP noted a \$1,064 million (30%) increase in capital expenditure compared to the 2005 AMP.

The SRG review of Watercare's 2006 draft and final FP also noted a significant increase in water and wastewater prices. For example the increase in respective prices of water and wastewater in 2008/2009 are 15% and 32% in the draft FP, and 12% and 17% in the final FP. The price increases over a ten year period are summarised as follows:

### Summary of price/revenue increase

Wastewater				Water			
Year	Option 1: Base Case (draft FP)	Option 2: Hybrid Equity (final FP)	Option 3 & 4: Guarantee & Central Borrowing	Year	Option 1: Base Case (draft FP)	Option 2: Hybrid Equity (final FP)	Option 3 & 4: Guarantee & Central Borrowing
2007/2008	0.00%	0.00%	0.00%	2007/2008	0.00%	0.00%	0.00%
2008/2009	32.00%	17.00%	7.00%	2008/2009	15.00%	12.00%	10.00%
2009/2010	12.00%	14.00%	11.00%	2009/2010	2.00%	7.00%	6.00%
2010/2011	0.00%	7.00%	3.00%	2010/2011	2.00%	7.00%	1.00%
2011/2012	0.00%	7.00%	0.00%	2011/2012	2.00%	7.00%	3.00%
2012/2013	2.00%	7.00%	7.00%	2012/2013	11.50%	9.00%	8.00%
2013/2014	6.50%	10.00%	7.00%	2013/2014	25.00%	15.00%	8.00%
2014/2015	10.00%	7.00%	14.00%	2014/2015	15.50%	15.00%	12.00%
2015/2016	13.00%	7.00%	12.00%	2015/2016	1.00%	2.00%	5.00%
2016/2017	7.00%	7.00%	8.00%	2016/2017	0.00%	0.00%	2.00%

The final FP uses the hybrid equity method of financing to smooth out the price increases in the draft FP, and enable Watercare to maintain its "A" credit rating. A hybrid equity is a type of debt where typically 50% of the interest payments are treated as equity by rating agencies. This enables relatively higher levels of debt than the traditional instruments without a reduction in an entity's credit rating. The cost of debt under the hybrid equity method is more expensive than the cost of debt under traditional instruments.

The SRG requested its OWG to work with Watercare to examine other financing options, including the potential for a hybrid-equity issue because of the significant impact on regional ratepayers of the forecast price increases. The OWG review identified the guarantee and central borrowing facility (as a back up) as the more favourable options than the hybrid equity option because of lower impact on the price of water and wastewater.

In the past, the guarantee and central borrowing options were discussed in the Marsden Jacobs Associates and ABN AMRO 2005 review of Watercare's FP commissioned by the SRG.

While the report noted significant potential benefits from such a service, it concluded that it was impractical at the time partly due to the need to negotiate with multiple shareholders.

The establishment and administration of a guarantee or central borrowing facility is complex due to multiple parties (shareholders) having different credit ratings (Auckland City Council and Waitakere are the only shareholders with credit ratings compared to the other shareholding Councils). The SRG noted Auckland City Council's AA+ credit rating, experience and organisational structures to provide the guarantee or a central borrowing service making it more efficient for lenders to deal with one party.

On 6 December 2007, the SRG passed a resolution endorsing Auckland City Council to provide a guarantee or, as a fall back option, a central borrowing service to Watercare Services Limited subject to approval by the shareholding Councils, and development of satisfactory agreements with the Board of Watercare, and between shareholding Councils (including back to back guarantees). Under the back to back guarantee arrangement, the other shareholding Councils (including Waitakere) will guarantee Auckland City Council on their share of the Watercare guarantee allocated based on shareholding percentages.

The SRG also approved for Auckland City Council to lend Watercare \$200 million from 1 December 2007 as a temporary measure while seeking approval of the guarantee proposal by shareholding Councils and Watercare. The temporary financial arrangement put in place by Auckland City Council will expire in June 2008.

Waitakere City Council officers carried out a preliminary assessment of the financial impact of the financing options on Waitakere City Council. The preliminary assessment noted significant cost savings under the guarantee and central borrowing options compared to the hybrid equity option. The final value and extent of the cost savings under these options will be reported to the Finance and Operational Performance Committee once Council officers receive the updated price increase information from Watercare.

A further report will be submitted to the Finance and Operational Performance Committee to including a detailed discussion of the costs and benefits under each financing option, including the Local Government Act 2002 requirements for Council to make a final decision.

### **Local Government Act 2002 Requirements**

#### **Power of General Competence**

Council has the power of general competence as per section 12 of the LGA 2002 to guarantee it's share of Watercare's debt.

#### **Prudent Financial Management**

Preliminary work carried out by the OWG noted that Council will be able to meet the requirements of section 101(1) of the LGA 2002 on prudent financial management. This includes obligations under the guarantee, the impact on Council's credit rating and risks relating to the guarantee.

#### **Decision-making Requirements**

Extensive work has been carried out by the SRG and Watercare on options analysis. The preliminary assessment of the options to date noted significant economic benefits to the shareholding Councils outweighing costs associated to the guarantee.

#### **Liability Management and Investment Policy**

The current Waitakere City Council Liability Management and Investment Policy does not specifically cover the provision of guarantees to Council Organisations. The provision of guarantees to Council Organisations will need to be included in the current review of Council's Liability Management and Investment Policy.

### **Significance Policy**

Council will need to carry out consultation if it approves the SRG proposal for a guarantee of Watercare's debt. Even though the expenditure is dependent on a default occurring, any future defaults would result in a significant financial obligation to Council.

Watercare's financial relationship with its Shareholding Councils has been under media scrutiny over the previous months, therefore a decision by Council to create a contingent liability could create public interest within Waitakere and the greater Auckland region.

### **Legal Review**

A legal review of the guarantee documents is required if Council approves the SRG guarantee proposal. The guarantee proposal is dependent on satisfactory agreements between Watercare and the shareholding Councils.

### **RESOURCES**

There will be initial costs in carrying out a review of the guarantee documents, which will be budgeted for in 2008/2009 Annual Plan. The ongoing guarantee administration costs will be offset by future guarantee fees charged to Watercare.

### **CONCLUSION**

Watercare has proposed the use of the hybrid equity method of financing in its 2007 final FP, which would result in a significant increase of wholesale water and wastewater prices, affecting shareholding Councils.

The SRG considered Watercare's FP, and passed a resolution approving Auckland City Council providing a guarantee (as a fall back option, a central borrowing service) to Watercare Services Limited subject to approval by the shareholding Councils, and development of satisfactory agreements with the Boards of Watercare Services Limited, and between shareholding Councils (including back to back guarantees).

The guarantee and the central borrowing facility (backup) options will have the impact of significantly reducing the water and wastewater price increases under the hybrid equity method.

Auckland City Council has provided a loan to Watercare of \$200 million from 1 December 2007 as a temporary measure while the SRG seeks approval of the guarantee from shareholding councils and Watercare.

The preliminary financial information provided by Watercare indicates significant cost savings to Waitakere City Council under the guarantee option.

Council however cannot make a decision on the guarantee until the final updated information on water and waste water price changes is received from Watercare.

Council will be able to meet all the requirements of the LGA 2002 in relation to a decision to approve the Guarantee proposal, given that it's Liability Management and Investment Policy is amended to allow the provision of guarantees to Council Organisations.

### **RECOMMENDATIONS**

1. That the Proposal for Guarantee of Watercare Services Limited's Debt report be received.

2. That the Finance and Operational Performance Committee approves in principle the proposal by the Watercare Shareholder Representative Group for Auckland City Council to provide a guarantee or, as a fall back option, a central borrowing service to Watercare Services Limited.
3. That the current review of Council's Liability Management and Investment Policy include an amendment to allow guarantees to Council Organisations.
4. That a further report be brought back to the Finance and Operational Performance Committee alternatively the Long Term Council Community Plan and Annual Plan Committee for a final decision on the Watercare Shareholder Representative Group Watercare guarantee proposal, once updated price information has been received from Watercare Services Limited.

Report prepared by: Kingsha Changwai, Manager: Quality Assurance.



## 15 TENDERS SUBCOMMITTEE

**THE SUBCOMMITTEE SUBMITS THE FOLLOWING REPORT OF ITS MEETING HELD ON FRIDAY, 7 DECEMBER 2007, FRIDAY, 21 DECEMBER 2007 AND FRIDAY, 25 JANUARY 2008**

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### MATTERS CONSIDERED

A31-A43

Your Subcommittee dealt with a number of items for which it has delegated powers to act and a copy of the minutes of the meetings are attached at pages A31 to A43.

#### **Your Subcommittee Recommends:**

That the Meeting reports of the Tenders Subcommittee held on Friday, 7 December 2007, Friday, 21 December 2007 and Friday, 25 January 2008 be received.

RI Clow  
**CHAIRMAN**



**PART G - PUBLIC EXCLUDED MATTER**

**16 PROPOSED LAND ACQUISITION: RANUI LIBRARY REDEVELOPMENT PROJECT**

This item will be considered in the Confidential Supplement of the agenda, and has been circulated to members separately with this agenda.

**PROCEDURAL MOTION TO EXCLUDE THE PUBLIC**

That the public be excluded from the following part of the proceedings of this meeting, namely, Proposed Land Acquisition: Ranui Library Redevelopment Project.

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

General subject of the matter to be considered.	Reason for passing this resolution in relation to the matter.	Ground(s) under Section 48(1)(a) for the passing of this resolution.
Proposed Land Acquisition: Ranui Library Redevelopment Project	The withholding of information is necessary in order to: <ul style="list-style-type: none"><li>• enable any local authority holding the information to carry on without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</li></ul>	That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 7(2)(i) of that Act which would be prejudiced by the holding of the relevant part of the proceedings of the meeting in public as follows:

- *The report contains information which if released could affect the Council's negotiations.*

