BUS SERVICES IN KAITĀIA AND DARGAVILLE

The council is interested in hearing if you support providing funding assistance to bus services to operate in Kaitāia and Dargaville. If the services qualify for government subsidies then the remaining funding is proposed to be funded by the town/area being serviced. The council will need to establish a new targeted rate to collect the local share of funding. The district councils collect the regional council rates on our behalf and the new rates will attract more administration costs from the prospective district councils. Given the small expenditure involved for each rate we have requested that the district councils waive additional rating fees for the collection of this rate to make the service as affordable as possible. The Far North District Council has agreed to waive the rating fee as a means of supporting the local community. The Kaipara District Council is considering the proposal.

The council has been asked for funding assistance to enable the continued operation of the existing bus service operating in Kaitāia and for a bus service to operate full-time in Dargaville. The bus services will be assessed against the New Zealand Transport Agency's criteria and if they qualify will receive a 50% government subsidy. Kaipara District Council has requested the Dargaville bus service be accepted into the Super Gold Card subsidy scheme which would also generate a funding subsidy. Both the current services will have to improve their passenger numbers and business operations to become more economically viable to meet New Zealand Transport Agency's funding criteria. Council officers are working with both bus operators to improve the bus routes and increase the people travelling on the buses in an effort to meet the funding criteria.

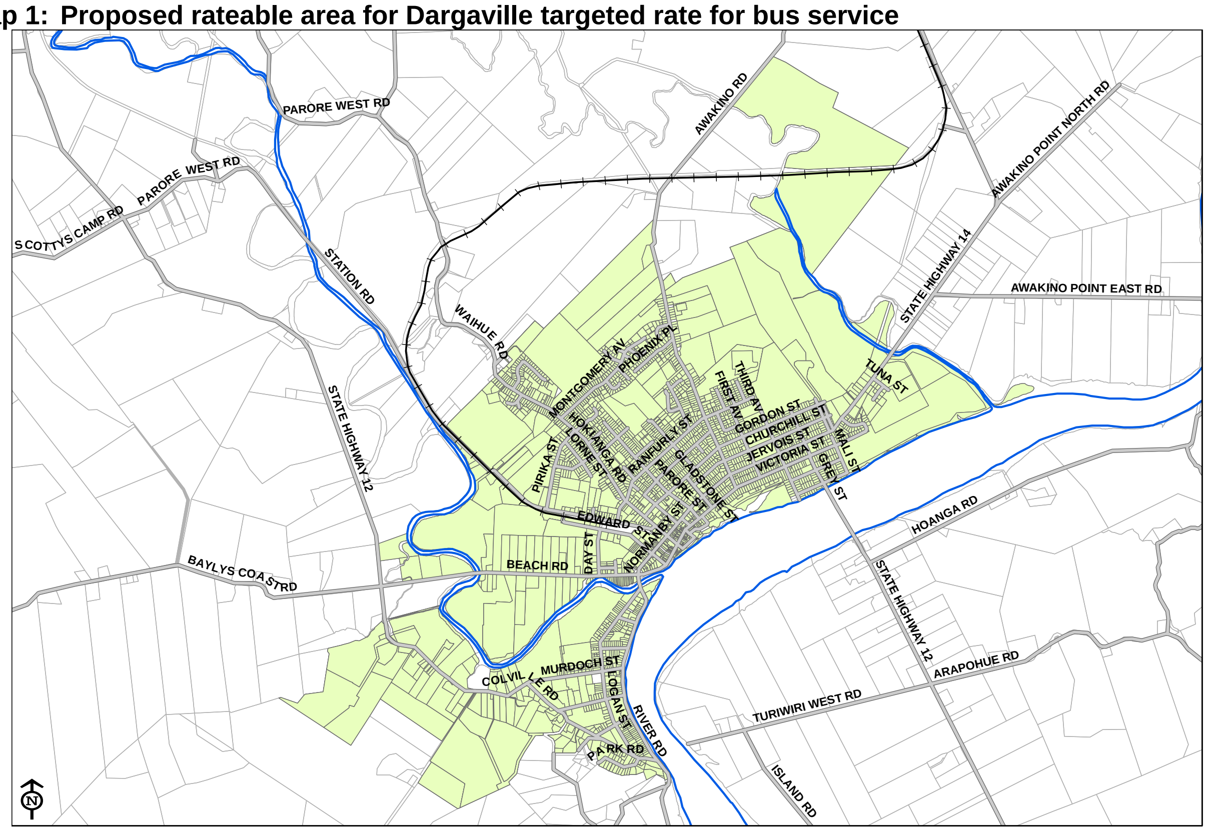
Targeted funding from the area that benefit from the bus service routes is considered to be the best form of funding for the local share. The Far North and Kaipara districts have multiple towns that act as service centres so a district rate has been discounted as a fair means of funding the bus services. The funding for both the bus services is not included in the financial statements within this plan as many variables exist and the overall funding amount is low (under $100,000) compared to the overall transport budget.

Dargaville bus service proposed targeted rate
The different funding scenarios for the proposed targeted rate for the Dargaville bus service is below:

Funded by Dargaville ratepayers only (refer map above for proposed area):

Government subsidies secured and no additional rating fees	Extra $22.65 per ratepayer
Government subsidies secured with rating fee	Extra $25.35 per ratepayer
No government subsidy and no additional rating fees	Extra $71.99 per ratepayer

Map 1: Proposed rateable area for Dargaville targeted rate for bus service



Do you support paying the targeted rate when fully subsidised?
Do you support paying the targeted rate without the subsidy?

More about the Dargaville bus proposal
Ritchies Bus Service is presently trialling a commercial public passenger transport service in Dargaville. It operates a twice daily scheduled service within the Dargaville township, to connect locals with essential services such as the doctor, supermarket and banks. Ritchies have been charging a flat fare of $5.00 per one-way trip.

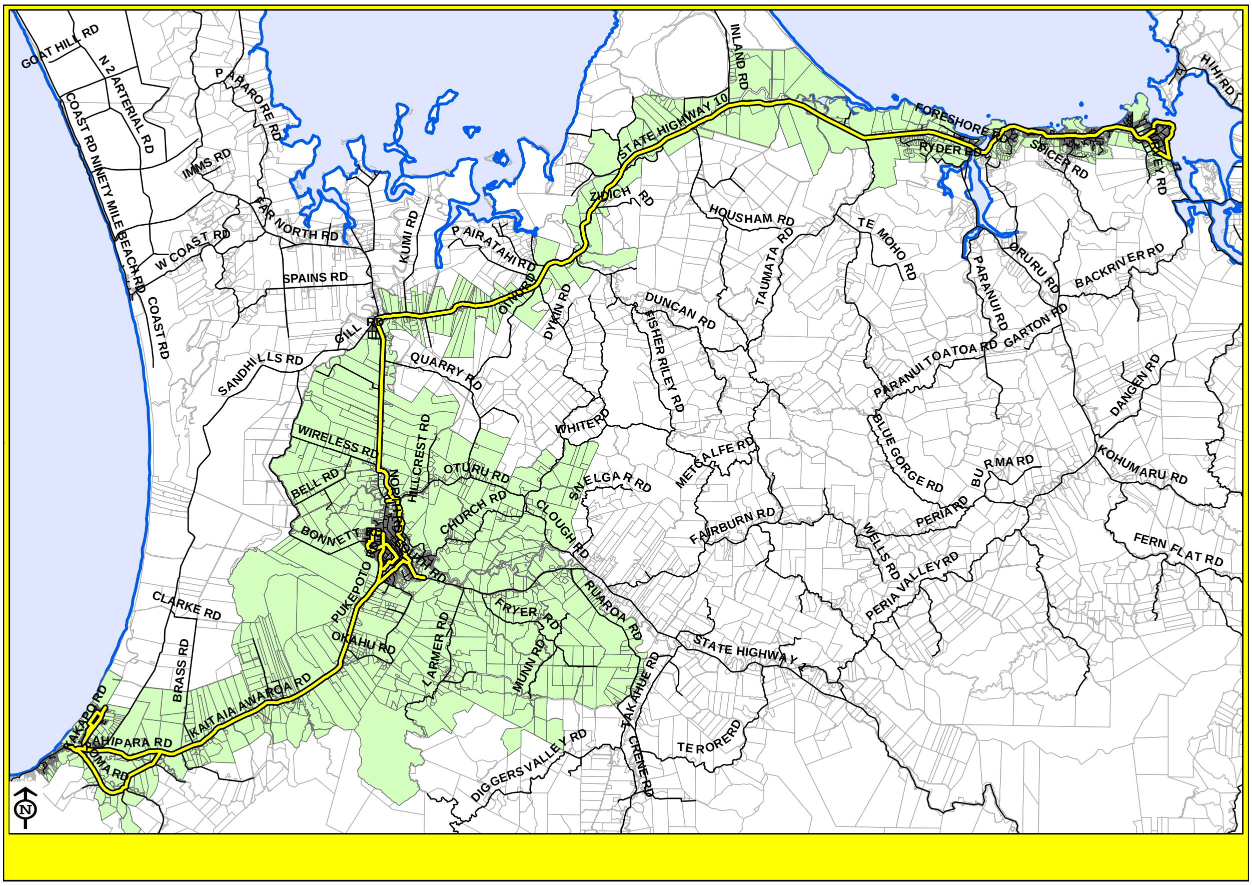
Funding of $40,000 has been included in the Draft 2012-2015 Regional Land Transport Programme for the introduction of a Concessionary Fare Scheme (subsidy per passenger carried) on the Dargaville service. If the Super Gold Scheme revenue is forthcoming then it is projected to provide $17,500. With a 50% subsidy from the New Zealand Transport Agency the local funding required is $11,250. The government subsidy will be dependent on the bus service becoming economically viable (meeting a benefit cost ratio of four) and securing long term local funding.

Kaitāia bus service proposed targeted rate
The different funding scenarios for the proposed targeted rate for the Kaitāia bus service is below:

Funded by Kaitāia ratepayers only (refer map above for proposed area):

Government subsidies secured	Extra $7.51 per ratepayer
No government subsidy	Extra $15.01 per ratepayer

Map 2: Proposed rateable area for Kaitāia targeted rate for bus service



Do you support paying the targeted rate when fully subsidised?
Do you support paying the targeted rate without the subsidy?

More about the Kaitāia bus proposal
A bus service (BusaboutKaitāia) has been operating in Kaitāia since 1 June 2009, initially with funding assistance from the Ministry for the Environment (an $80,000 grant to run bio-diesel motors). When the

grant ended in 2011 the bus operator, Community Business and Environment Centre (CBEC), approached the regional council for funding assistance in order to continue operating the service. In August 2011 the New Zealand Transport Agency (NZTA) and the Northland Regional Council agreed to fund a maximum of $35,000 each for the 2011-2012 financial year to keep the bus service operating.
CBEC operate a number of scheduled daily services between Kaitāia and Ahipara, and Kaitāia and Mangōnui. Recently introduced shoppers' runs between Kaitāia and Pak N Save at North Road are also proving popular. Fares range from $2.00 to $5.00 per person per trip.

The government subsidy for 2011/2012, is for a maximum of $35,000 through a concessionary fare scheme (subsidy per passenger carried). Continued funding from the government is dependent on the bus service becoming economically viable and securing long term local funding. The government subsidy for 2011/2012 was released on the understanding that it be used to assist in the growth of the service to the point that it reached a benefit cost ratio of four, having to improve from a ratio less than two. The proposal is to establish local funding from the community and secure the government subsidy to retain the bus service for the long term.

RESCUE HELICOPTER RATE

A new rate was introduced in 2009-2010 to help fund the rescue helicopter service for Northland. At the time, the new targeted rate was proposed as the funder of last resort for the rescue service (if the funding wasn't provided then the service may have had to be reduced). Council funding was necessary at that time because NEST (Northland Emergency Services Trust), the non-profit charitable trust that provides the emergency helicopter/air ambulance service in Northland, had lost a major sponsor.

Since then, the helicopter service has extended its capabilities by adding a third helicopter to its operations to ensure availability at all times and to respond to an increased demand in services. NEST's long term goal is to be debt-free by 2019 and to establish a helicopter replacement fund to support this target. To remain financially viable the Trust has acknowledged its continued need for council funding.

The council is proposing that the targeted rate continue so that NEST can both maintain its current level of service and realise its goal of becoming debt-free. The council has also taken into consideration the positive support that many Northlanders have shown in the past for both the rescue helicopter service itself and the provision of council rates to help fund it.

The funding contribution to NEST for 2012-2013 is $600,000 (excluding GST and rating costs); which requires a targeted rate of is $8.17 per property (including GST). This level of funding is budgeted across the ten year period.

Do you support continuing with the helicopter services targeted rate?

BIOSECURITY ADDITIONAL FUNDING

The council is proposing an additional $100,000 be spent annually on biosecurity programmes, which is about 5% more than the current annual budget. The biosecurity activity is the management of pest plants, pest animals and marine pests to reduce or eliminate their impact on environmental, economic, cultural and social values. Many of the natural values and areas in Northland are of international and national significance. They are often the last remaining ecosystems of their type in New Zealand or the world, and representative of the natural character of New Zealand or contain examples of values not protected elsewhere.

Northland is a narrow peninsula, has a warm climate, a large coastline, nine harbours, several estuaries, two customs clearance ports, and high numbers of tourists and vehicle movements. The diversity of primary industry (like dairying, horticulture, forestry) may increase resilience to pest impacts but it also widens the range of potential pest risks. Weeds are a constant threat and likely to be a risk to Northland's biodiversity in the future. Climate change predictions suggest that Northland will be hotter and drier, with more varied rainfall extremes (NIWA). Northland is already a weed hot spot for New Zealand, likely to become even more so in the future.

The council has a variety of programmes underway to eradicate pests that are not well established and to suppress and contain pests that are established; some widespread across the region. The programmes involve other pest agencies such as MAF Biosecurity New Zealand; other government agencies such as

Department of Conservation and community groups where they are willing to contribute their time and efforts. Some of the programmes attract government funding such as the containment of Manchurian rice grass. This programme began by targeting outlying areas to prevent further spread and now more heavily infested areas are being addressed.

The council proposes to use the additional funding to accelerate the programmes outlined in the strategy – the faster pests are eradicated (if possible) or at least contained then the less damage will be inflicted on our environment and our economy (through the impact on primary production i.e. aquaculture, forestry and farming and through higher rating in years to come). Eradicating pests before they establish is the most cost efficient management option in the long term. There are areas within Northland that receive little or no attention from any of the council or government funded projects and do not have an active community group undertaking pest management. These areas are generally in low populated areas. The council wishes to target more resources at the areas of importance that are currently lacking programmes or community attention and to accelerate programmes that would improve our rate of success.

Do you support the proposal to spend more on pest management?
Is there a particular programme that we should spend more on?

CHANGES TO MONITORING ACTIVITY

The council proposes to withdraw or reduce some specific service levels within our monitoring activity. These budget savings will allow council to redirect resources into other activities and to absorb other cost drivers - such as implementation of the Government's National Policy Statement on Freshwater. Each of the service changes is described below including the reason for the proposal at this time.

Chemical collection
The council proposes to cease its participation in the chemical collection service from 1 July 2012. It considers that the need for the service has diminished to a point where its value is limited.

Council originally set up a chemical collection service to deal with the long-lasting (more persistent) chemicals whose use had been banned or were being phased out (e.g. DDT, 245-T). The service provided Northlanders with easy access to responsible disposal of the chemicals and limited the amount of chemical that may have been dumped or buried and could result in on-going contamination issues.

The quantities of these long-lasting chemicals being collected have reduced significantly in recent years. Domestic chemicals are currently the most common type of chemical collected, and there is now a range of alternative disposal options available to residents.

Incident response
The council proposes to reduce its resourcing of the environmental incident response service (Environmental Hotline) by approximately 30%. Council responded to over 979 incidents over the last two years. . An analysis of the calls received has shown that significant staff resources are taken up responding to incidents of a minor nature that are unlikely to result in significant environmental effects. The freed up resources will be used more effectively within the monitoring activity.

All calls to the Environmental Hotline will still be assessed and staff will only follow up on calls that have a greater risk for more than minor environmental effects. Officers will determine the environmental risk based on written operational procedures.

Bathing sites
It is proposed that the number of coastal bathing sites monitored during the summer months be reduced from 85 to 55 sites.

Since 2009 the council has monitored up to 85 bathing sites around the region and provided the weekly results on our website. The number of sites was dramatically increased for the past two years to prove that most of Northland's coastal bathing sites have high water quality (the previous selection of sites included a large proportion of known trouble spots and were monitored as more of a public health service). Data from the enlarged sampling over the last two years has confirmed that most of Northland's coastal bathing sites have high water quality. The council now considers that the current bathing programme can be scaled back and still provide a representative picture of the region's coastal bathing sites.

Do you support the reductions in the monitoring activity?

COUNCIL'S INVESTMENT PORTFOLIO

Review of port shares
The council is currently reviewing its investment portfolio to ensure we are achieving the best return with a good mix of investments to balance any risk. The council's investment portfolio includes a 53.61% shareholding in Northport Corporation (NZ) Limited. The corporation has rationalised its operations over the last few years and is now essentially an investment company with holdings in Northport Limited (which operates the deep water port facility at Marsden Point), North Port Coolstores (1989) Limited (operates coolstores at Marsden Point) and Northland Stevedoring Services Limited. If the review of the investment portfolio concludes that our investment in the port corporation is no longer the best investment available, then the council will consult with Northland residents on a proposal to sell our shareholding.

The council's shareholding in the port corporation is listed as a strategic asset within the council's Significance Policy. Therefore the public consultation will follow the special consultative procedure which includes public notices, a widely distributed summary document and a full proposal with a submission and hearing process before a decision will be made.

Council's leasehold property investment
Council's overall investment portfolio includes cash, port shares and forestry holdings and has a current market value of $115 million. A key component of this portfolio is 142 land leases in the Whāngārei CBD and port area last valued at just over $48 million. The bulk of these leases are leasehold properties worth $35.8 million which council inherited from the Northland Harbour Board more than 20 years ago in 1989. Rent reviews are assessed on the unimproved land value and take no account of any improvements on the land.
At councillors' request, the property portfolio was recently independently reviewed to ensure these leasehold properties continued to represent the best use of ratepayer money. That review also considered whether council's ownership of these properties could be potentially limiting economic development in Whāngārei, with suggestions banks were reluctant to lend on – and leaseholders to invest in – land that leaseholders did not own.

The review found that the properties provided a stable and low-risk return to ratepayers which compared favourably to other investments. However the review noted it was possible that leasehold tenure will distort development within the city to some extent because of the negative perception by investors and owner occupiers towards leasehold tenure. The reviewers considered that "leasehold tenure will delay or inhibit redevelopment relative to freehold tenure; and/or inhibit agglomeration of smaller sites to accommodate more comprehensive redevelopment and/or higher and better uses".
Councillors have indicated an interest in selling some of the 76 longer term (perpetual leases with 21-year rent review periods) leases (together worth $16.2 million) on a discretionary, case-by-case basis and provided certain criteria are met.

These criteria include:

- Any sale would always be at or above market value with current leaseholders given first option to buy.
- A potential sale demonstrates clear economic development benefits including:
  - The intention to expand the business or upgrade current buildings or infrastructure.
  - Job creation.
  - Other business development opportunities that would not otherwise be available if the land was leasehold.

The proceeds from any sale would be reinvested as part of the council's balanced mixed investment portfolio.

Do you agree with the council's criteria for freeholding leasehold properties?

JOINING THE LOCAL GOVERNMENT FUNDING AGENCY

The council wishes to join the new Local Government Funding Agency as a shareholder, with an investment of $100,000. The new agency, a council-controlled trading organisation, has been founded by local and central government to enable local authorities to borrow at lower interest margins than would otherwise be available. As a shareholder the council would be eligible to borrow in excess of $20 million. While the council currently has no plans to borrow that large a sum; the agency's lower borrowing interest rate may make borrowing more attractive than lending internally from the council's investments (i.e. we should be able to earn more from our investments than the borrowing costs). The council expects to receive a return on its $100,000 investment, and its investment will also assist in making the agency viable.

The Local Government Funding Agency will require, as security for any borrowing from it and for related transactions, a charge over Northland Regional Council's rates and rates revenue. Such charges are normal and provided by most local authorities in relation to their borrowing requirements. The full proposal on joining the Local Government Funding Agency, a council-controlled organisation, is on page 38-42.

Do you support the council becoming a shareholder in the Local Government Funding Agency?

NEW SIGNIFICANCE POLICY

The council's Significance Policy gives direction on the level of information and consultation required for local government decisions. The council proposes to introduce further guidance on determining significance by defining thresholds and criteria for staff and councillors to use to support robust decision making. The Significance Policy also lists the council's strategic assets. The new policy proposes to add the Awanui River scheme assets as a strategic council asset. Strategic assets mean any asset that the council needs to retain in order to maintain its capacity to deliver on outcomes for the current and future communities. The ownership or control of a strategic asset can only be transferred if the proposal is included in a Long Term Plan; thereby ensuring community consultation must take place. The Awanui River scheme assets have been added as a strategic council asset as the community would be disadvantaged significantly if those assets were not maintained and renewed. As more river schemes assets are built they will be considered for inclusion as strategic assets.

The full new Significance Policy is included in the Long Term Plan on pages 45-48.

Do you support the new Significance Policy?
Do you have further additions for the policy?

REVISED POLICY ON THE DEVELOPMENT OF MĀORI CAPACITY

The council proposes to revise its policy on the development of Māori capacity to participate in the decision-making processes of local authorities.

Council acknowledges that to build Māori capacity it also needs to build its own capacity to engage. The council's first priority is to develop a better and more productive relationship with the iwi authority governance representatives. Council accepts this will be organic and not driven by our own rule based framework. Additions to the policy include the following initiatives - to underline our commitment council will:

- Attend training each triennium;
- When invited walk over their rohe with iwi governance representatives to understand the issues and opportunities for Māori;
- Welcome and take up invitations for marae visits and noho marae/marae stays.

Elected representatives and staff will have an opportunity to gain an appreciation of Māori culture and tikanga and will attend education programmes relating to Māoritanga and the Treaty of Waitangi. Once the first steps have been taken, council hopes to build a strong governance relationship with the iwi authority governance representatives that will see us broadening our relationship and engaging directly around major issues, proposals and consultations. We may develop understandings/codes of partnership and build upon existing forums for collective discussion, advice and decision making that then filter throughout the organisation and Northland. The full revised policy is included on pages 157-158 of this draft plan.

Do you support the revised policy? Do you have further additions for the policy?

USER FEES AND CHARGES

We're proposing to adjust our user fees and charges each year to keep up with inflation. This year, a 2.5% increase would apply to all our user fees and charges except for farm dairy effluent discharge fees and Navigation, Water Transport and Maritime Safety Bylaw fees (which remain the same except for large boat ramps – see below). For farm dairy effluent discharge fees, a new scale of charges is being introduced for cases of significant non-compliance with consents to reflect the extra resourcing we have to put into these cases. The full schedule of fees and charges is on pages 275-316.

Navigation, Water Transport and Maritime Safety Bylaw Charges 2012

We're proposing to change our fees for owners of large boat ramp under this bylaw. Boat ramp owners are charged annual fees to help pay for navigational safety aids in Northland's harbours. Larger boat ramps tend to be busier, so to make our fees charging more fair, we're changing fees for ramps over 15 x 4.5 metres to $120 (including GST) annually. (The charge for smaller boat ramps would remain at $60 plus GST annually.) Overall, large boat ramp owners won't pay any more (because we're reducing our Resource Management Act administration fees for large boat ramps at the same time) – but it's a bylaw change so we're legally required to tell you about it.

Major Proposals

Five of the major proposals within this draft plan (summarised within the “Issues for consultation” section) are described more fully on the following pages:

PROPOSED INVESTMENT AND GROWTH RESERVE CRITERIA

A brief summary of the proposed criteria is on page 12.

Objective of Investment and Growth Reserve:

- To invest in economic projects/ventures within Northland to increase:
  - Jobs in Northland;
  - Average weekly household income of Northlanders;
  - GDP of Northland.

Types of funding allocations:

- Funding (grants and purchase of services) for operational expenditure for the new council-controlled organisation and/or council-controlled trading organisation to identify, progress, and monitor projects including:
  - Strategy development;
  - Feasibility assessment and business case development; and
  - Monitoring key performance indicators of projects with loaned funds from the reserve or directly invested funds by Northland Regional Council.
- Loan funding or directly invested funds for:
  - Capital expenditure for new ventures or expanding of existing businesses; and
  - Operating expenditure for a finite period of time on condition of sufficient capital expenditure committed to the project and a satisfactory business plan to demonstrate how operating expenditure will be covered after this time.
- Equity investment (that is the reserve can be used to buy shares/an ownership interest in a company).

Principles of the Investment and Growth Reserve:

- Any project that is determined to potentially have significant adverse impacts on social, environmental, economic, or cultural well-being will not be eligible for funding, regardless of the positive impacts.
- Loans, direct investments or equity investments will deliver an appropriate rate of return taking into account the level of risk, revenue flows and anticipated economic development and well-being improvement. (Appropriate return includes percentage return on investment, any potential capital and broader indirect benefits to the community.)
- To safeguard the council against risk the following guidelines have been adopted:
  - All potential recipients of funding will be assessed for credit worthiness.
  - All parties with whom the council intends to conclude major contracts will be subject to formal credit approval.
- For equity investments the council will set an anticipated distribution expectation for the portion of the return to be transferred back to the reserve.

Management of reserve

- All projects’ will be assessed for funding eligibility against a business case assessment tool.
- Only projects recommended for funding as above will be considered by the council.
- Council resolves the allocation of all funds.
- Council (or the new council-controlled organisation/council-controlled trading organisation on behalf of the council), will issue a formal offer setting out the terms and conditions for funding to successful projects. This offer will include milestones and key performance indicators, and who will be responsible for monitoring performance.
- Funding allocations made will be monitored and performance will be reported quarterly to council.

- Funding for organisational operating expenditure (for the new council-controlled organisation and council-controlled trading organisation) from the reserve is capped at $1,000,000 per annum.

Assessment criteria
Projects eligible for funding will meet all of the following criteria:
- The project is located in the Northland region; and
- The project promotes viable, long term economic development (i.e. beyond immediate short-term employment and business activity); and
- Development can be achieved in a way that is consistent with social, environmental and cultural well-being.

Projects eligible for funding must also promote viable, long term economic development through meeting one or more of the following:
- Generating ongoing, net economic benefit to the region;
- Ongoing creation of new jobs;
- Alignment with a council priority for economic development, as set from time to time and documented in a council-controlled organisation's statement of intent;
- Increasing exports; and
- Being innovation based.

Quantum of funding
In determining the quantum of funding for any project, the council, using the business case evaluation, will consider:
- The extent to which the project promotes sustainable, regional economic development;
- The contribution the project will make to improving social, economic, environmental and cultural well-being in the region;
- The extent to which the project aligns with the vision of other organisations in the region;
- The project's fit with council's priorities;
- The extent to which the business case demonstrates that the people involved have the capacity and capability to undertake the project;
- Return on investment;
- Opportunity cost;
- Risk and in particular, the extent to which the project is inter-dependent with other projects;
- The amount of investment and type of commitments other parties are making to the project;
- Any security provided to council to secure the funding; and
- The need for reserve funding.

Formal business cases are evaluated to ensure:
- The investment has value and importance;
- The appropriate form of investment is made – i.e. a loan, direct investment or equity investment;
- The project will be properly managed;
- The partner has the capability to deliver the benefits;
- Public money is not being exposed to risk when private money is available for investment in the project;
- Decision makers have the information they need to decide between the relative merits of alternative proposals; and
- Projects with inter-dependencies are undertaken in the optimum sequence.

The business case process will be designed to be:
- Adaptable - tailored to the size and risk of the proposal;
- Consistent - the same basic business issues are addressed by every project;
- Business oriented - concerned with the business capabilities and impact, rather than having a technical focus;
- Comprehensive - includes all factors relevant to a complete evaluation;
- Understandable - the contents are clearly relevant, logical and, although demanding, are simple to complete and evaluate;
- Measurable - key aspects can be quantified so their achievement can be tracked and measured;
- Transparent - key elements can be justified directly;
- Accountable - accountabilities and commitments for the delivery of benefits and management of costs are clear.

Do you support the council's criteria for the use of the Investment and Growth Reserve?

CHANGE IN COUNCIL-CONTROLLED ORGANISATION STRUCTURE

The full proposal to establish a new council-controlled organisation and make changes to Northland Regional Council Community Trust follows and relates to the brief summary on page 13 under "Issues for consultation".

Summary
The council proposes to change the role of its existing council-controlled organisation (the Northland Regional Council Community Trust); change the ownership of Destination Northland Limited and to establish one or more new council-controlled organisations, including a council-controlled trading organisation.

The council wishes to improve Northland's economic performance, community well-being and engage in projects that generate profit. The council considers the current structure - the Northland Regional Council Community Trust delivering economic development through subsidiary organisations - is not best suited to achieve this. The current structure mixes fund management, business development for public benefit and commercial roles within a multitude of organisations with overlapping roles and responsibilities and one set of governance. Council believes changing the structure to set up single focus organisations, with the appropriate mix of skills (governance, management and technical) within and available to them, will better achieve its objectives for economic development. Council has discussed its concerns and aspirations with the trustees, directors and management of the existing entities and the proposal below reflects the discussions to date.

Under the proposal the Northland Regional Council Community Trust will have the sole responsibility of managing the existing Trust Fund to deliver the best possible returns as an income stream to the council. Enterprise Northland Trust would become a non-trading charitable entity. The charitable status of Enterprise Northland Trust will be maintained for use when an appropriate opportunity with public benefit arises.

Council's initial assessment of its options for promoting economic development suggests that it should set up a new council-controlled organisation to find and facilitate projects and a council-controlled trading organisation to develop and manage those projects. A council-controlled organisation is an organisation in which the council controls 50 per cent or more of the votes or has the right to appoint 50 per cent (or more) of directors or trustees. A council-controlled trading organisation is a council-controlled organisation that operates a trading undertaking for the purpose of making a profit. The benefits of separating these two roles into separate entities include:

- Each entity can focus on its core role (in the case of the council-controlled organisation finding, grooming, brokering, assessing projects, and public benefit versus delivery and commercial focus, trading and making a profit within the council-controlled trading organisation);
- Different governance skills are required for each role; and
- Different management and staff skills are required for each role.

However, there is merit in establishing a single entity to start with, a new council-controlled organisation, and then establishing a council-controlled trading organisation once appropriate projects for delivery have been identified. The council-controlled trading organisation could either sit under council or under the new council-controlled organisation, as illustrated in the diagram below. Alternatively the council could establish the council-controlled trading organisation, and either contract for or bring in house the finding, grooming, brokering, assessment and evaluation functions described above for the new council-controlled organisation.

Council wants to work with the Northland Regional Council Community Trust to transfer its shares/assets in Destination Northland Limited at value to one of the new entities. It is anticipated that the income from the Northland Regional Council Community Trust's Fund to Destination Northland Limited would reduce over time, as a new model for the industry and additional funding emerges. Council is not proposing to reduce its $100,000 contribution from rates to Destination Northland Limited.

The council wishes to engage with and consider the views of business and the community before it decides on which entities it establishes to further economic development. We have consulted with the Northland Regional Council Community Trust and Enterprise Northland Trust trustees, and the directors of Destination Northland Limited, as well as the management of each entity, on this proposal and the consequences of it and we will continue this discussion while we consult with the residents and ratepayers of Northland. We will also be seeking further legal and tax advice on the best structure to deliver council's economic development activities and aspirations, taking into account audit, reporting and administrative costs and appropriate separation of roles between council and a new council-controlled organisations and/or a council-controlled trading organisation.

Proposed new structure options

Diagram 1

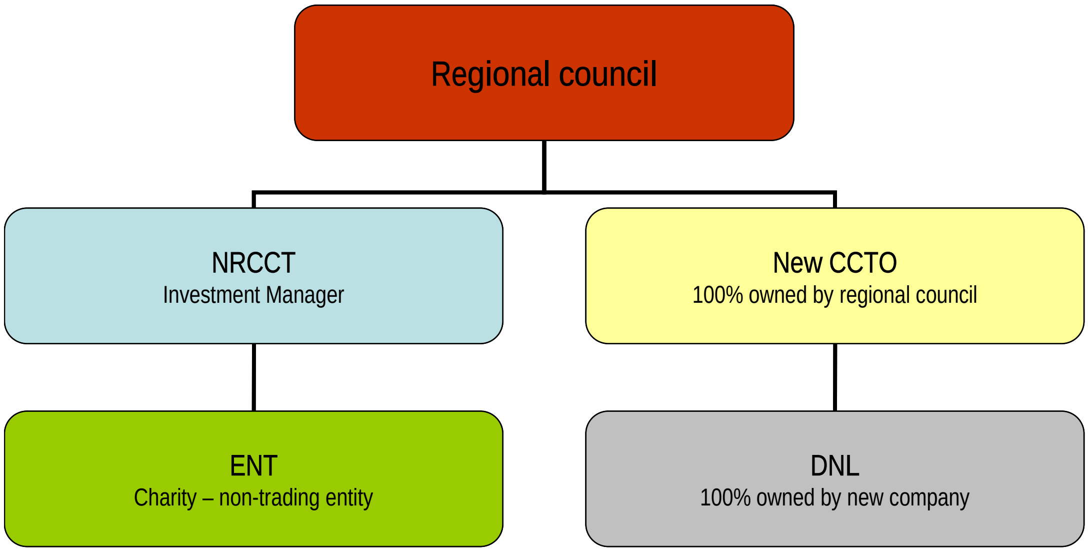
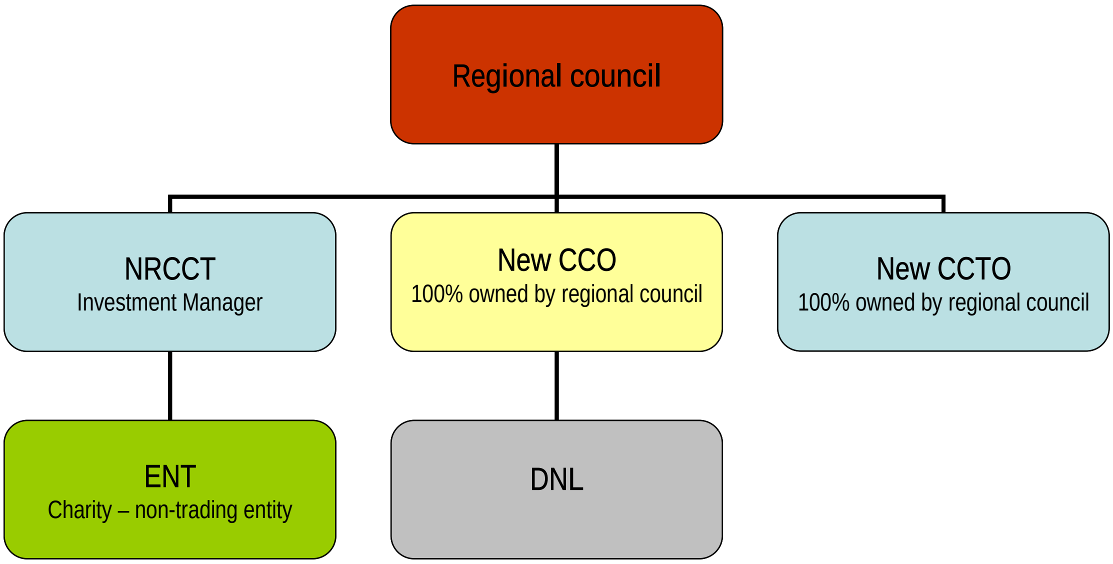


Diagram 2



NRCCT = Northland Regional Council Community Trust
CCTO = council-controlled trading organisation
CCO = council-controlled organisation
DNL = Destination Northland Limited

The final structure may differ from that portrayed in the diagrams above depending on the feedback and advice council receives. For example the new CCTO could be set up under the new CCO.

Statutory consideration
Section 56 of the Local Government Act 2002 provides that a proposal to establish a council-controlled organisation (which includes a council-controlled trading organisation) must be adopted in accordance with the special consultative procedure before the local authority may establish or become a shareholder in the council-controlled organisation. The purpose of this consultation is to enable the council to establish one or more new council-controlled organisations, including a council-controlled trading organisation.

The current trust deed for Northland Regional Council Community Trust would need to be changed to reflect the new arrangement with approval sought from the Minister of Local Government.

Background
Council-controlled organisations are governed by their boards of directors or trustees, and operate at arm's length to the council. Council-controlled organisations are, however, accountable to the council. Council determines the objectives for each organisation and monitors their performance, and this is achieved through the statement of intent of the organisation. The council is also accountable to its ratepayers and residents for the performance of the council-controlled organisations.

The Northland Regional Council Community Trust is a council-controlled organisation, and the council appoints all of its trustees in line with trust deed and its own appointment of Directors Policy. It was established in 1996 for purposes "beneficial for the community principally in the Northland Region including charitable, cultural, philanthropic, recreational, heritage, and other purposes".

The trust deed includes objectives and defines the core activities of the Trust, which in summary focus on promoting and encouraging the development of a vibrant economy and investment in the development of the Northland region by:

- Providing technical assistance and advice;
- Performing a co-ordination and advocacy role;
- Facilitating access to business finance.

Northland Regional Council Community Trust manages an investment fund (the Trust Fund, valued at $10,253,000 at the end of the 2010-2011 financial year) and can under the current trust deed apply income from the Trust Fund to activities and entities that achieve the purpose of the Trust. Currently the Northland Regional Council Community Trust uses income from the Trust Fund to support Enterprise Northland Trust and Destination Northland Limited. Enterprise Northland Trust and Destination Northland Limited then use this money to engage in projects and initiatives that:

- Support industry;
- Build capacity;
- Aim to attract new business to, and expand existing businesses in Northland;
- Promote Northland as a place to work, invest and visit.

Both organisations currently rely on income from the Trust to operate.

Northland Regional Council Community Trust has also been growing/returning the capital of the Trust Fund. No income is therefore currently paid, applied or appropriated to any other entity or project other than Enterprise Northland Trust and Destination Northland Limited.

The Trustees of the Northland Regional Council Community Trust are currently the Trustees of Enterprise Northland and the Directors of Destination Northland Limited.

Current issues – reasons for the council-controlled organisation proposal
Given Northland's socio-economic situation, the council has explored the options and new ways of funding and delivering economic development and prosperity in Northland. It started this process last year with the redirection of its investment income into the Northland Regional Council's Investment Growth Reserve to fund specific projects that will increase Northland's economic performance and improve the environmental, social and cultural well-being of Northlanders.

Council has now reviewed its existing council-controlled organisation, the Northland Regional Council Community Trust (and with the Trust's help the role of its subsidiaries), the as yet to be established Infrastructure Development Authority, potential partnerships and joint ventures with industry and has concluded that the structure needs to change.

The purpose, objectives and activities of the Northland Regional Council Community Trust as contained in its trust deed, investing in Northland and Northland projects, the current focus on returning the fund to $12 million and providing a secure and steady income stream to Enterprise Northland Trust and Destination Northland Limited have proven to be incompatible.

The recession has impacted on returns on investment. The withdrawal of central (and local) funding of Enterprise Northland Trust and Destination Northland Limited, which has occurred as a result of the recession and central government reprioritisation of activity and reallocation of funding, has required the activity of the Enterprise Northland Trust to be significantly scaled back to fit within the available income stream. Promoting and encouraging the development of Northland's economy, and attracting substantial investment into the region, without a reliable source of operating income and access to capital has not been successful. There is no organisation within the group that is focused on generating a profit and Enterprise

Northland Trust cannot perform this role if it benefits individuals or causes it to engage in non-charitable activities if it is to retain its charitable status.

Council has reviewed its and Northland's needs and it wants to the right mix of organisations in place to:

- Deliver clearly defined roles;
- Generate higher returns on investment;
- Ring-fence financial risk associated with economic improvement projects;
- achieve a commercial focus and discipline for the delivery of economic improvement projects;
- Enable profits to be made;
- Have a charitable entity for projects that do not have a commercial focus;
- Attract external funding and/or partnerships; and
- Attract the right specialist skills at the governance, management and technical levels.

Because council considers that every organisation in its structure must have a clearly defined focus that does not overlap with another organisation in the structure, and that each has the necessary specialist skills available to it to achieve the step change Northland needs, the key change the council wishes to pursue is to establish one or more new council-controlled organisations, including a council-controlled trading organisation, to find; facilitate; monitor; and deliver projects that improve Northland's economic performance.

As a consequence the focus of the Northland Regional Council Community Trust and the Trustees would change and their role would be to manage the Trust Fund. Council proposes that Northland Regional Council Community Trust and Enterprise Northland Trust should retain its focus on community benefit, which has tax advantages. Operations for economic development would then sit with Destination Northland Limited, the Infrastructure Development Authority, or the new council-controlled organisations and/or council-controlled trading organisation, which ever was most appropriate for the project, programme or initiative.

Effects of the council-controlled organisation proposal

The establishment of a new council-controlled organisation and/or council-controlled trading organisation focused on finding, facilitating, managing and delivering projects that improve Northland's economic performance will have a positive effect on the economy of Northland and the socio-economic position of the region and its communities. It will also provide opportunities for the council to invest in and work with others on projects that will provide a return on that investment directly to Northlanders, either directly though a capital gain or indirectly for example through the creation of new jobs, more skilled work, a diversified economy and increased average incomes.

The objectives of the new council-controlled organisation and/or council-controlled trading organisation will contribute to the following new council objectives:

- Build a business friendly environment that encourages business and employment opportunities.
- Invest in Northland to increase Northland's economic performance and quality of living.
- Facilitate those infrastructural improvements that connect people in Northland and improve our links to the outside world.

Fuller explanation of the proposed changes

Northland Regional Council Community Trust

Council proposes to keep the Northland Regional Council Community Trust. Council has for some time however been concerned that the Trust's purpose and activities have been too broad for the current economic climate and the range of talent available in Northland, requiring a mix of governance and management skills that cover a large spectrum of specialism. In response to the current economic climate, and the need to concentrate on the Trust Fund, council proposes that the Northland Regional Council Community Trust activities should over the life of this plan narrow and focus on managing the investment fund to optimise the investment income and maintain the real value of the Trust Fund.

While the Trust Fund has been performing well: in 2010/2011 it had a capital gain of $413,000 (2009/10 - $403,000) and its income yield for the year was 5.53% (2009/10-6.29%) with a gross yield of 9.62% (10.46% 2009/10); the council believes that requiring the fund to return to the $12 million restricts the potential of the fund to be used for worthy purposes at the very time this use is most needed. Council therefore will adjust the Northland Regional Council Community Trust's capital target, the level at which the Trust Fund should be maintained.

Council considers that, where compatible with maintaining the capital, the Trust Fund itself should, over time, shift to increase the proportion of direct investment in Northland, Northland projects and Northland's well-being.

All the income derived from the Trust Fund (after growing the fund by an inflation adjustment to retain its real value) will pass to the council to the new Investment and Growth Reserve. Council has discussed this proposal with the current Trustees and is exploring with them the flow on consequences of this shift.

To achieve the purpose of the Northland Regional Council Community Trust new objectives are proposed:

- Maximise returns from the Northland Regional Council Community Trust's Fund while maintaining the real value of the capital base (increased annually by an inflation adjustment as measured against the base index of 30 June 2011, $10,253,000).
- Progressively shift the Fund's portfolio mix of investment into a greater proportion of investment directly and indirectly in Northland and the Northland economy while maintaining the base as above.

New performance targets and measures would also follow.

- Achieve an annual investment return on the operating balance of the Fund for each financial year at a rate to be determined by and recorded in the Northland Regional Council Community Trust's Statement of Intent.
- Provide a quarterly report to the council providing the information outlined in the statement of intent in respect of the Trust Fund.
- To annually distribute 100% of the gross income less an inflation adjustment and the Northland Regional Council Community Trust's operating costs to the council.

The Northland Regional Council Community Trust and its trustees would provide sound commercial governance to maximise the value of the investments and assets it manages, currently the Trust Fund. The new focus of the Northland Regional Council Community Trust would require a small number of trustees with investment acumen. The council proposes that two expert investors would suffice. The current Trust Deed requires that there be between four and eight trustees. This would reduce the number of trustees and associated expenses.

If after public consultation on this Long Term Plan and specific consultation with the Northland Regional Council Community Trust trustees the council proceeds with the refocusing of the Northland Regional Council Community Trust and resolves to amend the activities of the Trust then council will approach the Minister of Local Government for approval to amend the Trust Deed accordingly.

Do you agree with the proposal to refocus the role of the Northland Regional Council Community Trust, principally to maintain the Trust Fund in real terms and gain the best returns possible?

Do you agree that where compatible with maintaining real value of the capital base (increased annually by an inflation adjustment as measured against the base index of 30 June 2011, the Trust Fund itself should, over time, shift to increase the proportion of direct investment in Northland?

Enterprise Northland Trust

The Enterprise Northland Trust is not a council-controlled organisation. It is controlled by the Northland Regional Council Community Trust. It is a charitable trust and is established exclusively for charitable purposes with the principle object of encouraging business development in Northland for the benefit of the Northland region community as a whole. To date Enterprise Northland Trust has been the operational arm of the Northland Regional Council Community Trust.

The Enterprise Northland Trust has been adversely affected by the current economic climate and the reduced funding available to it.

The current funding arrangements for Enterprise Northland Trust will not meet the funding required (in excess of $1 million based on the proposed business plan) to carry out economic development activities. Council also considers that Enterprise Northland Trust cannot perform some of the activities it wishes to see occur (for example managing and delivering projects with the purpose to make a profit) without potentially compromising its charitable trust status.

New council-controlled organisation and/or council-controlled trading organisation

The current structure is also not suited to the council's new focus on economic development and council's desire to attract specialist governance and management skills and people that are business and performance orientated.

To avoid duplication, to get the right skills in governance, management and economic growth in place, and protect the charitable status of Enterprise Northland Trust, council proposes to establish one or more new council-controlled organisations and/or council-controlled trading organisation to find, facilitate and deliver projects and advice that improve Northland's economic performance. Council would, at least initially, fund the operational expenditure for the new council-controlled organisations and/or council-controlled trading organisations from the Northland Regional Council Investment and Growth Reserve, in line with reserve's criteria.

All funding from the reserve to these organisations will be based on agreed statements of intent, contracts for services, acceptable business plans and business cases. The council-controlled organisations and/or council-controlled trading organisation may also receive capital from the reserve (on approval from the council for a specific project).

The council-controlled trading organisation could set up subsidiaries, enter into partnerships or joint ventures at arms length from council, with a view to ensuring the most effective and efficient structures were employed to realise benefits of any particular project or business opportunity and minimise risk to the ratepayers. It would be free to make a profit if it could. If council set up only the council-controlled trading organisation it would carry out business case evaluation for council funding in-house or as a contract for service.

Council will assess and work with the Northland Regional Council Community Trust and Enterprise Northland Trust trustees and others to ensure that key projects that currently sit within Enterprise Northland Trust can move to the appropriate new organisation where they are supported by an acceptable business plan.

Council would like to see a close relationship between the organisations in this structure and itself and will focus on robust statement's of intent that deliver its objectives and on maintaining a good relationship between the directors of any new entities and itself and between the Chief Executive Officer of the new entity and council's own management team.

Other options
Other options considered over establishing a new council-controlled organisation and/or council-controlled trading organisation and refocussing Northland Regional Council Community Trust included:

- The status quo structure with Northland Regional Council Community Trust having continued oversight of Destination Northland Limited and Enterprise Northland Trust and the management of the Trust Fund.
- Making the economic development operations and management of the Trust Fund council operations (in-house economic development department with Trust Fund part of council's investment portfolio).

The status quo model does not allow for the desired expansion of functions requested by the council; particularly in taking on economic development projects that may involve capital gain or profit. The current mix of operations and Trust Fund management requires a diverse mix of governance skills which the council considers is not best served with one board.

There are costs associated with the in-house model too. Governance of the in-house functions could be absorbed within current arrangements and budgets but council considers there are significant downsides to this. (Council does not consider that it is the appropriate governance entity for fund management and that independent private enterprise and business expertise at the governance level is necessary and may not be able to be maintained through consecutive terms of office from councillors.)

The in-house model would need to replicate the resources of Enterprise Northland Trust but would not necessarily retain all the networks, knowledge and skill sets. Management and staff costs are currently funded from the Trust Fund, with some funding from government too. Working from within the council will be a detractor to some potential business and partnership opportunities and may exclude the new entity from attracting potential future government funding. So there are some costs, in the sense that we may not attract third party funding, associated with this option. If the Trust Fund was brought in house and all its income is transferred to the Investment and Growth Reserve, then the criteria for funding from the Reserve would need to change for council to fund its own operations from the Reserve. Another option would be for the council to apply some of the Trust Fund directly to its own operations. Economic development activities could be at greater risk in the future as the council comes under pressure for allocation of its funds. The in-house option does not affect Destination Northland Limited, as the council does not consider it appropriate to bring tourism functions in-house and is not seeking this from Northland Regional Council Community Trust.

The proposed model (which ever structure is chosen – diagram 1 or 2) will, by comparison, have low if any additional costs.

The estimated establishment costs for a council-controlled organisation is in the vicinity of $60,000. The proposed structure(s) would see a reduction in board members for Northland Regional Council Community Trust and the establishment of separate small boards for Destination Northland Limited and the new entity/entities for economic development. The charitable entity would be a non-trading entity that would have little costs unless reactivated for a particular purpose. Overall therefore the difference in costs is considered low.

The costs of establishing a new council-controlled organisation and/or council-controlled trading organisation are not included within this plan; as stated above they are considered to be low and would be funded from the Investment and Growth Reserve, therefore not impacting on rates.

Do you support the establishment of new council-controlled organisations and/or council-controlled trading organisation to deliver an expanded suite of economic development activities?

Infrastructure Development Authority
The council amended the 2006-2016 Northland Community Plan in 2007 to provide for the establishment of the Infrastructure Development Authority as a council-controlled trading organisation but to date has not set up the Authority. Council may still pursue the Infrastructure Development Authority, potentially as a subsidiary of the new council-controlled organisation and/or council-controlled trading organisation.

Destination Northland Limited
Destination Northland Limited is the Regional Tourism Organisation. Regional tourism organisations are responsible for destination marketing - the promotion of, in our case, Northland to potential domestic and international visitors. Destination Northland Limited is a subsidiary company of Northland Regional Council Community Trust and is not a council-controlled organisation. The trustees of Northland Regional Council Community Trust have appointed themselves as directors of the company. Destination Northland Limited is advised by the Northland Tourism Development Group, which acts as a reference group for tourism research needs, planning, infrastructure, major initiatives and sector input on issues which may arise from time to time.

Since 2008, in collaboration with council and others, Destination Northland Limited has broadened its focus from purely tourism to promoting Northland as a place to work, invest and visit. Destination Northland Limited relies on approximately $250,000 of funding from the Northland Regional Council Community Trust (from income from the Trust Fund) as well as funding from Northland's local authorities. In 2011/12 the following amounts were committed: $100,000 from council; $80,000 from Far North District Council; $105,000 from Whāngārei District Council; $10,000 from Kaipara District Council; $50,000 from central government and $270,000 from industry.

Council recognises the part tourism has to play in the Northland economy. Council has therefore assumed that its $100,000 contribution from rates to Destination Northland Limited will continue over the life of this plan. It however would like to see Destination Northland Limited narrow its focus back to tourism in line with its philosophy that organisations in the group should have a distinct and singular focus. Council also thinks that in the longer term Destination Northland Limited could provide current levels of service without a contribution from the Northland Regional Council Community Trust's Trust Fund if the industry contribution increased. Council has consulted with Northland Regional Council Community Trust's trustees and Destination Northland Limited's directors on this matter, and with them want to explore with the, district councils and the industry a model that would meet the long term needs of the industry and current stakeholders and allow industry to take greater responsibility over time.

In line with discussions to date, council proposes to reduce the funding contribution from the Trust Fund income to Destination Northland Limited over a term still to be determined, whether it be via another entity or from the Investment and Growth Reserve.

Do you support the phasing out of funding from the Northland Regional Council Community Trust and/or the Investment and Growth Reserve to Destination Northland Limited over a period?

Transition arrangements

If, following public consultation and the consideration of submissions received on the issue, the council decides to adopt the proposal to establish one or more council-controlled organisations and/or council-controlled trading organisation it will take some time to establish the entity/entities (appoint directors, develop statements of intent including performance measures and appoint management and staff). During this period of time the council intends to ensure that funding for Destination Northland Limited and Enterprise Northland Trust is sufficient to deliver the current activities and meet contractual arrangements. The funding will be provided from the council's Investment and Growth Reserve or directly from the Northland Regional Council Community Trust Fund.

It should be noted that these proposals do not alter the current operational strategies followed which has included:

- Developing strategic relationships with industries operating in Northland;
- Promotion of iwi economic development; and
- Support for strong sectoral groups.

The operational strategies will be reviewed by the directors of the new organisation if established.

JOINING THE LOCAL GOVERNMENT FUNDING AGENCY

The full version of the proposal to join the Local Government Funding Agency follows and relates to the brief summary on page 25 under "Issues for consultation".

Introduction
The council is considering participating as a "Principal Shareholding Local Authority" in the New Zealand Local Government Funding Agency Limited (LGFA), which is a council–controlled trading organisation (CCTO).

The LGFA was established on 1 December 2011 by 18 local authorities and the Crown to enable local authorities to borrow at lower interest margins than would otherwise be available. The LGFA has been recognised in the Local Government Borrowing Act 2011, which has modified the effect of some provisions in the Local Government Act 2002.

All local authorities are able to borrow from the LGFA, but different benefits apply depending on the level of participation.

Principal Shareholding Local Authorities are those which invest capital in the LGFA, and are expected to receive a return on that capital. The council intends to invest $100,000, which is the minimum investment. As a Principal Shareholding Local Authority, the council would also be required to subscribe for uncalled capital in LGFA which would have to be paid up in the event that the LGFA required more capital. The Principal Shareholding Local Authorities will also be required to agree to source a certain proportion of their borrowing needs through the LGFA Scheme for an initial period.

Generally all local authorities borrowing from LGFA are required to enter into guarantees in favour of LGFA and other local authorities, and enter into certain equity commitments. Local authorities which enter into these commitments without being Principal Shareholding Local Authorities are referred to as Guaranteeing Local Authorities.

Any local authority that borrows from the LGFA will be issued borrower notes from the LGFA (to the value of 1.6% of the total amount borrowed). These will be held by the LGFA while the borrowing is outstanding and may in certain situations convert to shares in the LGFA.

Local authorities which borrow from the LGFA, without entering into the guarantees will be limited in the amount that can be borrowed, and will be required to pay significantly higher funding costs.

An Information Memorandum, describing the arrangements in more detail, is attached as Appendix 1, and forms part of this proposal. A number of terms which are used in this proposal are defined in that Information Memorandum.

Statutory Consideration
Section 56 of the Local Government Act 2002 (LGA 2002) provides that a proposal to establish a council-controlled organisation (CCO) (which includes a CCTO) must be adopted by special consultative procedure before a local authority may establish *or become a shareholder in the CCO*. At any level of participation, the council either will become a shareholder, or will enter into commitments that could result in it becoming a shareholder, in LGFA. The purpose of this consultation is to enable the council to acquire the shares and/or enter these commitments.

Reasons for Proposal
The council is proposing participating in the LGFA Scheme because it believes that it will enable it in the future to borrow at lower interest margins, and that this benefit outweighs the costs associated with the LGFA Scheme. **A discussion of these costs and benefits is included as Part C of the Information Memorandum.**

The council is proposing that its participation be as a Principal Shareholding Local Authority for two reasons:
(a) As discussed in the **Information Memorandum (in Part C)**, a return will be paid on the capital investment made by Principal Shareholding Local Authorities.
(b) A certain amount of capital (around $20,000,000) has been invested by local authorities and the Crown in the LGFA. As a Principal Shareholding Local Authority, the council will be contributing to

this capital, which will help ensure the LGFA Scheme remains viable, and the council will be able to gain the benefits of participating in it.

The council is consulting on this proposal for the reasons set out above under "Statutory Consideration".

Analysis of Reasonably Practicable Options

The reasonably practicable options are as follows:

(a) Participate in the LGFA Scheme as a Principal Shareholding Local Authority.

(b) Participate in the LGFA Scheme as a Guaranteeing Local Authority, but not a Principal Shareholding Local Authority.

(c) Participate in the LGFA Scheme, but not as a Principal Shareholding Local Authority or as a Guaranteeing Local Authority.

(d) Not participate in the LGFA Scheme.

Part C of the Information Memorandum sets out an analysis of the costs and benefits of participating in the LGFA Scheme. That analysis is supplemented by some consideration of the council's specific circumstances below.

Should the council participate in the LGFA Scheme as a borrower?

The council does not currently have any borrowing. However, it anticipates that there may be situations in the future where it will be advantageous for the council to borrow. For example, it may be appropriate to borrow where the cost of borrowing would be less than the costs of breaking an existing investment. Also, there may be situations where borrowing leads to greater tax efficiencies. Borrowing is also sometimes the prudent course of action to ensure intergenerational equity in the funding of large projects. In any event, the council expects to remain a net investor over the coming ten years, in that its overall investments will be greater than its overall borrowing.

Presuming there are situations where it is advantageous for the council to borrow, participation in the LGFA Scheme as a Principal Shareholding Local Authority will enable the council to obtain lower interest rates on its borrowing than it might otherwise be able to obtain. The council believes that the benefit of these potential savings outweigh the costs referred to in the cost/benefit analysis in **Part C of the Information Memorandum**.

In addition, even if the council did not actually borrow within the next ten years, it considers there would be benefits to it participating in the LGFA Scheme as a Principal Shareholding Local Authority that outweighs the costs mentioned above. In particular, it is important for all local authorities in New Zealand that the LGFA remain as a viable player in the local authority debt market. Its existence is likely to help ensure lower interest rates across the market. The council's proposed participation would support the LGFA and help ensure it remains viable.

Consequently, the council proposes that option (d) is not adopted.

Should the council participate in the LGFA Scheme without being a Guaranteeing Local Authority?

If the council was to join the LGFA Scheme without being a Guaranteeing Local Authority, the cost of participating would be less. However, it would face higher funding costs, reducing the benefit of participating, and it is likely that it would only be able to borrow up to $20,000,000.

Consequently, the council is proposing to participate as a Guaranteeing Local Authority, and therefore proposes that option (c) is not adopted.

Should the council participate in the LGFA Scheme as a Principal Shareholding Local Authority?

The council believes that investing in the LGFA Scheme as a Principal Shareholding Local Authority is justified for the two reasons set out above. That is:

(a) **As discussed in the Information Memorandum (in Part C)**, a return will be paid on the capital investment made by Principal Shareholding Local Authorities.

(b) If the council participates as a Principal Shareholding Local Authority, that increases the chance that the LGFA Scheme will remain viable, and that the council will be able to gain the benefits of participating in it.

Consequently, the council is proposing that option (a) be adopted.

What is the risk of the Council participating in the LGFA Scheme as a Establishment Shareholding Local Authority as a result of the guarantee?
To participate as a Principal Shareholding Local Authority, the council is required to provide a guarantee in support of the LGFA and to all participating local authorities. The council has considered the risks associated with the guarantee and consider it to be low because: The only borrowers from LGFA will be Local Authorities and there has been no default by a Local Authority in New Zealand. In the event of a default, the LGFA will immediately be able to appoint a receiver and assess a special rate against all ratepayers in the defaulting Local Authority's district.

The LGFA will have considerable sources of capital and liquidity available to meet any shortfall in timing of payments before any call is made under the guarantee.

Operational risk is minimal due to the conservative borrowing and lending policies proposed as part of the LGFA scheme. Furthermore, it is proposed that all borrowing, investing, back office and hedging functions will be undertaken on behalf of LGFA by the Debt Management Office of the New Zealand Treasury.

Why can we not quantify the guarantee exposure?
At the time of preparing this plan for public consultation, council is unable to quantify council's potential exposure arising from the financial guarantee in support of the LGFA and to all participating council's. As a sector, councils are seeking independent advice on how the potential exposure can be measured. The exposure will be different for each council as it is proportionate to that council's rates. Once council is able to quantify the potential exposure, it is likely council will be required to recognise the amount of potential exposure as a liability to ensure its prospective financial statements complies with relevant reporting standards. .

Draft Investment Policy and Liability Management Policy to allow for participation in the LGFA
The council's involvement in the LGFA as a Principal Shareholding Local Authority is not provided for in the current Investment Policy, and specifics of the debt raising arrangements with the LGFA go beyond what is provided in the current Liability Management Policy (particularly the guarantee commitments).

Both these policies are included in the draft LTP. The proposed policies include variations from the current policies so as to enable the council's proposed involvement in the LGFA. These variations are explained below and set out in Appendices**2 and 3**.

Investment Policy
The proposed Investment Policy makes it clear that the council's investment activity includes participating as a Principal Shareholder in LGFA.

There will be a direct return on the council's investment in the LGFA, but it is acknowledged that this may be less than might be achieved by alternative investments. There is an additional benefit to the council in that the council's investment of capital makes it more likely that the LGFA Scheme, which will deliver benefits to the council, will remain viable.

The primary objective for council's interest in LGFA is to lower the council's cost of future borrowing.

Liability Management Policy
The proposed Liability Management Policy makes it clear that the council may participate in the LGFA Scheme, including borrowing from the LGFA and entering into the transactions relating to that borrowing described in **paragraph 63 of the Information Memorandum**.

The primary objective of these changes is to allow future borrowing by the council at lower interest margins than it would otherwise face.

Do you support the council becoming a shareholder in the Local Government Funding Agency?

Appendix 1 – Local Government Funding Agency Scheme – Information Memorandum

PART A – INTRODUCTION AND PURPOSE

Purpose of Information Memorandum

1. This Information Memorandum provides a description of the structure of the New Zealand Local Government Funding Agency Limited (LGFA), a recently incorporated company established to enable participating local authorities (Participating Local Authorities) to borrow at lower interest margins than they would otherwise pay.

2. The purpose of this Information Memorandum is to provide information to supplement any consultation materials prepared by local authorities consulting on whether to become involved with LGFA as a shareholder, guarantor and/or borrower.

3. This Information Memorandum is divided into three parts:
   (a) This Part A (Introduction and Purpose), which sets out the purpose of the Information Memorandum and provides some background on the purpose of, and rationale for, LGFA.
   (b) Part B (How LGFA Operates), which sets out the characteristics of LGFA, and the transactions that Participating Local Authorities will be entering into as part of their involvement with LGFA.
   (c) Part C (Local Authority Costs and Benefits), which sets out some of the costs and benefits to individual local authorities of being involved with LGFA.

Rationale for LGFA

New Zealand Local Authority debt market

4. New Zealand local authorities face a number of debt related issues. First, local authorities have significant existing and forecast debt requirements. Secondly, pricing, length of funding term and other terms and conditions vary considerably across the sector and are less than optimal. This is due to:
   (a) Limited debt sources – Local authorities' debt funding options are limited to the banks, private placements and wholesale bonds (issuance to wholesale investors), and, to a lesser extent, retail bonds. Increasing local authority sector funding requirements and domestic funding capacity constraints have the potential to further negatively impact pricing, terms and conditions and flexibility of the local authority sector debt.
   (b) Fragmented sector – There are 78 local authorities. Individually, a significant proportion of these local authorities lack scale.
   (c) Regulatory restrictions - Offshore (foreign currency) capital markets are closed to local authorities (other than Auckland Council) and the compliance process for local authority retail bond issuance is burdensome and generally restricts issuance to a six month window.

Addressing the local authority debt issues

5. Each of these issues needs to be addressed to rectify this situation. This was not likely to happen without an intervention like LGFA for the following reasons:
   (a) The New Zealand debt markets (at least in the foreseeable future) are likely to maintain the status quo.
   (b) Individually, a majority of local authorities will not be able to attain significant scale (except organically in the long-term).
   (c) At a sector level it may be possible to address the issue regarding regulation, but regulators are likely to remain reluctant to significantly ease restrictions on financial management across the sector without gaining significant comfort as to the sophistication of the financial management of all local authorities. Even if this issue was addressed by regulators, this change alone would be insufficient to provide a major step change.

6. LGFA has been established because the homogenous nature of local authorities, the large sector borrowing requirements, and the high credit quality / strong security position (i.e. charge over rates) of local authorities, created the opportunity for a centralised local authority debt vehicle to generate significant benefits.

7. There are numerous precedents globally of successful vehicles which pool local authority debt and fund themselves through issuing their own financial instruments to investors. Such vehicles achieve success through:
   (a) "Credit rating arbitrage" – Attaining a credit rating higher than that of the individual underlying assets (local authority borrowers) and therefore being able to borrow at lower margins.
   (b) "Economies of scale" – By pooling debt the vehicles can access a wider range of debt sources and spread fixed operating costs, thereby reducing the $ cost per $ of debt raised.
   (c) "Regulatory arbitrage" – The vehicles can receive a different regulatory treatment than the underlying local authorities, improving their ability to efficiently raise debt (e.g. through access to offshore foreign currency debt markets).

8. The offshore precedents are typically owned by the local authorities in the relevant jurisdiction (often with central government involvement), and that is the case for LGFA also.

PART B – HOW LGFA OPERATES

Basic structure of LGFA

9. LGFA is a limited liability company (and a council-controlled organisation) established in order to borrow funds and then on-lend those funds to local authorities at lower interest margins than those local authorities would otherwise pay to lenders in the absence of LGFA. For a number of reasons discussed below, it is expected that LGFA will be able to borrow at low enough interest margins to be able to do this.

10. LGFA's shares are held entirely by central government and local authorities. Central government currently holds 20% of the paid-up ordinary shares in LGFA, with the remaining 80% being held by local authorities (Principal Shareholding Local Authorities).

11. The Principal Shareholding Local Authorities contribute capital and, as compensation for their capital contribution, may receive a return on this capital. However, the over-arching objective is that the benefit of LGFA to local authorities is delivered through lower borrowing margins, rather than through dividends passed to shareholders.

12. As discussed below, it is possible that, in some circumstances, local authorities outside the Principal Shareholding Local Authority group will hold redeemable preference shares in LGFA.

Design to minimise default risk

13. One of the things which is critical to LGFA being able to deliver its anticipated benefits is it holding, and maintaining, a high credit rating (to achieve the credit rating arbitrage referred to in paragraph 7(a)). Consequently there are a number of features of LGFA intended to provide the protections for creditors which rating agencies require before agreeing to a high credit rating. These features are described in paragraphs 15 to 32 below.

14. Before agreeing to a high credit rating, rating agencies consider the risks of both short term and long term default. Short term default is where a payment obligation is not met on time. Long term default is where a payment obligation is never met. In many cases short term default will inevitably translate into long term default, but this is not always the case – a short term default may be caused by a temporary liquidity problem (i.e. a temporary shortage of readily available cash). On incorporation, LGFA was assigned a long-term foreign currency credit rating of AA and a long-term local currency credit rating of AA+ by Fitch Ratings.

Features of LGFA designed to reduce short term default risk

15. When a local authority borrows, the risk of short term default, although low, is probably significantly higher than its risk of long term default. In the long term it can assess and collect sufficient rates revenue to cover almost any shortfall, but such revenue cannot be collected quickly. Consequently, there is a risk that inadequate liability and revenue management could lead to temporary liquidity problems and short term default.

16. The principal asset of LGFA will be local authority debt, so such temporary liquidity risks are effectively passed on to LGFA. Consequently, the rating agencies look for safeguards to ensure that liquidity problems of a Participating Local Authority will not lead to a default by LGFA.

17. There are two principal safeguards that LGFA has or will put in place to manage short term default (liquidity) risk:
    (a) It will hold a certain amount of cash and other liquid investments (investments which can be quickly turned into cash).
    (b) It has a borrowing facility with central government which allows it to borrow funds from central government if required.

18. It is expected that these safeguards will sufficiently reduce any short term default risk.

Features of LGFA designed to reduce long term default risk

19. There are a number of safeguards that LGFA has or will put in place to manage long term default risk, the most important of which are set out below:
    (a) LGFA requires all local authorities that borrow from it to secure that borrowing with a charge over that local authority's rates and rates revenue (Rates Charge).
    (b) LGFA will maintain several sources of equity to safeguard its capital adequacy.
    (c) LGFA will require most, or possibly all, Participating Local Authorities (Guaranteeing Local Authorities) to guarantee the obligations of LGFA.
    (d) LGFA will hedge its exposure to interest rate and foreign currency fluctuations to ensure that such fluctuations do not significantly affect its ability to meet its payment obligations.
    (e) LGFA has risk management policies in place in relation to its borrowing and lending designed to minimise its risk. For example, it will impose limits on the percentage of lending which is made to any one local authority to ensure that its credit risk is suitably diversified.
    (f) LGFA will ensure that its operations are run in a way which minimises operational risk. It has done this from commencement of operations by outsourcing its operations to the New Zealand Debt Management Office (NZDMO) (which is a part of The Treasury). NZDMO manages the capital raising for central government, and has robust processes in place to manage operational risk. It is possible that at some point the operations function will be moved from NZDMO, but this will not be done unless LGFA is satisfied that it has alternative robust processes in place.

20. Additional detail in relation to the features referred to in paragraphs 19(a) to 19(c) is set out below.

Rates Charge

21. All local authorities borrowing from LGFA are required to secure that borrowing with a Rates Charge. Many, but not all, local authorities have a Rates Charge in place already.

22. This is a powerful form of security for LGFA, because it means that, if the relevant local authority defaults, a receiver can assess and collect sufficient rates in the relevant district or region to recover the defaulted payments. Consequently, it significantly reduces the risk of long term default by a local authority borrower.

23. From a local authority's point of view it is also advantageous, because, so long as the local authority does not default, it is entitled to conduct its affairs without any interference or restriction. This contrasts with most security arrangements, which involve restrictions being imposed on a borrower's use of its own assets.

Sources of equity

24. LGFA has several sources of equity to safeguard its capital adequacy:
    (a) Central government and the Principal Shareholding Local Authorities have contributed initial equity as the issue price of their initial shareholding.
    (b) Each Principal Shareholding Local Authority is required to hold uncalled capital which is equal in amount to its paid up equity contribution (Uncalled Capital). The Uncalled Capital is able to be called by LGFA if it determines that there is a risk of imminent default if the call is not made.

(c) Each Participating Local Authority will, at the time that it borrows from LGFA, contribute some of that borrowing back in the form of subordinated debt (Borrower Notes), which in certain circumstances may convert to redeemable preference shares in LGFA.

(d) In addition to the equity contributions made in conjunction with borrowing, all Guaranteeing Local Authorities are required to commit to contributing equity in certain circumstances. It is expected that calls on any such commitments will be limited to situations in which there is a risk of imminent default by LGFA.

Guarantee

25. Most, if not all, Participating Local Authorities will be required to enter into a guarantee (Guarantee) when they become a shareholder in, or borrower from, LGFA. Under the Guarantee, the Guaranteeing Local Authorities guarantee the payment obligations of LGFA to its creditors.

26. The purpose of the Guarantee is to provide additional comfort to lenders and other creditors (and therefore credit rating agencies) that there will be no long term default, though it may also be used to cover a short term default if there is a default which cannot be covered using the protections described in paragraphs 15 to 18 above, but which will ultimately be fully covered using the rates charge described in paragraphs 21 to 23.

27. The Guarantee will only ever be called if LGFA defaults. Consequently, a call on the Guarantee will only occur if the numerous safeguards put in place to prevent an LGFA default fail.

28. If any such default did occur, and the Guaranteeing Local Authorities were called on under the Guarantee, they could potentially be called on to cover any payment obligation of LGFA. Such payment obligations may (without limitation) include obligations in the following situations:
(a) A failure by LGFA to pay its principal lenders.
(b) A failure by LGFA to repay drawings under the liquidity facility with central government.
(c) A failure by LGFA to make payments under the hedging transactions referred to in paragraph 19(d).

Guarantee risk shared

29. While all Guaranteeing Local Authorities are jointly and severally liable for the entire LGFA debt guaranteed, claims against individual councils will initially be based on their proportion of the total Annual Rates Income of all Guaranteeing Local Authorities.

Benefits of being a Guaranteeing Local Authority

30. If a Participating Local Authorities is not a Guaranteeing Local Authority their borrowings are only allowed to reach a limited level, currently $20,000,000. Such local authorities may also be required to pay higher funding costs, either by paying higher interest margins or through some other mechanism.

31. Guaranteeing Local Authorities will, therefore, have the benefit of not having this low limit on borrowing, and paying lower funding costs.

Rates Charge

32. Guaranteeing Local Authorities are required to provide a Rates Charge to secure their obligations under the Guarantee and their obligations to contribute additional equity.

Characteristics designed to make borrowing from LGFA fair for all Participating Local Authorities

33. The principal risk involved with LGFA is that Participating Local Authorities will default on their payment obligations, which could, in turn, result in LGFA defaulting on its payment obligations. The greater this risk is, the less attractive participation in LGFA is for all Participating Local Authorities.

34. The Participating Local Authorities do not create this risk in equal amounts. There are some that carry a greater default risk than others, and therefore contribute disproportionately to the overall risk of LGFA. Those local authorities are also the local authorities that would be likely to pay the highest interest margins if they borrowed outside LGFA, and so potentially benefit the most from the establishment of LGFA.

35. To avoid, or at least minimise, what is effectively cross subsidisation of the higher risk local authorities by the lower risk local authorities, different interest margins are likely to be paid by different local authorities when they borrow from LGFA, with those carrying the higher default risk paying the higher interest margins.

Viability of LGFA dependent on participation levels

36. The modelling and other analysis done by Cameron Partners and Asia Pacific Risk Management prior to the establishment of LGFA suggests that LGFA will be viable (in that it will deliver sufficient benefits to justify its establishment and continued existence) if:
   (a) LGFA maintains a high enough credit rating; and
   (b) sufficient funds are borrowed through it to obtain the economies of scale benefits referred to in paragraph 7(b).

37. Consequently, the participation of sufficient local authorities, both initially as Principal Shareholding Local Authorities (to contribute initial capital) and in meeting their on-going borrowing requirements through LGFA is critical.

38. Principal Shareholding Local Authorities have contributed $20 million by way of paid-up initial capital contributions.

39. Principal Shareholding Local Authorities are also required to meet a certain proportion of their borrowing needs through LGFA for an initial period, to ensure that the critical amount of utilisation is achieved.

Summary of transactions a Council will enter into if it joins LGFA

40. If a Council joins LGFA as a Principal Shareholding Local Authority, it will:
   (a) subscribe for paid-up shares in LGFA to provide it with capital (see paragraphs 11 and 24(a));
   (b) subscribe for Uncalled Capital in LGFA (see paragraph 24(b) above);
   (c) commit to providing additional equity to LGFA under certain circumstances (see paragraph 24(d) above);
   (d) commit to meeting a certain proportion of its borrowing needs from LGFA;
   (e) borrow from LGFA;
   (f) subscribe for Borrower Notes (see paragraph 24(c));
   (g) enter into the Guarantee (see discussion in paragraphs 25 to 31 above);
   (h) provide a Rates Charge to secure some or all of its obligations to LGFA and LGFA's creditors (see discussion in paragraphs 21 to 23 and 32 above).

41. If a Council joins LGFA as a Guaranteeing Local Authority, but not as a Principal Shareholding Local Authority, it will enter into the transactions described in paragraph 40, other than those described in paragraphs 40(a) and 40(b).

42. If a Council participates in LGFA, but not as a Guaranteeing Local Authority (and therefore also not as a Principal Shareholding Local Authority) it will only enter into the transactions described in paragraph 40(e), 40(f) and 40(h).

PART C - LOCAL AUTHORITY COSTS AND BENEFITS

43. The costs and benefits to a Participating Local Authority will depend on whether it participates as a Principal Shareholding Local Authority, a Guaranteeing Local Authority, or simply as a borrower.

Benefits to local authorities that borrow through LGFA

44. It is anticipated that LGFA will be able to borrow at a low enough rate for LGFA to be attractive because of the three key advantages LGFA will have over a local authority borrower described in paragraph 7. That is – exploiting a credit rating arbitrage, economies of scale and a regulatory arbitrage.

45. In addition, LGFA will provide local authorities with increased certainty of access to funding and terms and conditions (including the potential access to longer funding terms e.g. ~ 10 yrs+).

46. The potential savings for a local authority in terms of funding costs will depend on the difference between the funding cost to that local authority when it borrows from LGFA and the funding cost to the local authority when it borrows from alternative sources. This difference will vary between local authorities.

47. The funding costs each local authority pays when it borrows from LGFA will be affected by the following factors, some of which are specific to the local authority:
   - (a) the borrowing margin of LGFA;
   - (b) the operating costs of LGFA;
   - (c) any price adjustment made by LGFA for that specific local authority as a result of:
     - (i) the credit quality of the local authority;
     - (ii) the size of the borrowings of that local authority from LGFA; and
     - (iii) the local authority being a Guaranteeing Local Authority or not.

48. The diagram below shows what will affect the amount of any funding cost savings.

LGFA Borrowing margin	+	LGFA operating costs	+	Return to LGFA investors	±	LGFA pricing adjustment	-	Individual LG conterfactual borrowing margin	=	Potential LG savings

Costs to local authorities that borrow through LGFA

49. The costs to Participating Local Authorities as a result of their borrowing through LGFA take two forms:
   - (a) First, there are some risks that each Participating Local Authority will have to assume to participate, which create contingent liabilities (i.e. costs which will only materialise in certain circumstances).
   - (b) Secondly, there is some cost associated with the Borrower Notes.

Risks

50. The features of LGFA structure described above which are included to obtain a high credit rating are essentially steps which remove risk from lenders to make their residual risk low enough to justify the high credit rating. These features remove risk, in part, by transferring it to Participating Local Authorities.

51. These risks are that:
   - (a) in the case of Guaranteeing Local Authorities, a call is made under the Guarantee (see discussion in paragraphs 25 to 31 above);
   - (b) in the case of Guaranteeing Local Authorities, a call is made for a contribution of additional equity to LGFA (see paragraph 24 above); and
   - (c) in the case of all Participating Local Authorities, LGFA is not able to redeem their Borrower Notes (see paragraph 24 above).

52. Each of these risks is discussed in the paragraphs indicated next to the relevant risk. For the reasons set out in those discussions, it is anticipated that each of the risks is low.

Cost of Borrower Notes

53. As discussed in paragraph 24(c), all Participating Local Authorities will be required to invest in Borrower Notes when they borrow from LGFA. This carries a cost in addition to the risk referred to in paragraph 51(c), because the investment in Borrower Notes will, in most cases, be funded by borrowing from LGFA, and the cost of this funding will be higher than the return paid on the Borrower Notes.

54. It is anticipated that the Borrower Notes will pay an interest rate equal to LGFA's own cost of funds. Any interest payment is likely to be capitalised until maturity.

Cost/benefit analysis for the investment by Principal Shareholding Local Authorities

55. In addition to those costs and benefits that all Participating Local Authorities are expected to receive in relation to their borrowing from LGFA, Principal Shareholding Local Authorities will also hold shares in LGFA (Establishment Shares).

56. Establishment shares will pay a discretionary annual payment, which is an amount up to LGFA's own cost of funds plus 200 bps .

57. While it is the intention for LGFA to always pay the proposed annual payment on the Establishment Shares, this payment will not be made, or will be reduced, if the performance of LGFA means that LGFA does not consider it appropriate to make the payment.

58. Any local authority investor in Establishment Shares will also be required to subscribe for the same amount of Uncalled Capital in LGFA. This Uncalled Capital can be called at the discretion of LGFA under certain circumstances to ensure the on-going viability of LGFA. Once called the Uncalled Capital will have the same characteristics as Establishment Shares. This is an additional risk (and therefore contingent cost) for Principal Shareholding Local Authorities. Uncalled Capital is discussed in paragraph 24(b) above.

Appendix 2 – Proposed Investment Policy Wording

The following wording is included in the draft Investment Policy:

"**New Zealand Local Government Funding Agency Limited Investment**

Despite anything earlier in this Investment Policy, the council may invest in shares of the New Zealand Local Government Funding Agency Limited (**LGFA**), and may borrow to fund that investment.

The council's objective in making any such investment will be to:

(a) obtain a return on the investment; and

(b) ensure that the LGFA has sufficient capital to become and remain viable, meaning that continues as a source of debt funding for the council.

Because of this dual objective, the council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

If required in connection with the investment, the council may also subscribe for uncalled capital in the LGFA."

Appendix 3 – Proposed Liability Management Policy Wording

The following wording is included in the draft Liability Management Policy:

"**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."

NEW DIRECTION FOR MANAGING WATER

The council wants feedback on our proposed programme for implementing the Government's new direction for improving the management of the region's freshwater lakes, rivers, aquifers and wetlands. The full proposal on our programme follows and relates to the brief summary on page 14 under "Issues for consultation".

The National Policy Statement for Freshwater Management (the NPS Freshwater) was released in May 2011, and implementing it will be a major resource management focus for us over the term of this plan.

The primary aim of the NPS Freshwater is to safeguard the life-supporting capacity of water and its associated ecosystems, while providing for economic growth and the efficient use of water resources. It also seeks to maintain or improve the overall water quality in the region and protect values of outstanding water bodies and wetlands.

To implement the NPS Freshwater, regional councils are required to set:

- Freshwater goals (objectives / environmental outcomes that Northland seeks for that water, for example that is swimmable, that stock can drink it without treatment);
- Associated water quality limits (clear statements about or numbers that define what is acceptable / maximum contamination if we are to meet the goal);
- Flows (the amount of water that must remain in a river or stream),
- Levels (minimum water levels in lakes and aquifers) and
- Allocation limits (maximum rate that water can be taken from a river or total volume that can be taken from a lake or aquifer to meet the goal).

These requirements must be set for water bodies at a catchment level.

They will be set using a combination of good science, the values associated with water (such as its ability to support life and cultural values), how the water is used and the community values associated with those uses. We will work with the regional community, tangata whenua, and affected and interested parties to identify the values and goals and set the limits, flows and levels.

Council also needs to work out how to address water bodies that don't meet water quality or flow limits due to over extraction or contamination – this is known as 'over-allocation'. Over-allocation would need to be phased out via time limited targets – a "claw back" timed with reviews of existing water takes, discharge consents and possibly controls on land use activity where diffuse discharges (from water run off) are an issue.

All the requirements will go into the region's planning framework through a series of changes to the Water and Soil Plan (including consultation, submissions and hearing processes). This highly complex area of resource management also affects district planning and consenting and council intends to work with the district councils on the programme.

At this stage implementing the NPS Freshwater is within council's current service levels. (We are essentially continuing our monitoring work, investigating options for prioritising catchments, and continuing the improvement programmes we have in place.) However once we have worked with communities to prioritise action, identify objectives and limits, and chosen the tools for meeting those limits, service levels are likely to change. We therefore anticipate that as we prepare our next draft Long Term Plan (the one for 2015-18) we will be consulting with you on the strategic choices that need to be made (e.g. are we maintaining or improving water quality within this or that catchment), the things we must deliver (e.g. improved water quality within a specific timeframe, water we can swim in or collect shellfish from at the following sites, enough water for priority/all users, enhanced biodiversity), and what represents value for money and cost effectiveness.

About Northland's water

Water is one of Northland's most precious natural resources and much of council's work revolves around it. Our rivers and streams, lakes, aquifers and wetlands are important for their supply of water for drinking, washing, fire fighting, agriculture, irrigation, industry and their ability to help us manage our wastes. They also have cultural and historic value, provide habitat for a range of plants and animals, provide us with food, and give us important recreational opportunities.

Pollution enters rivers and streams directly from discharges. For example, it comes directly from sewage from town and city treatment plants, industrial and stormwater discharges and farm dairy effluent; and indirectly from urban run-off and rural run-off after rainfall, which can contain sediment, nutrients, animal waste and agrichemical residues, from rainwater seeping through a landfill or contaminated site which contaminates the water (leachate), or leaking wastewater systems. Because our rivers are comparatively small, they have little capacity to dilute these contaminants.

The majority of Northland's rivers flow into harbours rather than open coastline. This means that poor river water quality can also affect the health of our harbours, which in turn affects the things we value and use of the harbours.

The programme to implement the NPS Freshwater
All regional councils are required to implement the NPS Freshwater. We must either complete implementation by the end of 2014, or adopt a staged programme by 12 December 2012 that sets out how it will be implemented by 2030. Like most other regional councils across the country, we are not in a position to complete the implementation by 2014 so we are opting to adopt the staged programme approach. The timing suits our current planning cycle as we are currently developing a new Regional Policy Statement – this is the council's primary planning document which has to give effect to the NPS Freshwater. The new Regional Policy Statement will be formally consulted on this year, and we aim to have it fully operative by 2015.

Implementing the Regional Policy Statement will involve changes to several regional plans, so we will aim to align this with plan changes needed to implement the NPS Freshwater. Each plan change will involve consultation with stakeholders, iwi and interested parties.

While we have no option but to implement, we do have some discretion over how fast it is done. We have identified three options for this timing, and we want your feedback on your preferred option. Note that if a water body is 'over-allocated' it doesn't meet quality and/or flow limits.

Option A – prioritised catchments (medium pace)	**Option B – no extra resourcing (slow pace)**	**Option C – significant extra resourcing (fast pace)**
▪ First priority catchments addressed by 2015. ▪ Majority of highly-allocated catchments addressed in 10 years. ▪ Second priority catchments within 10 years and third priority by 2030. ▪ Some additional water quality improvement.	▪ Address catchments on basis of information available. ▪ 20% of highly-allocated catchments addressed in 10 years. ▪ 1-2 plan changes in 10 years. ▪ May not meet 2030 deadline. ▪ Minimal additional water quality improvement.	▪ All highly allocated catchments addressed by 2015. ▪ All catchments addressed within 10 years. ▪ Over allocation remedied by 2030 (if not before). ▪ Further additional water quality improvements.
Costs/benefits/risks	**Costs/benefits/risks**	**Costs/benefits/risks**
▪ Medium cost (data collect, plan changes). ▪ Medium limits to economic growth. ▪ Compliance with NPS. ▪ Low risk (adequate time for data collect and consultation).	▪ Low upfront cost (data collection, plan changes). ▪ Restricted economic growth. ▪ High risk of non-compliance.	▪ Higher up front cost (data collection, plan changes). ▪ Growth enabled. ▪ Compliance with National Policy Statement. ▪ Medium risk (data quality, adequacy of consultation, inconsistency with Regional Policy Statement).

For all three options, data collection is necessary to help set limits and flows (for quality and quantity purposes), and regional plan changes are needed to enable the limits to be imposed. The three options differ in the speed of the data collection and plan changes.

Option A: Prioritised catchments
This would address catchments on a priority basis, instead of all at once (which would require a significant increase in resources). Option A proposes prioritising catchments on the basis of known issues, with objectives, limits and flows set for the most urgent first. This option would have medium immediate cost with only a moderate increase in resourcing and cost (e.g. two additional people).

A prioritised approach would limit the risk of further over-allocation and uncertainty for water users in the most vulnerable catchments. It would also enable adequate time to gather data and consult with those that value and use the water bodies.

We would need to identify how we prioritise the catchments, and we want your input on how this would be done. The council proposes that each water body/catchment would be prioritised based on an assessment of its:

- Ecological values;
- Direct and indirect use values (e.g. water takes, swimming);
- Cultural and spiritual significance;
- Influence on coastal water quality;
- Interaction with other water bodies (e.g. groundwater);
- Level of existing allocation (quantity) and water quality; and
- Future pressures (e.g. population growth, climate change, and land use intensification).

Do you agree with how water bodies/catchments would be assessed to determine priority?

Option B: No extra resourcing
This option would mean council addresses the NPS freshwater without extra resourcing and relies largely on information provided in existing programmes.

It is the slowest option, with the highest risk of over-allocation and non-compliance with the NPS Freshwater timeframes. It may also restrict the ability to grant further consents if default/interim limits or flows eventuate via further government policy (e.g. national environmental standards on water quality limits or ecological flows – these may set limits for us which potentially could stop future consent applications until we prove that the stream/river can support more allocation in terms of water quantity or quality).

This option has minimal additional direct cost, but risks could well outweigh that benefit.

Option C: Significant extra resourcing
This option would mean significant extra resourcing (e.g. four additional people), but objectives, limits and flows would be set for all water bodies within 10 years.

The benefits are compliance with the NPS Freshwater, low risk of further over-allocation and certainty for water users. However, the pace of this option could mean consultation and data collection are not likely to be as robust and objectives, limits and flows may not be as well considered as the other options. There is also the risk that the programme developed under Option C would pre-empt the Regional Policy Statement, meaning further plan changes to align with the Regional Policy Statement once finalised, which comes with additional costs.

Council's preferred option
The council's preferred option is Option A, as it is considered the most cost-effective and low-risk. Option A has been included in the budget projections in this draft plan. Option A provides for steady progress that will enable the council to meet the timeframes included in the NPS Freshwater and will avoid unnecessary limits on economic growth (through limiting future water allocations) and is aligned with the Regional Policy Statement led plan changes.

Which option do you support for the council's programme for implementing the Freshwater National Policy Statement?

Interim limits
The NPS Freshwater requires that councils avoid over-allocation (exceeding water quality or water quantity limits).

Avoiding over-allocation requires water quality and quantity limits (flows and/or levels) to be set (technically, water cannot be over allocated if no limits are in place). Given the magnitude of the requirements of the NPS Freshwater, council may need to set interim water quality and quantity limits for some water bodies, particularly those that are not considered a high priority but may be vulnerable to contamination or takes (due to small size for example). Interim limits are likely to be required under each of the above options.

Interim limits will prevent further degradation by cumulative effects and remove the need to "claw-back" any water take or discharge consents potentially granted if limits were not in place. Interim limits for water quantity and quality would be set based on robust and best available science. The limits would need to be set by way of a plan change to the Regional Water and Soil Plan with associated consultation, submission and hearing processes.

Do you think council should establish interim limits? If so, what factors should they be based on?

Northland's outstanding water bodies
The NPS Freshwater also requires the identification and protection of the region's outstanding water bodies. The council has identified a number of lakes and rivers (or sections of rivers) as outstanding in the Regional Water and Soil Plan (Policy 9.05.01). They are:

- Waipoua
- Whirinaki
- Waipapa
- Mangamuka
- Punaruku
- Lake Ora
- Waikohatu
- Wairau.

Maps of these rivers, or sections of rivers, and lakes deemed to have outstanding values are shown in Appendix 18 of the Water and Soil Plan Maps. (Policy 9.05.01 regulates the taking use, damming and diverting of water for those water bodies.)

The Regional Water and Soil Plan also sets out the criteria to be used to identify further rivers or lakes as outstanding as follows (in policy 9.05.02):

- Have catchments which are dominated by indigenous vegetation and which are largely unmodified natural ecosystems or ecological sequences from headwaters to lowlands; or
- Are recognised by any judicial authority or which subject to agreement by the council in consultation with an iwi authority are recognised to be a taonga requiring flow preservation in a natural or near natural state; or
- Are an essential part of an outstanding natural feature or landscape, and where changing the water level or flows would adversely affect those values.

Do you agree with the list of outstanding water bodies and the criteria for selection?

SIGNIFICANCE POLICY

The full version of the proposed new Significance Policy follows and relates to the brief summary on page 25 under "Issues for consultation".

Policy objectives and overview

1. To ensure that the Northland community is fully consulted and able to actively participate in the consideration of issues, proposals, and decisions which are significant, including those that involve the community's strategic assets.
2. To ensure that council is informed of and carefully considers the consequences of decisions of significance during the process of decision making.
3. To help determine the appropriate means to engage with the community on a particular issue.

Councils make decisions on behalf of ratepayers all the time. Some decisions are more significant than others. The policy on significance, along with the council's consultation practice, gives the council guidance on what it should consider in assessing the significance of a decision and what information it will make available to the public. It also guides which consultation processes council should follow for its decision making based on the significance of the decision to be made. The policy is about making better decisions in line with community expectations.

Strategic Assets

Northland Regional Council's strategic assets are:

- Its interest in Northland Port Corporation (NZ) Ltd.
- Awanui river scheme.

A decision to transfer the ownership or control of a strategic asset to or from the local authority can only be taken if it has been provided for in the council's Long Term Plan and therefore will be the subject of the special consultative procedure (as per section 97 Local Government Act 2002). The level of detail for the decision and consultation will be guided by this policy.

General Approach

Council will determine the significance of any issue requiring a decision on a case-by-case basis. Significance will be determined using the thresholds and criteria below. Where certain thresholds are met significance will be presumed to apply.

Any decision that is inconsistent with another council policy (including the Treasury Management Policy, Investment Policy, Revenue and Financing Policy, Liability Management Policy, Financial Strategy, and Policy on Partnerships with the Private Sector) will require an assessment of significance under this policy.

Issues, proposals, decisions or other matters that are part of the normal day-to-day operations of the council will not require formal consideration for significance.

Management decisions made by officers under delegated authority during the implementation of council decisions will not be deemed to be significant.

For example, if council has agreed to fund a major project or award a contract to supply a service, so long as the law and any council imposed terms have been complied with, the decision to release funding will not be a significant decision.

Council delegates responsibility for initially assessing significance to the Chief Executive Officer.

Our policy is to use existing consultation methods, principally the Long Term Plan.

Council will normally consult on any matters of significance through the preparation, review, or amendment to its Long Term Plan or Annual Plan. This ensures that we are efficient, use established processes and timing, propose options and make decisions in context with other major decisions, give people the opportunity to be heard, link our decisions to the council objectives (community outcomes) and comply with the law. However, where a significant decision is required to be made and cannot be combined with the Long Term Plan or Annual Plan, council will hold a separate consultation using the special consultative approach (outlined in the Local Government Act 2002).

What is significant?
Council will determine the significance of any issue requiring a decision by making judgements about the likely impact of that decision based on the following thresholds (1-9) and criteria (1-6):

Thresholds
Where any issue, proposal, decision or other matter triggers one or more of the thresholds 1-6 below then as a matter of council policy the matter is **presumed to be of high significance and to automatically trigger a requirement to consult** using the special consultative approach as part of the Long Term Plan or Annual Plan.

1. Transfer of ownership or control, replacement or abandonment of a strategic asset as defined by this policy (or the Local Government Act 2002).
2. A new activity is proposed.
3. Ceasing an activity is proposed.
4. An increase or decrease of 25% or more in the nature of an activity is proposed.
5. A new targeted rate is proposed.
6. The loss of council control of any council-controlled trading organisation or council-controlled organisation.

Proposals or decisions which are likely to have financial implications of, or in excess of the following thresholds (7-9) are presumed to have a **high degree of significance**. They will however, still be considered against the criteria spelt out below as the context for the decision is important in determining the degree of significance.

7. An increase of 5% or more of the general rate annually for an activity is proposed.
8. An increase of 10% or more of the targeted rate for an activity (where the increase is equal to or more than $100,000) is proposed.
9. Issues, assets or other matters that would incur expenditure in excess of $500,000 which are not already provided for in budgets or are not provided for in existing delegations, policies or other legislation. [This limit covers both a single issue, asset or matter as well as a package of the same aligned to deliver a single outcome or objective. This limit does not apply to expenditure funded from the Growth and Investment Reserve or changes to the council's investment portfolio.] Note that these investments will need to meet the council's Investment Policy.

Where any issue, proposal, decision or other matter does not trigger one or more of the above thresholds, and is not excluded by the policy, it will then be considered against the criteria contained in this policy to assess its significance.

Criteria
If an issue, proposal, decision or other matter satisfies two or more of the following criteria, the matter is likely to be significant. (Where a matter satisfies only one criterion it will be discussed with the CEO to determine what recommendation to council should be made. If a presumption of significance applies – as above or as indicated in the criteria below - then this should be highlighted to council and the staff recommendation will err on the side of caution.)

1. Impact
    a. Number of people affected - The proposal and/or decision adversely affects all or a large portion of the community.
    b. Scale of impact - The impact or consequences of the proposal and/or decision on the affected people will be substantial.
2. Reversibility - the degree to which a proposal or decision is reversible. (As a rule of thumb the more difficult it is to reverse the decision the greater its significance.)
3. Controversy – whether this type of decision has a history of generating a high degree of controversy or public interest in the region or New Zealand generally. (A high level of controversy requires the decision to be treated as more significant and therefore subject to a greater degree of community scrutiny.)
4. Strategic alignment - the extent to which the decision flows logically and consequentially from a significant decision already made, a strategy or policy already developed by council, or from a decision in the Long Term Plan (including any subsequent amendments) or the Annual Plan.

If there is alignment or logical flow and previous consultation, then the decision is less likely to be significant. Significance would therefore generally depend on the variations between the identified options, because the decision to do something has already been taken.

5. A decision that will, directly or indirectly, severely affect the capacity (including financial capacity) of council to carry out any activity identified in the Long Term Plan is presumed significant. (Without other criteria needing to be met.)
6. Precaution and risk management - Where the significance of a proposal and/or decision is unclear, then the council will treat the issue as being more rather than less significant. The degree of risk is a factor in determining significance. Council's risk management framework will be relevant.

As part of its consideration the council will take into account how important the decision, matter or thing is in terms of the achievement of, or ability to achieve, council objectives (community outcomes) as stated in the Long Term Plan.

Procedure for determining significance

Staff assessment:

7. Is a council decision required?
   - If yes, apply this policy. If no, stop. Policy does not apply.
8. Is the decision part of the normal day-to-day operations of the council?
   - If yes, stop. The decision is not significant. If no, continue to apply this policy.
9. Is the decision a management decision made by officers under delegated authority during the implementation of council decisions?
   - If yes, stop. The decision is not significant. If no, continue to apply this policy.
10. Staff assess whether a threshold 1-6 is met.
    - If yes, the decision is deemed significant. If no, move to 7-9.
11. Staff assess whether a threshold 7-9 is met.
    - If a threshold is met then staff will presume that the matter is significant and move to apply the criteria.
12. If a threshold is not met then staff determine whether the criteria for determining significance are met. (The "determining significance" flowchart attached will guide staff through this process.)
13. Staff will document the significance assessment and include reasons for the conclusions reached in the report to council under step 8 below.

Reports to council/committee:

14. Every report to council and its committee(s) will:
    - State the significance of the decision to be made.
    - Include reasons for the conclusions reached. (To be commensurate with the significance of the decision to be made.)
    - Include a recommendation to council on how the significance policy should be observed and on an appropriate course of consultation.
    - Highlight any risks or opportunities.

    When a significant decision is to be made, the staff will recommend to council (or committee):
    - The extent to which different options are to be identified and assessed; and
    - The degree to which benefits and costs are to be quantified; and
    - The extent and detail of the information to be considered; and
    - The extent and nature of any written record to be kept of the manner in which it has complied with those sections.

Decisions of council

15. Where council decides not to follow a staff recommendation on:
    - The significance of the decision and/or;
    - How the significance policy should be observed and/or;
    - On an appropriate course of consultation;

    then the reasons for that or those decisions will be recorded alongside the decisions made / council resolution in the minutes of the meeting.

16. If the council considers that the decision is significant it will agree or direct:
    - The extent to which different options are to be identified and assessed; and
    - The degree to which benefits and costs are to be quantified; and
    - The extent and detail of the information to be considered; and
    - The extent and nature of any written record to be kept of the manner in which it has complied with those sections.

Committees will not determine significance. If a committee disagrees with the staff recommendation on significance and consultation then the meeting minutes and the committee's recommendation to council will record the reasons for that recommendation.

17. Where council makes a decision that is inconsistent with this policy it will:
    - Identify the inconsistency.
    - Explain why it is proposing to proceed with an inconsistent decision.
    - Indicate whether it intends to amend this policy to accommodate the decision.

<u>This policy will not apply</u> where council thinks that failure to make a decision urgently would result in unreasonable or significant damage to property or risk to people's health and safety. Any actions taken will be reported in the relevant annual plan or annual report.

Background Legislation
The Local Government Act (LGA) 2002 requires the council to have a "policy on significance" adopted using the special consultative procedure. The requirements are set out in section 90 of the LGA 2002. Every decision the council makes must be made in accordance with the decision making requirements set out in sections 76 to 82 of the LGA 2002. It is also possible that a significant decision might be caught by section 97 (decisions that may only be taken if provided for in the Long Term Plan).
The Act includes definitions of "significant" and "significance":

"significance*, in relation to any issue, proposal, decision, or other matter that concerns or is before a local authority, means the degree of importance of the issue, proposal, decision, or matter, as assessed by the local authority, in terms of its likely impact on, and likely consequences for, -*
(a) the current and future social, economic, environmental, or cultural well-being of the district or region
(b) any persons who are likely to be particularly affected by, or interested in, the issue, proposal, decision or matter
(c) the capacity of the local authority to perform its role, and the financial and other costs of doing so

significant*, in relation to any issue, proposal, decision, or other matter, means that the issue, proposal, decision, or other matter has a high degree of significance."*

For further details of the council's consultation processes see the Policy on consultation, contained in the council's Local Governance Statement.

Decision Making
When making a decision, the council must identify its objective and the range of sensible options for achieving it. The options then need to be assessed (including the costs and benefits of the options for the present and future well-being of the region, promotion of council objectives (community outcomes), impact on the local authority's present and future capacity and any other matters the council thinks are important). If the decision is significant and relates to land or a body of water, the council is also required to take into account the relationship of Māori and their culture and traditions with the land or water.

The council is required to give consideration to the views of affected and interested people in making its decision but has some flexibility as to how it consults except where it is required to use the special consultative procedure. Where the council has choice, council will align the consultation process with those affected by the decision, the scope of choice the council has, the level of significance and the wise use of council resources.

If council undertakes consultation, it will:
1. Provide people with reasonable access to relevant information;
2. Encourage people to present their views;
3. Give clear information on the purpose and scope of the consultation;
4. Provide reasonable opportunities for people to present their views;
5. Receive those views with an open mind;
6. Provide submitters with information on the decision and the reasons for the decision.

Do you support the new Significance Policy? Do you have further additions for the policy?

Financial Strategy

WHAT IS THE FINANCIAL STRATEGY?

The financial strategy supports and underpins Northland's Long Term Plan. It shows the financial impacts of the council's proposed choices, and how those impacts are felt by different parts of the community. It also explains the context in which the decisions made, the priorities (and the trade-offs) and the effect on rates.

The financial strategy is implemented through the following policies, which can be found within this plan.

- The Revenue and Financing Policy, which sets out how the council's activities should be funded;
- The Funding Impact Statement, which determines how rates are set for properties in Northland; and
- The Treasury Management Policy (including the Investment Policy and Liability Management Policy) which sets out how the council will manage its investments and borrowings (if any).

OVERVIEW

The council is required to manage its revenues, expenditure, assets, liabilities, investments and general dealings prudently and in a manner that promotes the current and future interests of our community. Over the ten years of this plan the council plans to:

- Maintain a strong balance sheet with a high weighting of assets to liabilities;
- Maintain a balanced budget;
- Remain a net investor, borrowing internally where appropriate, to fund the capital investment in its river management schemes;
- redIrect its investment income entirely away from funding operational expenditure (subsidising rates) to instead invest in economic development initiatives/projects.

Redirecting the investment income into economic development activities is the most significant change to our financial strategy since the last Long Term Plan, and it creates the biggest driver for rate increases across the region over the next decade. Several large river management projects also contribute to rates increases in targeted geographic areas. These areas either benefit from the proposed works or are within the catchments that contribute to the flooding problems. The impact on rates from these big flood management works are often ongoing, with loan repayments extending to 25 years. Throughout the life of this plan more projects will be scoped and results of any detailed investigations and works will be included in future long term plans.

The major challenge that has faced the council in developing this draft plan has been balancing an increased investment in the region through economic development initiatives and increased services, while keeping rates as affordable as possible. In turn, this has meant balancing the diverse expectations of the wider community with specific communities of interest. The council has aimed to strike that balance with the proposals in this draft plan, which include:

- Slowing the transition for redirecting council's investment income to the new Investment and Growth Reserve from five years to ten years, to lower the impact of the rates subsidy being withdrawn.
- Reducing operating expenditure for the Monitoring activity to offset some of the additional costs for implementing the Government's new National Policy Statement for Freshwater Management.
- Using the council's Forestry Income Equalisation Reserve for distinctive and one-off costs, including an additional provision for doubtful debts to lessen and smooth rate increases across the next 10 years.
- Only modestly increasing our spending on biosecurity to accelerate our efforts to manage the region's pests when the council and interest groups had expressed a desire to increase it further.
- Targeting our economic development efforts to projects to improve Northland's economy beyond its historic levels (compared nationally or regionally).
- Using the new Investment and Growth Reserve, rather than rates, to fund our economic development activities and make up for the shortfall in lower investment income from the Northland Regional Council Community Trust Fund (due to the current economic climate and lower government subsidies).
- Reducing the funding from our investment income to Destination Northland Limited, working with Northland Regional Council Community Trust to return Destination Northland Limited's focus to core tourism activities (which will lower expenditure) and to increase its funding from the tourism sector with support from Northland's local authorities.

BALANCED BUDGET

The council looks to operate a balanced budget whereby in each year the operating expenditure, including depreciation, is covered by sufficient operating revenue. To smooth rating increases, the council has conservatively estimated expenditure that is subject to a high degree of variability (such as hearing costs for the new Regional Policy Statement) on the understanding that the Forest Income Equalisation Reserve can be utilised if necessary. In addition council has agreed to fund certain operating expenditure from this reserve. The use of the forest equalisation reserve as a funding source still allows council to operate a balanced budget in accordance with the requirements of the Local Government Act 2002. The Forest Income Equalisation Reserve had a balance of approximately $2.4 million at 30 June 2011 (refer pages 180-187 of the plan for further information on council reserves).

POPULATION AND LAND USE CHANGES

Northland's population is expected to grow modestly by 0.5% annually (on average) over the ten year period of the plan. Small, short term population changes generally have very little impact on regional council services with existing resources coping with service demands without major adjustments. The low growth projection also means small or no increases in the number of rateable properties over the plan which means fewer opportunities for greater economies of scale (spreading the costs across more ratepayers).

The region's population structure is predicted to change by the end of the ten year period when the over 65 age group will make up 23.6%, compared to 19.3% nationally. An increased demand in passenger transport and disability transport services may result from the larger population group – the current SuperGold Card Scheme would accommodate this demand and the current bus services have the required capacity without incurring additional significant expenditure. It is assumed that there will be no change to the current government funding formula of the SuperGold card scheme.

The council is not anticipating any significant change in use of land within the region over the ten year period that would materially impact on the capital and operating costs forecast in this plan. For more details, see our forecasting assumptions on pages 164-173.

ECONOMIC GROWTH

Economic growth is vital for generating the resources needed to address some of the pressing problems affecting Northland, such as poor housing, health and education. In times of economic recession there is a greater need to invest in economic growth. However, there is little government support available to achieve a step-change in Northland's economy as funds have been necessarily diverted to rebuild Christchurch.

One indicator of a region's standard of living is gross domestic product (GDP) per person. Northland's GDP per person is the lowest among all 16 regions in New Zealand, and is about a third lower than the national average. Within Northland there is variation in GDP among the three territorial authorities. Per person/capita GDP in the Far North and Kaipara districts are about 20% lower than in Whāngārei – this is equivalent to about 60% of the national average, compared to 75% in Whāngārei.

Last year the council introduced a five-year transition to re-direct its investment income into the Northland Regional Council Investment and Growth Reserve. The reserve will be used to fund specific projects that will increase Northland's economic performance, increase the number of jobs in Northland and increase the average household income. Previously, all of the council's investment income helped fund council operations, providing a rates subsidy of about 20%.

In this draft plan, the council is proposing to extend that transition phase from five years to 10 years, to improve the affordability of the transition and to acknowledge the effects of the recession on individual households. The extended transition phase would reduce the size of the annual rate increases over the next 10 years and lessen the impacts of funding the additional work proposed in this plan.

OTHER CHALLENGES

There are big challenges ahead as Government passes on more responsibility to councils, through legislation, policy statements and environmental standards. The National Policy Statement for Freshwater Management has significant resourcing impacts for councils, and we have captured these in our forecasting assumptions and activities. The majority of these costs have been absorbed in existing resourcing with some minor changes in service delivery resulting for our monitoring activity which includes eliminating the chemical collection, reducing the bathing site monitoring and reducing our level of response to the Environmental Hotline reported incidents (details in the "Issues for consultation" section on page 23).

There is more work in the pipelines as the government rolls out potential changes in the way we manage biodiversity, forestry, flood risk, urban areas, and other natural and physical resources. Government is also pushing for councils to have smarter and more effective regulation, cut red tape and enable productivity.

This all means real pressure on the council to find efficiencies and savings across the life of this draft plan to keep activities within current funding levels. One way the council is keen to see this occur is through a mix of shared services, joint procurement, and working with others such as Iwi and community groups, the district councils and other government agencies and partners.

Another challenge we face is promoting economic development whilst continuing to safeguard the ratepayers' assets for future generations and this is a strong element to this financial strategy. We intend to increase the investment in Northland and in opportunities that deliver a return to Northland, while managing risk. The Treaty of Waitangi settlement process offers further opportunities to work with Iwi and consider investment opportunities together that will ultimately benefit all Northlanders.

KEY LEVEL OF SERVICE CHANGES AND IMPLICATIONS

The council's levels of service and operating programmes are established through the variety of policies, plans and strategies that the council has prepared and adopted in line with a range of legislation. Key planning documents include the Regional Policy Statement; regional plans for the coast, air, water and soil; biosecurity strategies for plant, animal and marine pests; land transport plans and strategies; civil defence emergency management plans; asset management plans for river management scheme assets and river management plans for the 27 priority rivers.

Changes are proposed in a number of the council's activities; most are minor in expenditure except for capital improvement projects for the river management schemes. The changes are briefly described below and covered in more detail in the "Issues for consultation" section on pages 10-26. The major proposals are explained in pages 27-48 following this financial strategy. Expenditure budgets within this draft Long Term Plan are set to deliver on these proposed levels of service and operating programmes.

River Management

The council proposes to increase the level of service within River Management, with more flood works proposed for Whāngārei, Kaeo-Whangaroa and Awanui, plus a new river management scheme (and new targeted river management rate) proposed for Kerikeri-Waipapa. More information on the proposed flood works are included on pages 15-19.

The impact of these projects is to increase certain targeted rates and the level of service. The increases in targeted rates are explained on page 57. As council works through investigations on the 27 prioritised river management plans, there will likely be more capital improvement project proposals in future long term plans. New and improved maintenance programmes are also an outcome of the detailed investigations which also reduce the impact of flooding.

Resource Management

Implementation of the National Policy Statement for Freshwater Management (and other national policies and environmental standards) happens under the Resource Management group of activities. While implementing a national directive isn't a new level of service, it increases the level of data collection, analysis, plan development, consent processing and ongoing monitoring services. In this draft plan we are seeking feedback on our proposed implementation approach – which is mostly concerned with the speed of the implementation and how quickly water quality improves. The preferred option given the current pressures on households and the council's desire to make rates affordable involves additional planning and monitoring costs over previous years of approximately $110,000.

A modest increase of $100,000 is proposed for the Biosecurity activity, to increase our efforts to manage the region's pests and protect our special and significant environment. This 5% increase in resources aims to accelerate existing programmes contained in the Regional Pest Management Strategy.

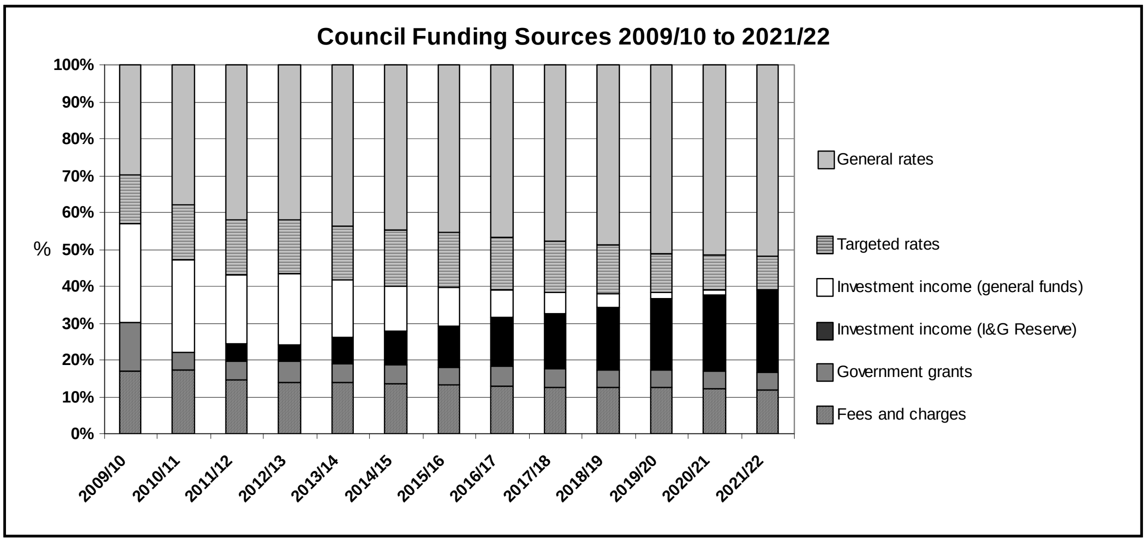
Economic Development

The council consulted on expanding its economic development focus in last year's Annual Plan with the establishment of the new Investment and Growth Reserve to enable investment in Northland for transformational projects. Extending the transition period for redirecting the investment income to the new Investment and Growth Reserve will lower the rating impact from the withdrawal of the rates subsidy. However, it will also reduce the funds available for investment in Northland's economy, which could slow the effect of improving the economy and job creation in Northland.

Reducing Destination Northland Limited's (the regional tourism agency) funding contribution from $350,000 to $100,000 has the potential to lower the level of service delivered by the agency. However, the phasing of the reduction will be negotiated to lower that risk and give Destination Northland Limited and the tourism sector every opportunity to secure funding from alternative sources and manage the return back to core tourism activities.

FUNDING SOURCES

The council's funding sources include targeted general rates, targeted rates, user fees and charges and grants and subsidies and investment income. The table below summarises the council's budgeted funding mix over the last three financial years and the future 10 years.



Funding sources	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
General Rates	30%	38%	42%	42%	44%	45%	45%
Targeted Rates	13%	15%	15%	15%	15%	15%	15%
Investment income (general funds)	27%	25%	19%	19%	16%	12%	11%
Investment income (I&G Reserve)	0%	0%	5%	5%	7%	9%	11%
Government grants	13%	5%	5%	6%	5%	5%	5%
Fees and charges	17%	17%	14%	14%	14%	13%	13%

Funding sources	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
General Rates	47%	48%	49%	51%	52%	52%
Targeted Rates	14%	14%	13%	11%	9%	9%
Investment income (general funds)	7%	6%	4%	2%	1%	0%
Investment income (I&G Reserve)	13%	15%	17%	19%	21%	22%
Government grants	5%	5%	5%	5%	5%	5%
Fees and charges	13%	13%	12%	13%	12%	12%

Over the term of the plan the use of funding sources changes. By 2020/2021 all investment income will be redirected to the Investment and Growth Reserve to be available for projects that contribute to economic wellbeing in Northland. General rates will be increased to fund council activities with user fees and charges increasing by inflation.

RATE LIMITS

The council has determined that total rates will not exceed 65% of total revenue and total rates increase will not exceed 10% of total expenditure. These limits on rates revenue and rates increases balance the need to address the range of issues facing the region over the next ten years and enable council to maintain a strong and sustainable financial position while remaining ever-mindful of the affordability of rates for the community.

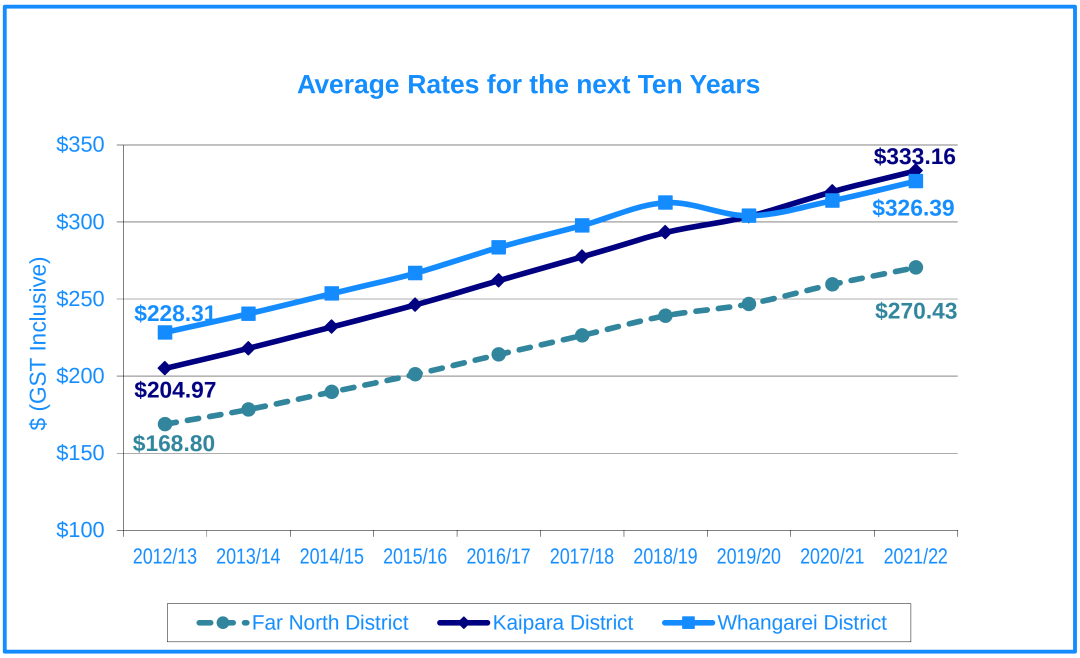
The council is confident in its ability to provide and maintain existing levels of service and to meet additional demands for services within these limits.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Projected total rates	$15.6M	$16.7M	$17.7M	$19.3M	$20.4M	$21.7M
Projected total Rate Revenue Increase ($)	$1.1M	$1.1M	$1.0M	$1.6M	$1.1M	$1.3M
Projected total Rate Revenue Increase (%)	18%	7%	6%	9%	6%	6%
Projected Rates as a % of revenue	57%	57%	58%	60%	61%	61%
Projected total expenditure (operating and capital)	$27.1M	$31.0M	$35.8M	$35.3M	$30.7M	$31.4M
Projected rate increase as % of total expenditure	9%	4%	3%	4%	4%	4%

	2017/18	2018/19	2019/20	2020/21	2021/22
Projected total rates	$22.9M	$24.1M	$24.3M	$25.3M	$26.4M
Projected total Rate Revenue Increase ($)	$1.2M	$1.2M	$0.2M	$1.0M	$1.1M
Projected total Rate Revenue Increase (%)	5%	5%	1%	4%	4%
Projected Rates as a % of revenue	61%	62%	61%	61%	62%
Projected total expenditure (operating and capital)	$31.6M	$32.4M	$33.1M	$33.6M	$34.7M
Projected rate increase as % of total expenditure	4%	4%	1%	3%	3%

For examples of rates for the 'average ratepayer' by areas and targeted rates, see the Funding Impact Statement on pages 64-91 of this plan.

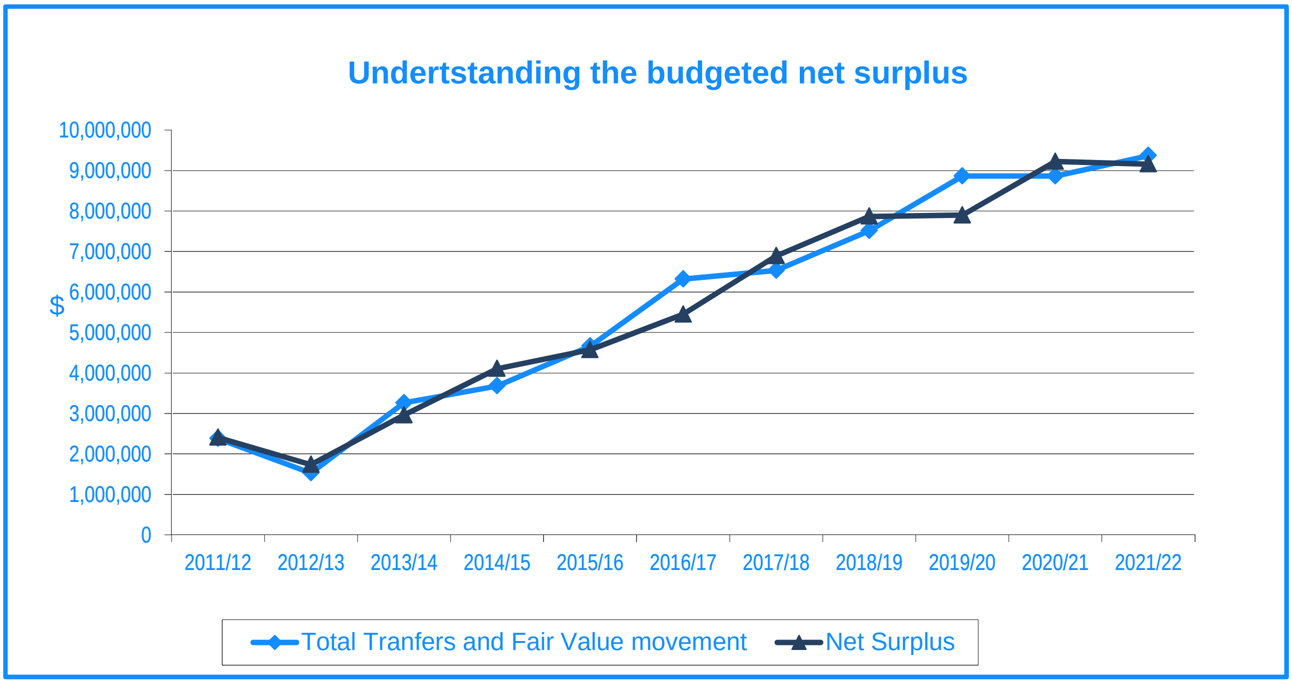
The graph below illustrates what the average rates (including GST) will be for each district commencing from the current 2011/12 financial year and ending at 2021/22. These rates include all rates levied in each district, except for the targeted river management scheme rates.



UNDERSTANDING THE BUDGETED NET SURPLUS

Council sets its rates at a sufficient level to ensure council can meet its expenditure and funding obligations. The annual *net surplus from operations* is the revenue leftover after council has paid for the cost of delivering this plan's annual operating programmes. The annual *net surplus from operations* represents the money available to fund capital expenditure; meet principal repayments on debt (internal borrowing); set aside investment revenue in the Growth and Investment Reserve; provide a small surplus to meet future contingencies.

The graph below shows the *net surplus from operations* and compares this with the net transfers to/from reserves and other gains (fair value movements). The transfers to/from reserves include the investment revenue set aside in the Growth and Investment Reserve and various internal repayments. As can be seen in the graph, the actual net surplus after taking account of the transfer to/from reserves and removing the non-cash fair value income is very modest.



GENERAL RATES

In 2012-2013 general rates will increase by 6.8%. The increase does not relate to the investment redirection as council is proposing to phase the redirection over ten years, rather than five as originally intended. Because approximately one-fifth of the total investment income (approximately $1.34 million) was redirected last year (incurring an average rate increase of $17.80), no increase in rates is required in 2012-13. In the 2013-2014 financial year there is a 6.54% increase in general rates, (1.21% relates to a general increase and 5.32% relates to the redirection of investment income). The staged phasing of redirecting investment income is completed in the 2020/2021 financial year. The Berl cost adjustor factors are included in the general rates

	2012/13	2013/14	2014/15	2015/16	2016/17
BERL Cost adjustor factors	2.4%	3.2%	3.2%	3.4%	3.5%
General rates (average increase)	6.80%	1.21%	2.35%	2.25%	2.94%
General rates (average increases) resulting from investment redirection	0.00%	5.32%	4.94%	4.56%	4.23%
Total (average) general rates	6.80%	6.54%	7.29%	6.81%	7.17%
Average increase in $ per ratepayer	$10.40	$10.68	$12.69	$12.72	$14.30

	2017/18	2018/19	2019/20	2020/21	2021/22
BERL Cost adjustor factors	3.4%	3.3%	3.3%	3.6%	3.5%
General rates (average increase)	2.55%	2.62%	2.20%	2.91%	1.91%
General rates (average increases) resulting from investment redirection	3.90%	3.63%	3.38%	3.17%	2.61%
Total (average) general rates	6.45%	6.25%	5.58%	6.09%	4.51%
Average increase in $ per ratepayer	$13.80	$14.23	$13.50	$15.53	$12.22

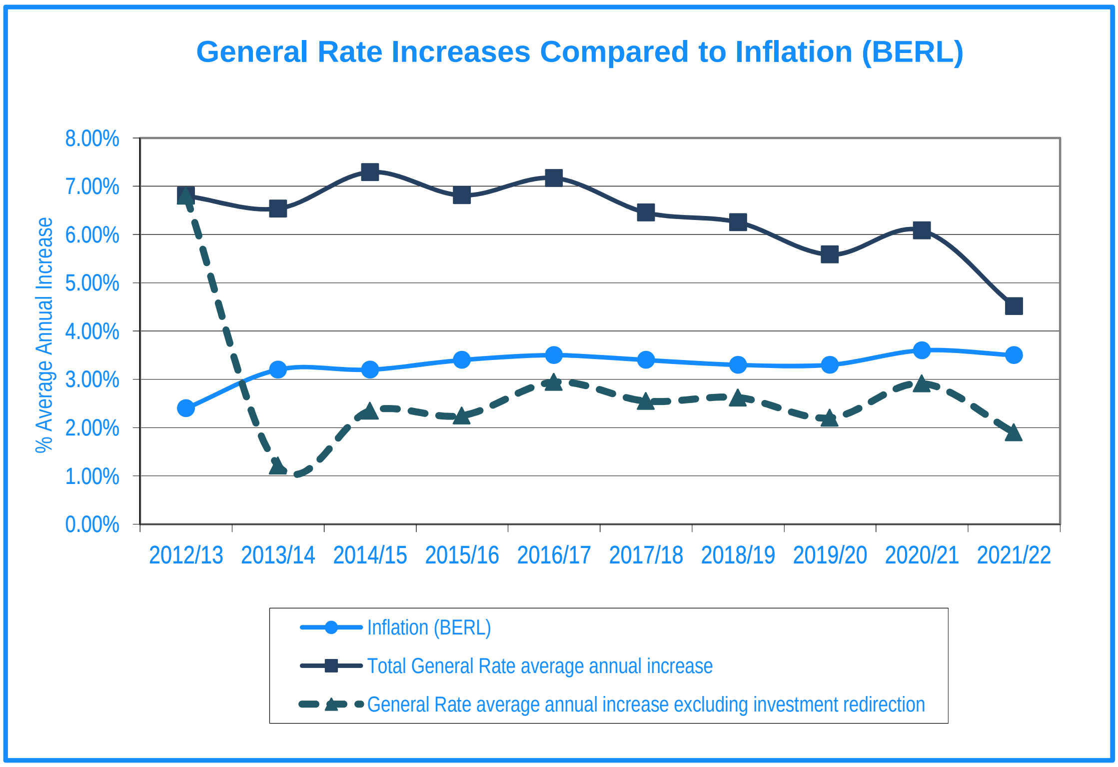
Investment and Growth Reserve
We forecast that a total of $44.89 million will have been transferred to the Investment and Growth Reserve by the end of the 2021-22 financial year for investing in economic development. This money will be spent on projects and activities that meet the funding criteria for the reserve and represent a significant opportunity for Northland to invest directly in its own success.

Years	Investment income redirected to Investment and Growth Reserve each year	Average rates subsidy no longer available per ratepayer (including GST)	Cumulative funds collected for Investment and Growth Reserve
2011-12	$ 1,342,138	$ 17.80	$ 1,342,138
2012-13	$ 1,342,138	$ 17.80	$ 2,684,276
2013-14	$ 2,013,207	$ 26.70	$ 4,697,483
2014-15	$ 2,684,276	$ 35.60	$ 7,381,759
2015-16	$ 3,355,345	$ 44.50	$10,737,104
2016-17	$ 4,026,414	$ 53.40	$14,763,518
2017-18	$ 4,697,483	$ 62.30	$19,461,001
2018-19	$ 5,368,552	$ 71.20	$24,829,553
2019-20	$ 6,039,621	$ 80.10	$30,869,174
2020-21	$ 6,710,690	$ 89.00	$37,579,864
2021-22	$ 7,305,628	$ 97.90	$44,885,492

During the phasing period, investment revenue not transferred to the Investment and Growth Reserve is applied as general funds and is used to reduce the rating requirement. If in any one year, the actual investment revenue is less than $6.7 million, council will calculate the amount to be transferred to the Investment and Growth reserve based on the actual revenue and the stage of phasing, for example in year three of the plan (year four of the phasing) 40% of the investment revenue would be transferred to the Investment and Growth Reserve. If in any one year, the actual investment revenue exceeds the forecasted revenue, the additional revenue will contribute to the surplus and form part of general funds. Council may by special resolution direct surpluses to be applied to fund particular activities.

Impact of inflation
The projected rates increases reflect the impact of the redirection of the investment income from funding operations and the impact of inflation. The full impact from price increases associated with inflation has been reduced through the use of council reserves. The forecast inflation factors developed by Business and Economic Research Limited (BERL) for the local government sector's ten year planning have been applied to the council's projected operational expenditure and revenue except for rates and the New Zealand Transport Agency's subsidies. Inflation adjustments range between 2.5-5.4% (staff costs at the lower end; electricity at the higher end).

Cost adjustors (percentage increase per annum) as set out in the forecasting assumptions on pages 166-168 have been applied over the ten year period of the plan. The graph below shows council's general rate increase compared to inflation (BERL) over the term of this plan and the amount of rate increase resulting from the investment redirection.



TARGETED RATES

The table below shows the projected targeted rate increases. Targeted rates include the various river scheme rates (including the new Kerikeri-Waipapa proposed rate), the Recreational Facilities Rate, the Regional Infrastructure Rate, the Rescue Helicopter Rate and the Transport Rate (Whāngārei only). All targeted rates, except for the river scheme rates and the Regional Recreational Facilities Rate, are constant and are projected to increase by the BERL cost adjuster only. The Regional Recreational Facilities Rate is significantly reduced (down to $279,447) in the 2019/2020 financial year as the $13 million contribution towards the Events Centre becomes fully funded and the rate ceases in 2020/21. This reduction of explains the reduced targeted rate revenue collected in those years.

Total Targeted Rates average revenue movements

2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
15.3%	6.1%	2.9%	11.9%	1.4%	1.5%	0.2%	0.2%	-19.2%	-6.7%	0.1%

PROPOSED CAPITAL EXPENDITURE ON FLOOD PROTECTION AND CONTROL WORKS

The council is looking to invest the following amounts in flood protection and flood control (River Management) capital works over the next ten years. The table shows new capital works for Kaeo, Whāngārei, Kerikeri-Waipapa and Awanui. Renewal works are also planned for Awanui, as the only scheme with assets due for replacement.

Scheme	2012/13	2013/14	2014/15	2015/16	2016/17
Kaeo	697,185			605,679	
Kaihū					
Awanui	152,805	52,805	3,921,251	58,409	58,409
Whāngārei Urban Rivers		6,876,728			
Kerikeri-Waipapa			2,130,048		
Total	849,990	6,929,533	6,051,299	664,088	58,409

Scheme	2017/18	2018/19	2019/20	2020/21	2021/22
Kaeo					
Kaihū					
Awanui	63,653	63,653	63,653	69,300	69,300
Whāngārei Urban Rivers					
Kerikeri-Waipapa					
Total	63,653	63,663	63,663	69,300	69,300

The capital infrastructure of river management schemes is expected to have a useful life of up to 150 years. Council has budgeted a 25 year loan repayment period for capital works undertaken on the Whāngārei urban river management scheme, Kerikeri-Waipapa rivers management scheme and the Awanui river management scheme. Council has budgeted a 3 year repayment period for the Kaeo river management scheme stage 1 capital works and a 7 year repayment period for the Kaeo stage 2 capital works. The actual repayment period will be agreed between council and the relevant community liaison committee and may vary.

Council will determine if the loans for capital works are to be internal or external when it borrows the funds. A loan period of 25 years is intended to achieve a degree of inter-generational equity. It allows ratepayers to fund the new infrastructure over an extended period of time, in part reflecting the the lifetime of the asset and the benefits from it. To ensure today's ratepayers are not funding both the new infrastructure and the future replacement of the same infrastructure, the funding resulting from the depreciation charge will be applied to loan repayments where renewal expenditure is not required to maintain the asset. After the loan has been repaid, depreciation will be applied to fund renewals.

The cost of funds is assumed to be 5% over the term of the loan. Any significant change in the cost of funds over the term of the loan may result in the repayment period being extended or the targeted rate being increased to service the loan. The table below shows the expected total revenue (excluding GST) to be levied by each Targeted River Management Rate over the term of the plan.

	2012/13	2013/14	2014/15	2015/16	2016/17
Targeted Awanui River Rate	422,859	422,859	850,319	850,319	850,319
Targeted Kaihū River Rate	78,611	81,127	83,723	86,570	89,599
Targeted Kaeo - Whangaroa Rivers Rate	130,784	130,784	130,784	189,732	189,732
Targeted Whāngārei Urban Rivers Rate	642,810	713,580	713,580	713,580	713,580
Targeted Kerikeri-Waipapa Rivers Rate	182,773	182,773	276,959	276,959	276,959
Total	1,457,837	1,531,123	2,055,365	2,117,160	2,120,189

	2017/18	2018/19	2019/20	2020/21	2021/22
Targeted Awanui River Rate	850,319	850,319	850,319	850,319	850,319
Targeted Kaihū River Rate	92,646	95,703	98,861	102,420	106,005
Targeted Kaeo - Whangaroa Rivers Rate	189,732	189,732	189,732	189,732	189,732
Targeted Whāngārei Urban Rivers Rate	713,580	713,580	713,580	713,580	713,580
Targeted Kerikeri-Waipapa Rivers Rate	276,959	276,959	276,959	276,959	276,959
Total	2,123,236	2,126,293	2,129,451	2,133,010	2,136,595

All the schemes that have both operational and capital works have had their rates revenue flat lined across the 10 years of the plan. The Targeted Kaihū River Rate only funds operational expenditure which is increasing by the rate of inflation.

ASSETS AND LIABILITIES

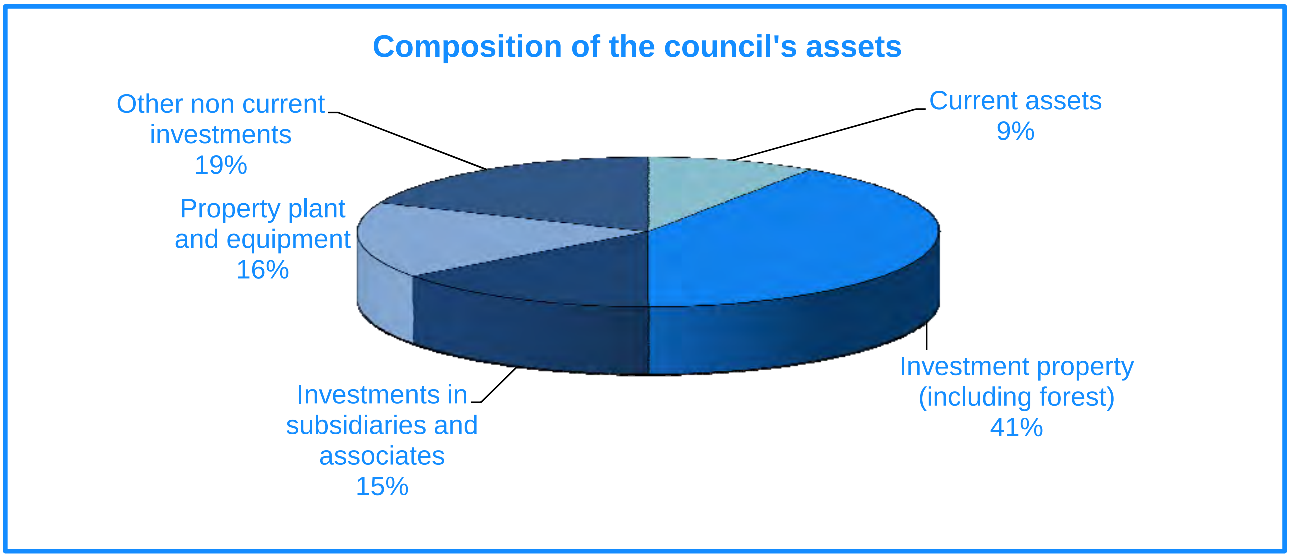
The council has a range of assets, the most significant of which (other than investments in our subsidiaries and shareholdings) are property, plant and equipment. Property, plant and equipment include infrastructure assets (river management schemes), owner-occupied land and buildings, plant and equipment, vessels, dredging equipment and navigational aids and vehicles.

The council is currently a net investor – we have not borrowed from external sources. Council's investment assets include: cash, bonds and convertible notes; land and properties (including a forest); investment in the Northland Regional Council Community Trust Fund; and a 53.61% shareholding in Northland Port Corporation (NZ) Limited. Further details on the investment objectives are provided on page 63.

Our liabilities are approximately 5% of total council assets and are largely short-term made up of trade creditor balances owing at balance date.

The most significant change is expected to be the development of further river management schemes – infrastructure assets, which will be funded using either internal funds or external borrowing and repaid from targeted rates established for each separate scheme. This plan reflects using internal borrowing.

Over the term of this plan the council's balance sheet is expected to continue having a high weighting of assets to liabilities.

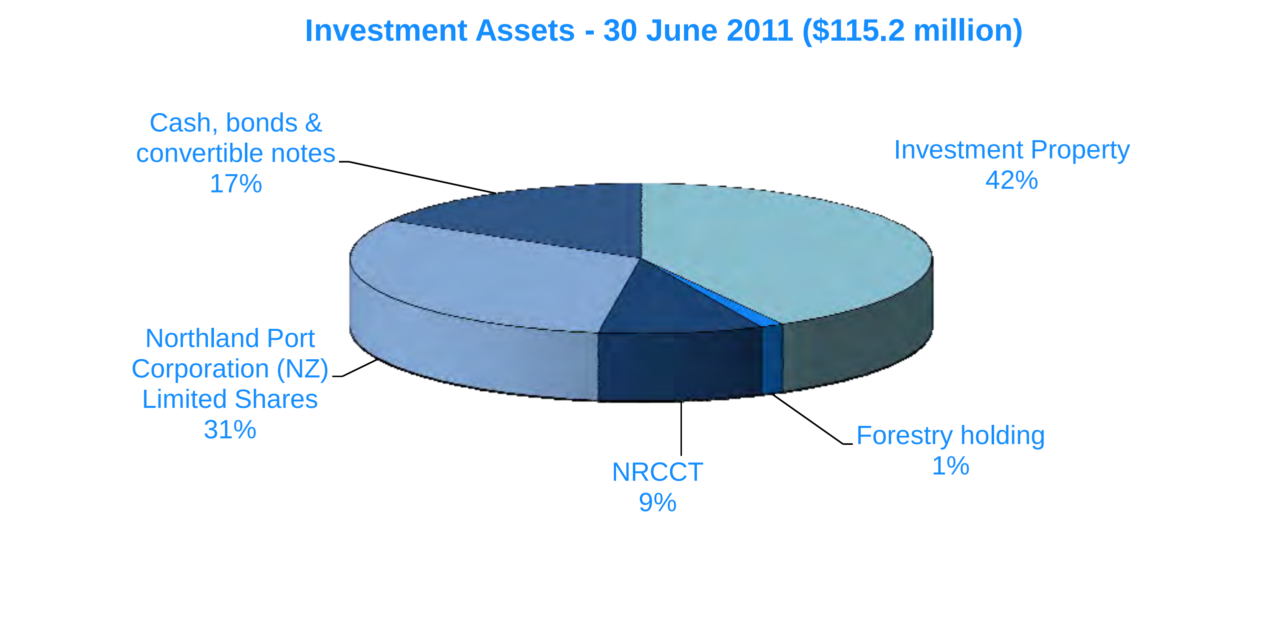


INFRASTRUCTURE ASSETS

The only infrastructure asset currently held by the council is the Awanui River Management Scheme (as at 30 June 2011). Infrastructure assets are revalued every three years and as at 30 June 2011 the scheme was valued at $8 million. An Asset Management Plan has been developed for the scheme, which sets out required maintenance and renewal expenditure to ensure the asset is appropriately managed and maintained. New infrastructure assets for the Whāngārei, Kaeo, Kerikeri-Waipapa river management schemes are planned to be built over the term of this plan and these will have Asset Management Plans developed for them. We intend to manage all these assets in accordance with their Asset Management Plans. Further information on the proposed capital works are provided on pages 15-19 of this plan.

INVESTMENT ASSETS

The council on its establishment in 1989 was vested with a number of leasehold investment properties and the Northland North Port Corporation (NZ) Ltd. As at 30 June 2011, council held the following assets:



The values above reflect market values at 30 June 2011. The council's Annual Report lists the historical value of Northland Port Corporation Limited which is $7,827,563.

The capital value of the council's non-cash investments is subject to market fluctuations, but generally over the long term, council considers the value will appreciate at a rate similar to or greater than inflation. Council is not intending to take active steps to maintain the real value of its investments in stocks, bonds and convertible notes given the current market conditions and its desire to use investment income for economic development projects. The exception is for the Northland Regional Council Community Trust Fund. Council intends to maintain the real value of the capital of the Northland Regional Council Community Trust Fund of $10.25 million by increasing the capital amount of the fund by the level of inflation forecast for each year of this plan. The fund's capital value may be subject to market fluctuations that are beyond the control of the council. Regardless of the nature and level of market fluctuations, council aims to increase the capital value of the fund, based on the opening capital value of $10.25 million. The inflation adjustment factors are based on BERL price adjustors and the annual inflation proofing adjustments are shown in the table below:

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
BERL Price Adjustor		2.40%	3.20%	3.20%	3.40%	3.50%	3.40%	3.30%	3.30%	3.60%	3.50%
Total value of fund at the end of the year (millions)	$10.253	$10.499	$10.835	$11.182	$11.562	$11.967	$12.374	$12.782	$13.204	$13.680	$14.158
Index	1000	1024	1057	1091	1128	1167	1207	1247	1288	1334	1381

We will continue to evaluate our investment portfolio to ensure its investment mix is appropriately diversified and is achieving the best possible return while managing risk. Over time the council intends to increase its direct investment in Northland to benefit the local economy where this is compatible with a balanced approach to our investments. Our Treasury Management Policy is informed by expert advice and contains the criteria by which our investment decisions are made.

INTERNAL AND EXTERNAL BORROWING

The council is currently a net investor and does not borrow from external sources. To date we have been able to use internal funds for large projects, such as the establishment of the Northland Events Centre and capital expenditure on river management schemes. In simple terms, internal borrowing means the council has been able to borrow from itself, by borrowing from its own reserves. Internal borrowing is beneficial as it means council does not have to raise expensive third party loans to fund its capital expenditure and at the same time seek secure and diverse investments for its available funds. Repayments (both capital and interest) are made from the appropriate targeted rate and interest is charged in a similar manner to council borrowing funds from a bank or other external party.

On some occasions, it may be financially advantageous to borrow externally even when the council has available reserves. This will particularly be the case if council investments earn a higher rate of return than the cost to borrow externally. The council intends to join the Local Government Funding Agency (LGFA) as a principle shareholder which will give us the ability to borrow from the agency on very competitive borrowing terms. Where it is financially prudent to do so, council may elect to access debt through the LGFA to take advantage of opportunities to invest in economic development projects.

For the purposes of budgeting, the cost of funds applied to internal borrowing for all loans established after 1 July 2012 is set at 5%. The cost of funds applied to borrowing that commenced prior to 1 July 2009 is set at 7%. The different rates reflect the rate of return that could have been achieved had the funds that were borrowed been available to invest in stocks and bonds at that time. If there are marked changes to the cost of borrowing from the LGFA or the return available on safe investments, the council may (by special resolution) set an internal borrowing rate that reflects the actual market conditions at the time the internal loan is established.

BORROWING LIMITS

Debt will be managed within the following macro limits. Financial covenants are measured on council only, not the consolidated group.

Financial covenant	Limit
Net debt/total revenue	<175%
Net interest/total revenue	<20%
Net interest/annual rates revenue	<25%
Liquidity	>110%

Total revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non government capital contributions (e.g. vested assets).
Net debt is defined as total debt less liquid financial assets and investments.
Liquidity is defined as external debt plus committed loan facilities plus liquid investments dividend by external debt.
Financial covenants are measured on council only, not the consolidated group.

FUNDING PRINCIPLES

The funding of activities and work programmes is based upon a number of principles. The application of these principles is outlined in the *Revenue and Financing Policy* on pages 206-215. First is the principle of beneficiary or exacerbator pays. Where a party directly benefits from the service provided by the council or causes the council to provide a service or incur expenditure, then where possible that party directly pays for that service.

Second, where the council is providing services that are part of national programmes or there are government subsidies for providing certain services, then the council will claim for those government grants/subsidies.

Third, where the council provides services to a specific area or group within the regional community but there is no mechanism to direct charge those beneficiaries or exacerbators, then the council will use targeted rates to match the costs and benefits of these services.

The balance of council's funding requirements will be funded by general funds. Targeted general rates (made up of the Targeted Land Management Rate and the Targeted Council Services Rate) are used to fund public goods where it is impossible or impractical to clearly identify customers or users, or to fully recover costs from users or exacerbators. Targeted general rates are also used to fund those activities that council considers to provide a public benefit or public good. For reasons of fairness and equity, targeted general rates are considered to be the most appropriate way in which to fund these activities.

The council's investment income was traditionally used to reduce general funding (that is, it subsidised the Targeted Council Services Rate and the Targeted Land Management Rate requirement). Until last year all of the council's investment income helped fund council operations, providing a rates subsidy of about 20%. Following public consultation for the 2011/2012 Annual Plan, the council decided to re-direct its investment income into the Northland Regional Council Investment and Growth Reserve. The redirection started in July 2011 and is being phased in over the next ten years of this plan. During the transition period, net investment revenue available for general funds will be applied to reduce the rating burden and will fall within general rates/funds.

POLICY ON GIVING SECURITIES FOR BORROWING

Council's borrowings and interest rate risk management instruments will generally be secured by way of a charge over rates and rates revenue. Where appropriate council may seek project financing which may have a charge over the project or specific assets rather than rates. The use of special funds and reserve funds – and internal borrowing of special funds/reserve funds and other funds – will be on an unsecured basis.

If council borrows externally, it will need to put in place a debenture trust deed prior to accessing external funding. In such circumstances, the security offered by council ranks 'Pari Passu' for all stock issues by council. Under a debenture trust deed the council's borrowing is secured by a floating charge over all council rates levied under the Rating Act. From time to time, with prior council and debenture trustee approval, security may be offered by providing a charge over one or more of council's assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset which it funds (such as operating lease or project finance).
- Council considers a charge over physical assets to be appropriate.
- Any pledging of physical assets must comply with the terms and conditions contained within the debenture trust deed.

Council also proposes to become a principal shareholder in the Local Government Funding Agency (LGFA) – see pages 37-40 of this plan for further information. As a principal shareholding local authority in the LGFA, the council would be required to:

- Subscribe for uncalled capital in LGFA which would have to be paid up in the event that the LGFA required more capital.
- Enter into guarantees in favour of LGFA and other local authorities, and enter into certain equity commitments.

As a principle shareholder, the council would be able to borrow from the LGFA and, in connection with that borrowing, enter into the following related transactions to the extent it considers necessary or desirable.

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA;
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- Subscribe for shares and uncalled capital in the LGFA; and
- 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.

INVESTMENT MANAGEMENT

Council aims to manage its assets prudently and its general objectives are to:

- Manage investments to optimise returns in the long term whilst balancing the risk and return considerations;
- Safeguard its assets/capital;
- Have a diverse portfolio (to manage the risk) but increase the investment in Northland over time;
- Focus on economic benefits/economic wellbeing from investments in projects or activities;
- Retain the Northland Port Corporation (NZ) Limited as this is deemed to be a strategic asset;
- Minimise the council's costs and risks in the management of its borrowings;
- Minimise the council's exposure to adverse interest rate movements;

- Borrow funds and transact risk management instruments within an environment of control and compliance under the council approved Treasury Risk Management Policy so as to protect the council's financial assets and costs; and
- To comply with the financial ratios and limits stated within the Treasury Management Policy.

The council recognises that as a responsible public authority all investments held should be low risk in terms of balancing capital risk to return considerations. Council also recognises that low risk investments generally mean lower potential returns.

INVESTMENT MIX

Council maintains a diverse range of investments, which may include the following assets:

- Direct equity investments in CCO/CCTO's and other shareholdings;
- Property investments including land, buildings, ground leases, farms and forests and land held for development;
- In-house managed financial investments with the assistance of advisory services, incorporating the management of working capital and longer term fixed income investments.

COUNCIL'S OBJECTIVES FOR HOLDING AND MANAGING INVESTMENTS

Investment	Objective for holding investment	Targeted return
Investment property (freehold and leasehold)	To provide an income stream be available for projects that contributes towards economic wellbeing for Northland. Subject to the powers and provisions conferred under the Local Government Act 2002, Public Bodies Leases Act 1969 and the Property Act 2007 to achieve the best commercial return possible on all investment properties. To meet statutory obligations in relation to endowment properties. To hold assets on behalf of the regional community for strategic protection/development of the region.	>6.5%
Northland Port Corporation (NZ) Limited - 53.61% shareholding	To provide an income stream be available for projects that contributes towards economic wellbeing for Northland. To hold an investment asset on behalf of and for the benefit of Northland. To recognise and optimise both the strategic and economic significant the Port contributes to the region. To optimise the ports activities with the economic structure of the Northland Region. The Local Government Act 2002 classifies a local authority's shareholding in a port company as a Strategic Asset.	Dividend >$1.4 million
Investments in bonds and convertible notes	To provide an income stream be available for projects that contributes towards economic wellbeing for Northland. Protection of council's investment council's investment capital and maximising returns.	>50bps above 90 day bank bill rate
Forestry holding	To provide an income stream be available for projects that contributes towards economic wellbeing for Northland. Development, maintenance and protection of council's timber plantations in order to maximise long term revenue whilst meeting council's environmental responsibilities.	7% pa internal rate of return to 2041
Northland Regional Council Community Trust fund (applied to fund economic development in Northland)	To fulfil the objectives outlined in the NRCCT Trust Deed (i.e. to "promote and encourage the development of a vibrant economy that creates wealth and jobs and provides choices and opportunities for people to live, work and invest in Northland, while recognising the value of its unique environment for present and future generations").	>6%

MEASURES OF FINANCIAL HEALTH

Several financial heath measures have been developed to demonstrate trends of financial sustainability over the period of this plan. These measures are shown in the table below.

Return on investment assets
This metric shows the amount of interest and dividend income generated each year by the council's total investment asset base.

2010/11	2011/12	2012/13	2013/14	2014/15	201516	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
10.0%	5.4%	5.0%	5.2%	5.1%	4.9%	4.9%	4.9%	4.8%	4.7%	4.7%	4.8%

Rates to total revenue
This metric shows the percentage of council's total revenue that is collected through rates.

2010/11	2011/12	2012/13	2013/14	2014/15	201516	2016/17	2017/18	2018/19	2019/2020	2020/21	2021/22
53.0%	56.9%	56.8%	58.3%	60.1%	60.3%	61.1%	61.8%	62.1%	61.6%	60.9%	61.7%

General rates to total rates
This metric shows the percentage of council's total rate revenue that is collected through rates.

2010/11	2011/12	2012/13	2013/14	2014/15	201516	2016/17	2017/18	2018/19	2019/2020	2020/21	2021/22
71.7%	73.9%	74.2%	75.0%	74.3%	75.4%	76.4%	77.6%	78.7%	82.9%	84.7%	85.3%