

Section 8 - COUNCIL CONTROLLED ORGANISATIONS

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Council Controlled Organisations

The Local Government Act 2002 requires Council to include in the 10-year Plan information on those organisations in which it is a stakeholder. In particular, Council must include:

- a) its significant policies and objectives regarding ownership and control of the organisation;
- b) the nature and scope of the activities to be provided by the organisation; and
- c) the key performance targets and other measures by which performance may be judged.

Council is a shareholder in three organisations that are classified as council controlled organisations as defined by the Local Government Act. The organisations are:

1. Waikato Regional Airport Limited (Hamilton International Airport);
2. NZ Local Government Insurance Corporation (NZLGIC); and
3. Local Authority Shared Services Limited (LASS).

Waikato Regional Airport Limited (WRAL)

Waikato Regional Airport Ltd (Hamilton International Airport) is jointly owned by five local authorities - Hamilton City, Waikato District, Waipa District, Otorohanga District and Matamata-Piako District Councils.

Waipa District Council's shareholding is 15.625%.

Corporate Mission

The mission of Waikato Regional Airport is to operate a successful commercial business providing safe, appropriate and efficient services for the transportation of people and freight in and out of Hamilton Airport.

Goal

The retention of the Airport as a major infrastructural facility is important to the Waikato economy.

A Statement of Intent provided by the Airport Company (as required by Section 64 of the Local Government Act 2002) is available but does not form part of this Plan.

Policies and Objectives

Council intends to maintain its current shareholding for the foreseeable future. There are no formal policies or objectives relating to ownership and control of Waikato Regional Airport.

Nature and Scope of Activities

The nature and scope of the activities for the company is to:

- a) Operate Hamilton International Airport efficiently on sound business principles and in accordance with the safety provisions of the Aerodrome Certification Exposition.

- b) Seek opportunities to widen its revenue base in areas consistent with its core business.
- c) Review the rolling five year capital works programme and associated funding strategy, with the intent that the business as usual programme will be self-funding.
- d) Work with McConnell Property Limited, Joint Venture Partner, to develop land for commercial/industrial/retail purposes.
- e) Within the joint venture agreement maximise the return of surplus airport land to the shareholders.
- f) Fulfil its purchase obligations associated with the Montgomerie Block farm in 2010.
- g) Undertake further review work on a proposed runway extension to the north.
- h) Undertake an annual review of the condition of the company's paved areas.
- i) Undertake major capital expenditure as budgeted.
- j) Explore the retention and growth in domestic and international routes with existing and potential new airlines and work to develop joint marketing strategies in support of these initiatives.

Performance Targets

(Extracted from the Company's 5 year Business Plan and subject to change)	Year Ended 30 June		
	2009	2010	2011
Net profit after tax to average shareholders' funds	0.50%	0.76%	0.65%
Net profit before tax/interest to total assets	2.28%	2.37%	2.28%
Net profit after tax to total assets	0.32%	0.55%	0.48%
Net profit before tax/interest to average shareholders' funds	3.49%	3.29%	3.13%
Percentage of Non Landing Charges Revenue	81.42%	78.59%	78.90%
<ul style="list-style-type: none"> ▪ Non-landing charges revenue is defined as revenue that has not been recovered directly from airlines. 			
Earnings before Interest, Taxation & Depreciation (EBITDA)	2,878,199	3,018,928	3,064,081
Total Liabilities/Shareholders Funds: (Debt/Equity Ratio)	26:74	27:73	27:73
Interest Rate Cover			
The interest cover measures the number of times the Net Profit Before Interest, Tax and Depreciation (EBITDA) covers interest paid on debt and is used as an indicator of under-capitalisation. The forecast interest coverage of 2.4:1 for 2008/2009 complies with the ASB Bank's requirement that the interest rate coverage ratio does not fall below 1.5.			

During May 2004 the shareholders of WRAL (of which Council has a 15.625% shareholding) authorised the company to issue further shares totalling \$21.6 million to existing shareholders.

This capital restructure was part of the WRAL Airport Development and has allowed WRAL to borrow at commercially favourable interest rates. Although at the time there were no plans to call up the capital, Council has recorded a contingent liability for \$3.375 million for uncalled capital in its financial statements.

With the loss of Air New Zealand as the international carrier, the resulting significant impact on operating revenues and the requirement to meet banking covenants, a portion of this uncalled capital will be called up from all five shareholders in July 2009. Council's share of this call is \$1.875 million, being 183,464 ordinary shares of \$10.22 per share. The additional investment will be funded by borrowing, and the contingent liability will be reduced to \$1.5 million.



Hamilton International Airport

New Zealand Local Government Insurance Corporation (NZLGIC)

NZLGIC is wholly owned by New Zealand city, district and regional councils. It provides a range of products and services to prevent loss and manage risk.

Waipa District Council's shareholding is 0.3%.

Local Authority Shared Services Limited (LASS)

Shareholders

Local Authority Shared Services Limited (LASS) is jointly owned by 13 local authorities:

- Waikato Regional Council
- Hamilton City Council
- Franklin District Council
- Hauraki District Council
- Matamata-Piako District Council
- Otorohanga District Council
- Rotorua District Council
- South Waikato District Council
- Taupo District Council
- Thames-Coromandel District Council
- Waikato District Council
- Waipa District Council
- Waitomo District Council

Background

The local authorities within the boundaries of the Waikato region have adopted shared services as a mechanism for providing back of office type services in a coordinated manner across the Region to leverage opportunities and deliver benefits. Over the period that LASS has been operating, the following positive outcomes have been achieved:

- Improved level and quality of service provided through the Shared Valuation Database Service;
- Coordinated approach to the provision of services;
- Reductions in the cost of services;
- Opportunity to develop new initiatives;
- Opportunity for all councils, irrespective of location or size, to benefit from joint initiatives; and
- Economies of scale, resulting in cost savings, have been achieved in procurement.

There are two shared services currently operating. The Shared Valuation Database Service provides valuation data services to Councils and has been set up to ensure that valuation data is both accurate and current. The Waikato Regional Transport Model has been developed to collect information on traffic type and flows which will be used to develop a transport model for the Waikato region. New services will only be adopted where a business case shows that they provide some form of benefit to the shareholders.

Council Policies and Objectives Relating to Council Controlled Organisations

The Constitution of Local Authority Shared Services Limited sets out the principles and expectations around how the company will be governed and operated. While Council has no formal policies and objectives, it has become a shareholder on the basis that the company will develop products and services of significant benefit to Waipa residents and ratepayers.

Company Objectives

The objective of the company is to provide Waikato region's local authorities with a vehicle to procure shared services. It provides a mechanism for the development of new services which are available to any shareholder that chooses to join. It also provides those Councils that wish to develop new services with a company structure under which they can develop and promote services to other local authorities.

Nature and Scope of Activities

The nature and scope of the activities for the company is to:

- a) Provide shared services to all local authorities within the Waikato region.
- b) Sell processes and systems as set up under individual agreements to local authorities outside the Waikato region.
- c) Consider all opportunities to procure shared services that will benefit the community, either through enhanced services and/or reduced cost.
- d) Give consideration to developing shared services that local authorities of the Region believe are of value. The objective is to provide the most effective access to regional information that may be of value to the community using modern technology and processes.
- e) Obtain a financial return from commercial users of information collected by councils.
- f) Explore all possible avenues to provide these services itself or contract them from other parties, each depending on a rigorous business case and risk assessment.
- g) Provide opportunities for development of systems and processes that utilises intellectual property developed by Councils and on selling data and services/systems to commercial users for a market based financial return.

Performance Targets

Performance targets relate to the level of services that are current or under development and it is envisaged that these targets will change as new services are developed. The targets include:

- Positive cash flow will be maintained so that the equity ratio is maintained at a minimum of 40%.
- LASS shareholders will be surveyed annually to ensure that there is at least 90% satisfaction with the services provided.
- Expenditure shall not exceed that budgeted by more than 5% unless prior approval is obtained from the Directors.
- The Board will provide a written report on the business operations and financial position of the LASS on a six monthly basis.