

HURUNUI DISTRICT COUNCIL

MINUTES



Meeting Finance, Audit and Risk Committee
Time and Date 9.30am, 11 May 2017
Venue Council Chambers, 66 Carters Road, Amberley

Members Present Cr Dick Davison (Chairperson), Mayor Winton Dalley, Councillors Marie Black and Geoff Shier.

In Attendance Councillors Julia McLean and Michael Ward.
Hamish Dobbie (Chief Executive Officer), Jason Beck (Manager Support Services) Joanne Laphorne (Team Leader Finance) and Graham Sutherland (Council Secretary).

Apologies Cr Vince Daly – leave of absence.

Conflict of Interest Declarations Nil.

Health and Safety The Chairperson advised of the exits and assembly point to be used in the event of an emergency.

Recording Device A recording device was used for the purpose of accuracy of the minutes.

Urgent Business Cr Davison asked officers for an update and response to the Havelock North stage 1 enquiry results recently released regarding water supply issues. This was discussed later in the meeting.

1. Minutes THAT THE MINUTES OF THE FINANCE, AUDIT AND RISK COMMITTEE MEETING HELD ON 20 APRIL 2017 ARE CONFIRMED.

Davison/Black

CARRIED

Matters arising

- Cr Black noted the discussion and Committee decision at the last meeting about the Council being outside its policy for fixed rate borrowing. She said she did not want the Committee to lose sight of this matter. Cr Davison agreed and said the Treasury Adviser was presenting to the 25 May Council meeting and a review of the policy would be undertaken following that.

2. Action Sheet The Action Sheet was provided for the information of the Committee.

- With respect to the action item regarding district-wide sharing of costs when Council errors affected local ratepayers, the Manager Support Services said it was difficult to predict errors the Council may make and every case is different. He said that having a broad policy to deal with this is not simple. Mayor Dalley said it was unique circumstances that arose in that case with the Hearings Commissioner attaching a specific timeframe to the use of the

development contributions collected and the lack of an amenity plan for the work in the village, which all contributed to the error being made. He agreed that this sort of thing would be hard to put an effective policy around. The Manager Support Services said the Council would inevitably make mistakes and for each issue that develops, officers would by necessity deal with it on a case by case basis. He said that whether there was a general rate contribution to address the impacts of the error would depend on the nature of the matter.

Cr Davison said the Committee has considered this matter and he felt that normal Council processes and specific improvements when things do go wrong, will prevent similar occurrences as much as possible. He said it may not be worth putting officers' time and effort into a policy that should be covered by normal checks and balances. Mayor Dalley said that a decision about the costs of an error being covered district-wide rather than by a local community can be made by the Council when considering each matter case by case.

THAT THE COMMITTEE NOTES THAT IT DISCUSSED THE ACTION ITEM ABOVE AND AGREED THAT IT BE REMOVED FROM THE ACTION SHEET AND NO FURTHER ACTION BE TAKEN.

Dalley/Shier

CARRIED

THAT THE INFORMATION BE RECEIVED.

Shier/Dalley

CARRIED

3. Forward Programme

The Forward Programme was provided for the information of the Committee.

THAT THE INFORMATION BE RECEIVED.

Black/Shier

CARRIED

4. FINANCE ITEMS

4.1 Financial Report as at the end of April 2017

The Manager Support Services separately circulated the Financial Report for the end of April 2017. He noted that the Council was \$3.5M up on income and this included \$2.5M New Zealand Transport Agency (NZTA) subsidies for earthquake work. He said that operational costs were up \$4.5M, primarily in earthquake response costs. Capital expenditure was budgeted for \$17M, and predicted to be \$14M at this stage, but was only sitting at \$7M, with key capital projects deferred due to resourcing issues and other delays.

The Chief Executive Officer said the main reason for deferrals in capital projects was the lack of internal resources to manage projects, as many were devoted to other areas in earthquake recovery work, so it was not a funding issue but one of available officers. The Manager Support Services said this situation provided some relief to the overall debt position, but it was not the reason for deferring projects.

With respect to Roadside Construction, Cr Ward suggested that contemplating the trip hazard assessment, was not a good way to phrase this and he noted that the assessment was completed, but now it needed a process in place for the most efficient way to get the work done. The Manager Support Services said the capital expenditure programme in this activity was deferred, with the emphasis now on trip hazards.

In the area of Reserves, income was up on budget due to farm revenue and the Manager Support Services said that the Scargill community runs a farm on the reserve and sold some livestock. He said this sits in the cost centre as part of Glenmark reserves. Mayor Dalley noted that this happens elsewhere and the Waiau Reserves Advisory Group runs a farm also. The Manager Support Services also noted that the final payment of \$50,000 to the Hanmer Springs forest camp was paid the previous day and this completes the \$300,000 budgeted contribution to this project. He said the official opening was scheduled for 29 May 2017.

The Manager Support Services noted there was a spike in costs in April due to the Hanmer Springs fire and noted that there was an error in that section as it showed a \$160,000 variance against a \$40,000 budget. He said this would need correcting. He said there were some more costs to come in April but the Council would get some of that back.

In the area of Regulatory services, it was down on income for resource management and compliance, as consent fees were lower, but also down on staff and legal costs for the District Plan review not being spent. Cr Davison said the District Plan appeal processes were well underway, with an update coming to the Regulatory Committee soon and he said some costs may need to be carried forward in this area.

With respect to Compliance and Regulatory functions, the Building activity was down on budget. Cr Davison said he was aware that some of the building team were being supportive and generous by helping earthquake-affected people, with some costs not coming back to the Council for that work. He asked if any of this would be recoverable from government. The Manager Support Services said the Council had applied for some of those costs and Mayor Dalley noted that there had been a grant across the three affected District Councils to cover regulatory costs, like building inspectors. He said he was aware of a lot of non-chargeable time for officers being done for the good of community and he hoped the Council can apply for some of this funding. Mayor Dalley commented that the Team Leader Building in particular has been outstanding with giving advice to the affected community.

It was noted that the Thermal Pools surplus was down \$160,000 on budget for the 10 month period and Cr Davison said that with only two months remaining, it was likely to be back a bit for the year. He said the Council would still get its \$2M dividend, but the result does affect the pools internal financial position. The Manager Support Services noted that the Thermal Pools Chairperson and General Manager would attend a meeting in July, for its regular update. He said this may come to the Council meeting rather than Finance, Audit and Risk Committee.

In response to a question from Cr Davison about the costs of the Amberley building renovation, the Chief Executive Officer said all costs were in now and the Council had received payment from ECan of about \$500,000, which was the full contribution. He noted that a significant component of the cost was for the asbestos removal.

With respect to Earthquake recovery, the Manager Support Services said there was no budget allocated, but \$4.5M of the costs of \$6.5M is for roading and \$3.5M subsidies were received to date. He said this is based on 71% Financial Assistance Rate and it was later confirmed at 84%, so there would be more to come soon. He said there was about \$800,000 spent relating to the emergency response itself and

another \$300,000 relating to welfare, for which the Council was waiting on reimbursement from the Government.

Cr Davison commented that the earthquake roading subsidy was clear but it was not clear what the Council can claim in recoveries from the Government for other related costs. In response to a question from Cr Shier regarding who was responsible for managing the matter of recoveries, the Chief Executive Officer said he was ultimately responsible, with the main work done by the recovery team, which reports to him. He said the recovery team role will eventually fall to the management team after the transition period ends. Cr Davison asked if there was sufficient capacity to understand all the pronouncements from government and to keep on top of what is available. The Chief Executive Officer said the recovery team was giving due attention to this and noted that some funding was not to the Council directly, whereas some is, and he agreed that some was not well defined.

Cr Shier sought clarification of why the property report shows two properties sold with one in operating and one in the capital account. The Manager Support Services said this was because the Ensors Road properties were held as properties for sale following subdivision and treated like trading stock, whereas the Motunau Beach property was a normal sale of surplus property. He said this would be tidied up at year end.

THAT THE INFORMATION BE RECEIVED.

Davison/Shier

CARRIED

**4.2 Rates
Arrears as at
the end of April
2017**

The Manager Support Services provided a report scheduling how the collection of rates has occurred over time. With the rates being invoiced in April for payment in May, the balance of the rates owing spikes for the month, which fits into the normal pattern. The amount of rates owed as at 30 April 2017 was \$5,159,695.09 while at the same point last year, the amount owing was \$4,836,895.45. With this being the last instalment of the year, those ratepayers who have paid their full rates in advance have finally caught up with the invoices and consequently, the balance of rates paid in advance has dropped from \$381,178.10 in March to \$523,558.72. The number of ratepayers who have paid in advance has dropped from 1,981 to 206. There has been no movement on the issue of the ratepayer who currently owes in excess of \$20,000. The ratepayer has been advised of the Council's Rates Postponement Policy as an option to deal with the current level of arrears.

With respect to the Earthquake Rates Remission Policy, the Council has processed 26 applications, at a cost to date of \$23,402.11 (including GST). In response to a question from Cr Davison regarding properties that were still uninhabitable, the Manager Support Services said those owners can apply as of right to this financial year, unless they can re-enter the property before 30 June. He said the Council will need a new policy in the new financial year. The Manager Support Services said there is work being done by QV on identifying those properties and they will look at land value and assess damage to houses and value them accordingly. He said these properties would still pick up some fixed charges though.

THAT THE INFORMATION BE RECEIVED.

Shier/Black

CARRIED

**4.3 Treasury
Position as at
the end of April
2017**

The Manager Support Services provided the Treasury Worksheet, which is updated on a monthly basis and forms part of the full Treasury Report provided to him prior to the monthly meeting with the Council's Treasury Advisor, Brett Johanson from PriceWaterhouseCoopers. It was noted that the Treasury Advisor would be attending the 25 May 2017 Council meeting for an update with the Council.

The report showed the compliance with the Treasury Risk Management Policy. Currently the Council is not compliant with the treasury policy in that it has only 45% of forecast debt set in Fixed Rates, whereas the policy requires it to be between 55% and 90%. This was highlighted at last month's Finance Audit and Risk Committee meeting and it was resolved that no further hedging would occur until the Council had the opportunity to review the Treasury Risk Management Policy.

The 12 month forecast of core debt is set at \$32.5 million. The Annual Plan forecast is that the Council shall be in debt by \$31 million but an allowance has been made for earthquake recovery issues. The report graphically depicted the drawn and available debt as at 28 February 2017. Currently, the Council is sitting at \$23.5 million of debt with \$23 million of the debt currently held with the Local Government Funding Agency (LGFA). The Council also has the \$9 million facility with Westpac, of which \$500,000 has been pulled down to assist cash flow. The interest cost for the Westpac Debt is a weighted average of 1.09% on top of the 90 day bank bill rate, while the LGFA debt weighted average interest cost is now 0.73% on top. The Manager Support Services commented that the first tranche of LGFA debt was due in December 2017 and said the Council can handle this with cashflow, but noted it was the first significant tranche of debt taken with LGFA, so refinancing was now proceeding. In response to a question from Cr Shier, the Manager Support Services said the 17th of the month was a standard date for LGFA debt maturity.

The report set out the level of interest rate swaps that the Council holds. The Council has entered into these swaps to create a level of fixed interest rates as all of the bank funding is set on floating rates. The Council currently has \$16.5 million of live swaps and a further \$2.0 million of forward swaps.

THAT THE INFORMATION BE RECEIVED.

Shier/Davison

CARRIED

**4.4
Reappointment
of Enterprise
North
Canterbury
Trustee**

The Chief Executive Officer advised that Enterprise North Canterbury is a Council controlled organisation which provides economic development services to the Hurunui and Waimakariri District Councils. The second term of Enterprise North Canterbury Trustee Ron van Til has been completed. The Trust Deed states a retiring Trustee is eligible for reappointment by the Councils jointly but no Trustee shall be a Trustee for more than three consecutive terms. All retiring Trustees are eligible for reappointment and Ron van Til has indicated his willingness to serve another term as Trustee. The remaining Trustees recommend his reappointment.

The Trustee resides in the Waimakariri district and has extensive business interests in the community. He has supply contracts with most leading multinational food companies in both New Zealand and Australia. Over his time as Trustee, he has provided significant input into the governance of Enterprise North Canterbury.

THAT THE COUNCIL REAPPOINTS RON VAN TIL AS A TRUSTEE OF ENTERPRISE NORTH CANTERBURY

Black/Dalley

CARRIED

5. AUDIT ITEMS

5.1 Audit New Zealand Management Report – Action Points – April 2017

The Manager Support Services provided the Action Point Report that was developed to provide a recording system to ensure that the recommendations made by Audit New Zealand as part of the Management Report are systematically dealt with. He advised that a further review needs to be carried out with the Management Team to ensure that there is clear direction for dealing with the issues raised. A number of the issue raised are dealing with Fixed Assets and capacity issues within the Finance Team, both of which are being actively dealt with through the use of an external consultant. Council auditors Bede Kearney and Karina Page were in attendance to discuss this report with the Committee. *(This item was taken first in the meeting but recorded in the minutes as it appeared in the agenda.)*

The Manager Support Services said the action item report in the agenda was intended to keep everything in front of the Council and getting to the point of ticking the issues off as they are completed. He noted that he had circulated the Audit NZ planning letters to the Committee by email which the auditors may wish to talk about. He also noted that he had a copy of the proposal from the consultant commissioned to look at the matter of capacity in the Finance Team. He handed out a copy for members' information but noted it was specifically intended for the Chief Executive Officer and Manager Support Services.

Cr Davison noted that this matter had been discussed by the Committee before and identified as an issue for some time. He said he had not seen the report, but he expected that the recommendations will be useful to resolve the issue and he hoped the auditors will not have to report again on this matter. The Manager Support Services said it would still be a work in progress, but by the time the auditors come in September for the Annual Report he was confident officers will have most things addressed, if not completed, by then.

With respect to the audit process the Manager Support Services highlighted what he considered to be the Council's Achilles heel currently, which is fixed assets, primarily roading and 3Waters assets, and the processes in place to record these correctly. He said the immediate focus is to understand where the pinch points are in current practices and to work through these. Things like roading asset additions and capitalising work in progress, need to be accurately recorded in the general ledger and reflected appropriately in asset management databases. He said the problem is that the RAMM was not integrated with the Council's general ledger system, so spending money on asset improvement is not reflected properly.

Cr Davison noted that the Council had struggled with this and asked the auditors how common this was nationally. Bede Kearney said it was common in roading as RAMM, which was mandated by NZTA, does not link well to Council financial records and 3Waters has its own systems too. He said some issues were unresolvable and some may need to be more manual and require capacity to do a manual crossover. He commented that this was a bigger issue due to the earthquake and damage to assets and how it is translated from physical damage to impairing the asset and accounting for restoration expenditure. He said for the Inland Road for example, there were discussions with NZTA about what they are spending on the Council's asset, as if they repairing assets then there is probable improvement and therefore this presents a challenge about how to account for betterment. He said there was a need to have higher accountability this year rather

than in a normal year but he said if the process was not completed in time, the auditors would need to look at how to get through the Annual Report process.

Mayor Dalley commented that there must be some processes learned now as many disasters have been experienced throughout the country recently. Bede Kearney said he understands the matter from an accounting process but for asset managers and how they are accounting for it will influence what information the Council can obtain. He said they need to have discussions with relevant agencies about this. The Manager Support Services said that NZTA was effectively acting as agent for the Council so most of the spend on the asset needs to be reflected in the Council's financial reports, including detail what is operational and what is capital improvement, as the Council will take back the road at some stage.

With respect to effective communications between database systems, Cr Shier advised that there are cloud-based systems available that can integrate legacy systems and improve the functionality, as long as RAMM will provide the data. The Manager Support Services noted this and said the Council had its own enterprise system, that has a module that can take over from RAMM at some stage.

Bede Kearney discussed the correspondence circulated by the auditors which set out the audit arrangements, costs and requirements. Karena Page noted the appendix at the end of the audit arrangements letters that sets out each party's responsibility and key dates. She said the auditors will follow that rigidly to ensure requirements are met and that will guide the process. The Manager Support Services said officers understand the process and know where they need to be when the auditors turn up. The Manager Support Services noted that the Mayor generally signs off the audit letters.

Council officers left the meeting at this point at 10.05am for the auditors to have an informal discussion with the Committee. Morning tea followed and the meeting reconvened at 10.48am.

Cr Black said she would like an update on progress within a couple of months about the consultant's report on the Finance Team capacity and it was agreed officers would report back on progress to the July meeting. Cr Davison also asked that the Committee receive an update at some stage soon on the fraud detection policy and risks associated with the disruption of the earthquake and potential consequences flowing from that. The Manager Support Services said there is an annual review of the policy and he noted this request.

Cr Davison noted that a number of members would be away for the June meeting so it had been cancelled. Officers considered that there would be no decisions required before the July meeting except possibly the insurance renewal matter, which could be reported directly to the Council if necessary.

THAT THE INFORMATION BE RECEIVED.

Black/Shier

CARRIED

6. RISK ITEMS

6.1 Insurance Renewals for the 2017/2018 Year

The Manager Support Services reported that the Council's current insurance policies are due to expire on 30 June 2017 and there is a need to renew the policies for the 2017/2018 year.

The Manager Support Services said in the lead up to renewal, he had a meeting with the insurance broker who advised that premiums were expected to rise due to the earthquake and other events recently. He said that premiums had reduced over the last few years as the shock of the Canterbury earthquakes eased and the Council took on risk itself. He said the Council would not know the full impact until it goes to the market, but it may be as much as 20-30%. The Manager Support Services said that the change to the fire service levies was good timing as it helps the Council to better manage the impact.

The Manager Support Services explained that the key component of the Council's material damage policy was its tiered structure adopted after the Canterbury earthquakes, which was adopted to keep premiums affordable. He said the Council went through this process with its local communities and got agreement that it would not carry earthquake insurance on many community assets. He said that action saved the Council about \$250,000 in premiums in one year.

Cr Davison said the Committee was being asked if it was still happy to adopt the tiered structure and noted the advice of the Manager Support Services that the approach was pretty much the same as the last renewal.

Cr Black noted that there was little time to ask local communities if they were still willing to carry this risk, or would they now consider reducing the risk and paying more premiums. The Manager Support Services noted that some buildings in particular might not be offered earthquake cover by insurers. Cr Davison asked if each Ward Committee could be separated out and given a list of their assets, an explanation of the tier structure and comment on the costs and premium considerations. The Manager Support Services said he can get some indicative figures and as the Council moves to consider its Long Term Plan, it may want to address this again with the communities. Cr Black said the communities have some tough questions to decide the future of buildings to bring them up to code. The Chief Executive Officer agreed and said as the Council worked through the earthquake strengthening process it would need to talk to local communities and this may be the time to make decisions about the future of buildings and insurance questions.

THAT THE COMMITTEE CONTINUES TO ADOPT THE TIERED STRUCTURE FOR THE INSURANCE RENEWALS FOR THE 2017/2018 YEAR.

Davison/Shier

CARRIED

6.2 Health and Safety

The Team Leader Human Resources presented the monthly report to the Committee, which is to heighten the importance of health and safety in the workplace. He noted that during the month there was one workplace injury and no incidents occurred to the end of April 2017, with no working days being lost. No workplace incidents required notification to the Ministry of Business, Innovation and Employment. The Team Leader Human Resources explained the one injury and

actions taken to address the risk in future. No workplace injuries needed to be reported to the Accident Compensation Corporation during April 2017.

In response to a question from Cr Davison, the Team Leader Human Resources said that all contractors and subcontractors to the Council have responsibilities and need to report to the Council on health and safety matters. He said if they come onto Council sites, they are made aware of their responsibilities and they need to provide a Health and Safety action plan for the duration of their work and identify processes and measures to address risk. Depending on the nature of the contract, there is a reporting process on health and safety as part of the overall assessment and they report incidents or injuries back to the Council.

The Chief Executive Officer said this was a robust process and works well with major contractors like Sicon, but when the Council commissions a local builder for a small job in a township, there is no need for a comprehensive plan and site visit. He said officers try to make the requirements appropriate to the level of risk and the Council has a degree of trust with people that have a proven record with it. The Chief Executive Officer said the Council is required to do what is practically possible and sometimes needs to assume basic competence and trust its contractors.

THAT THE INFORMATION BE RECEIVED.

Davison/Shier

CARRIED

**6.3
Performance
Report as at
the end of April
2017**

The Manager Public Services provided the monthly report for the 2016-17 financial year to identify progress toward the Council's performance measures in the 2015-25 Long Term Plan. The performance report provides an opportunity for scrutiny and attention, as well as an opportunity to identify any issues on a monthly basis. The appended report provided a written account, rather than financial detail, of the status of performance measures at the end of April 2017.

The Manager Public Services said some measures were not up to date and this was due to it being manually challenging for some infrastructure systems to bring data out on a monthly basis in time for the agenda, but officers were looking into how this could be improved. Cr Davison said he would prefer a more condensed version that highlighted areas of concern, rather than all the general information provided.

THAT THE INFORMATION BE RECEIVED.

Davison/Shier

CARRIED

**URGENT
BUSINESS**

Havelock North Stage 1 Enquiry Results regarding drinking water supply.

Cr Davison said it was appropriate for the Committee to have an update on this matter to understand how the Council monitors risk in this area. The Manager Infrastructure Services - Delivery said he was still processing the 200+ page report but had developed a good understanding of the matter and it was talking about three opportunities for contaminated water to get into a water supply – one through the top, which was exacerbated in the Havelock North case as the bore head was below ground; from underneath the concrete headworks and tracking down the casing of the bore; and through there being some kind of connection to the aquifer. He tabled a list of all Hurunui District Council water schemes and provided an assessment of each and what the Council was doing to treat the water or any further action to add to the security and safety of the supply.

Cr Davison asked that this type of assessment come to the Committee from time to time with any changes highlighted and to report by exception and provide an alert if any risk factors change or the Council needs to be informed of significant changes.

The Manager Infrastructure Services - Delivery said that all sources that are not deep water supplies are treated and the Council was moving to automatic shutoff if the system picks up failures and not dosing will stop the pumps. He said one challenge was that the Council can treat water to address public health issues but there was also the public perception of water quality and other concerns like corrosion, as experienced with the Amberley supply. Cr Davison said communications with the wider community as result of this enquiry will be important and the Council will need to continually explain to the community how it was managing risk and the consequences, like having chlorine in water.

Mayor Dalley thanked the Manager Infrastructure Services - Delivery for the update and said the Council was a step ahead of Havelock North as it was treating water anyway and the main risks appear to be a failure of technology or human error. The Chief Executive Officer said officers were doing work around improving processes and restructuring water supply teams appropriately.

Public Excluded PUBLIC EXCLUDED SESSION

THE GENERAL SUBJECT OF THE MATTERS TO BE CONSIDERED WHILE THE PUBLIC IS EXCLUDED, THE REASON FOR PASSING THIS RESOLUTION IN RELATION TO THE MATTERS AND THE SPECIFIC GROUNDS UNDER SECTION 48 (1) OF THE LOCAL GOVERNMENT OFFICIAL INFORMATION AND MEETINGS ACT 1987 FOR THE PASSING OF THIS RESOLUTION ARE AS FOLLOWS:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Grounds under section 48 (1) for the passing of this resolution
Item 7.1 Minutes of the 20 April 2017 meeting.	The minutes contains information withheld to enable the Council to carry on, without prejudice or disadvantage, negotiations.	Section 48(1)(a)(i) & Section 7(2)(i).
Item 7.2 Request for Targeted Tourism Rate Exemption	The report contains information which if released would affect the privacy of natural persons.	Section 48(1)(a)(i) & Section 7(2)(a)

Davison/Shier

CARRIED

THAT THE MEETING RESUME IN OPEN SESSION AND THAT THE MATTERS DISCUSSED IN PUBLIC EXCLUDED SESSION REMAIN CONFIDENTIAL, EXCEPT FOR THOSE MATTERS APPROVED FOR RELEASE.

Shier/Davison

CARRIED

Meeting Ended The meeting ended at 12.44pm.

Next Meeting The next meeting is scheduled for 20 July 2017.
