

HURUNUI DISTRICT COUNCIL

MINUTES



Meeting	Finance, Audit and Risk Committee
Time and Date	1.00pm, 20 April 2017
Venue	Council Chambers, 66 Carters Road, Amberley

Members Present Cr Dick Davison (Chairperson), Councillors Marie Black, Vince Daly and Geoff Shier.

In Attendance Councillor Fiona Harris (until 3.06pm)
Hamish Dobbie (Chief Executive Officer), Jason Beck (Manager Support Services)
Joanne Laphorne (Team Leader Finance) and Graham Sutherland (Council Secretary).

Apologies Mayor Dalley – 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 Nil.

1. Minutes THAT THE MINUTES OF THE FINANCE, AUDIT AND RISK COMMITTEE MEETING HELD ON 16 MARCH 2017 ARE CONFIRMED.

Shier/Black

CARRIED

Matters arising

- Cr Black asked for an update on the Amberley Pool matter as there appeared to be some uncertainty around the project. Cr Shier said the local councillors were intending to put out some public information soon and Council officers were reviewing the process and possibly putting forward alternatives to the Council in due course. He said this would go to the Amberley Ward Committee as that is where the discussion needs to happen first. Cr Davison said there was some difficulty with the Save Our Pool Committee only focusing on fundraising, so it would be useful if the Ward Committee could resolve matters regarding moving forward, to allow the Council to make a good decision with the views of the community taken into account. Cr Shier agreed that the process needed some structure and procedure so everyone understands what is happening. With respect to the background to the Amberley pool matter, the Chief Executive Officer noted that Cr McLean had researched this recently and he would circulate that material to members.

2. Action Sheet

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

- With respect to the Queen Mary Hospital, it was noted that the councillors working group met on site recently. It was agreed that this could be deleted from the action list as that working group reports to the Council on progress.
- With respect to the forestry consultant matter, the Manager Support Services said this was waiting until after the finalisation of the procurement policy changes and the Ashworths replanting process agreed recently. Cr Davison asked whether the Council needed a forestry consultant as it did not have extensive forestry assets and could go to anyone in the market as needed. It was agreed that the Manager Public Services would report back on this to a subsequent meeting and the item could be deleted from the list.

THAT THE INFORMATION BE RECEIVED.

Daly/Shier

CARRIED

3. Forward Programme

The Forward Programme was provided for the information of the Committee. The Manager Support Services said there would be a report to the next meeting from the Council's insurance broker as the renewals were due by 30 June. Of particular interest is the change to rural fire levies, which will increase on 31 July and will affect the renewal of its material damage and motor vehicle policies.

THAT THE INFORMATION BE RECEIVED.

Daly/Black

CARRIED

4. FINANCE ITEMS

4.1 Financial Report as at the end of March 2017

The Manager Support Services provided the Financial Report for the end of March 2017. He noted that for the nine months into the financial year, the total income was just under \$30M, \$3.5M up on budget, but most was New Zealand Transport Agency (NZTA) subsidies which was represented at 71% of costs for earthquake damage, not 84% which it was later agreed that the Council would be getting. Expenditure was up on employment costs and earthquake recovery components. Capital expenditure had a \$17M budget for the year and \$6M was spent, but the Council was deferring capital costs, as discussed in the annual plan budget process.

The water supplies budget was down on operational expenditure and a raft of repair costs had not been incurred yet, a lot of which related to earthquake damage. In response to a question from Cr Davison, the Manager Support Services confirmed that anything related to earthquake recovery costs was separated out in a different accounting process.

Cr Davison spoke about reversal of year-end adjustments and noted that some development contributions made in this year, did not proceed. The Manager Support Services explained the process to recognise development contributions for building consents that are yet to receive a certificate of compliance (CoC). He said the Council only recognises them once the CoC was granted so there was generally a raft of consents where the building was done but no CoC received at the time of reporting.

In response to a question from Cr Daly, the Manager Support Services said he had budgeted for one full position for civil defence due to the establishment of Fire and Emergency New Zealand (FENZ) and the removal of the Council's rural fire

commitments. The Chief Executive Officer said there was a transition process relating to FENZ and he was working through this with the Rural Fire Officer.

With respect to the Thermal Pools, the Manager Support Services said the overall surplus of \$2.2M for nine months was just over \$100,000 lower than budgeted for and internal interest was lower, as debt repayment lessened internal interest on Pools debt. In the area of governance and corporate, the Manager Support Services noted that the Council had received a donation of \$15,000 from Honghu which would go into a special account for developing the China relationship.

The Manager Support Services noted that ECan had been invoiced its share of the Amberley building renovation costs, but this had not been paid yet. In response to a question from Cr Black, the Chief Executive Officer said there was still a bit of work to be completed like signwriting and external lighting, but there was nothing additional to the project cost now. He said references to additional costs to the refurbishment were not something new, just part of the asbestos removal.

In terms of earthquake recovery costs, the Manager Support Services said a big change was the subsidy coming from NZTA. He said the Council received \$3.5M last month, which was very welcome, as the Council had to date incurred \$5.9M in recovery costs. He said there were costs relating to the emergency response, including welfare to be reimbursed, as well as roading and water supply costs. Cr Daly noted that there was still a lot to spend on bridges and the Chief Executive Officer said the final figures will be in excess of \$16M, including bridges work spread over three years at about \$7M, however he said the Council can claim 84% of whatever the final figure is. In response to a question from Cr Davison about time lag and roading work showing in the accounts, the Chief Executive Officer said he signs off the roading invoices and it is showing up to the end of March so far, which is most of the big repair work done at this stage.

Cr Davison asked if the Council can claim for damage to local roads, due to extra traffic where earthquake effects have diverted traffic. The Chief Executive Officer said that where NZTA use a road as a diversion like at Hawkeswood, then there is no cost to the Council, but other roads where there is just an increase generally due to other roads being out of action, there is no claim to be made. The Chief Executive Officer said the bulk of initial repairs were being completed now and it would be next season where further work will be required. He said as a matter of interest, NZTA had so far spent \$17M on the Inland Road since the earthquake.

Cr Shier advised that at the Infrastructure Committee recently it was noted that under the capital expenditure programme, there were examples of projects exceeding budget, with a shortfall of about \$967,000, which was a significant overrun. The Manager Support Services said that in his experience, engineers rarely achieve capital expenditure targets over the year and there would be unders and overs. The Chief Executive Officer said it was sometimes an issue of scope, in that once the project goes to scope, it becomes apparent that it may be a bigger job.

THAT THE INFORMATION BE RECEIVED.

Davison/Shier

CARRIED

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

The Manager Support Services provided a report scheduling how the collection of rates has occurred over time. The amount of rates owed as at 31 March 2017 was \$488,567.78. At the same point last year, the amount of rates owing was \$390,813.30. The Manager Support Services advised that the Council has one residential ratepayer that currently owes in excess of \$20,000. The ratepayer has been advised of the Council's Rates Postponement Policy, but officers are also aware the property is on the market. The Manager Support Services said he can take the rate arrears out of the rates system and attach the amount owed as a debt to the property, so the Council would have first call on the property when it is sold. He said the property had been on the market for some time. The Manager Support Services has advised the owner that the best approach is to ask the Council for postponement, which incurs an administration fee of 10% per annum, whereas the penalties are 10% per month otherwise.

Cr Davison noted that there were only 24 applications for rates remissions for earthquake affected residents and the Manager Support Services said officers were constantly promoting this. He said the total amount of remissions was \$24,290, and this included just over \$4,000 in ECan rates.

Cr Davison asked whether the owners of a house uninhabited due to the earthquake could have rates remitted on the value of the house. The Manager Support Services said he was meeting with QV the following day and would discuss with them the process for revaluing a property if the dwelling cannot be inhabited. He said from 1 July 2017, the value of the property would be assessed and if there was no house then the valuation was reviewed on this basis. From 1 July he said there would be properties without improvements value based on house demolition, which would be similar to vacant land. He said if they build on the land after July then they would pay rates at the lower level for a year before a new rating comes in.

THAT THE INFORMATION BE RECEIVED.

Shier/Black

CARRIED

**4.3 Treasury
Position as at
the end of
March 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 that currently the Council is not compliant with the Treasury Risk Management Policy in that only 46% of forecast debt has been set in fixed rates, whereas the policy requires the Council to be between 55% and 90%. The 12 month forecast of core debt has been 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 as was discussed during the recent budget process. Currently, the Council is sitting at \$23 million of debt with all the debt currently held with the Local Government Funding Agency (LGFA). The Council also has a \$9 million facility with Westpac, of which \$2.2 million has been pulled down to assist cash flow. The interest cost for the Westpac Debt is a weighted average of 1.15% on top of the 90 day bank bill rate, while the LGFA debt is now 0.73% on top of the 90 day bank bill rate.

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 current weighted average interest rate is 4.45%. The Council currently has \$16.5 million of live swaps and a further \$2.0 million of forward swaps.

The Manager Support Services reiterated that at the moment the Council was not complying with its fixed rates targets and said these targets would be addressed in combination with debt levels when the Policy was reviewed. Cr Davison and Cr Shier said they were not worried about this situation at the moment as it makes sense given current conditions and with a planned review approaching. The Chief Executive Officer said that by not being compliant with the policy, it does leave some exposure for the Council as the economy was potentially heading into a period of higher interest rates and the Council needs to be careful of its position. Cr Davison said the timing to get a new policy established may be two months, so the Council could take forward cover now if the Committee wished. Cr Shier said he was comfortable about not complying and said there was no particular urgency as the Official Cash Rate (OCR) was not likely to be moving yet. Cr Davison acknowledged there was international pressure on interest rates outside the OCR, but it was the lowest for a long time and it was not really something to worry about at this stage. Cr Davison said the minutes could show the Committee had discussed this and did not require officers to immediately comply with the policy, as long as members were happy with this as a deliberate approach.

Cr Daly said he was worried as the Council has a policy in place for good reason and if things change in the economy, then there could be a problem. He said his preference was for the Council to be compliant with its policy. Cr Shier said he really questions the policy and wants to review it before the Council commits to further fixed rate levels. He said the total debt levels are not great enough at the moment to cover the amount of borrowing the Council has in fixed terms. Cr Davison said that the Council was not complying with its policy so it should have a good reason. He said the reason was that the policy was considered by some members to be not appropriate and the Council should not therefore take any further forward cover until the Council reviews that policy, which it intends to do.

The Manager Support Services said changes to the policy only needs a resolution of the Council with no requirement for consultation or any delays other than normal Council processes. Cr Shier said the review he sought was not a big issue and only a few things needed reviewing. He noted that this process would have started last week if natural events had not delayed the Treasury Advisor's visit.

Cr Black said she supported this position as long as it was a timely process. The Chief Executive Officer said the risk takes the form that if the Council decided in a month or two to go to 55% forward cover, rates may have increased in that time, but the total amount was probably not huge as rates were unlikely to increase significantly in that period. With respect to those forward cover rates, Cr Shier said it was an ameliorating factor that the cost of forward swaps were greater than the floating rate and if the Council does not cover, it is better off. Cr Shier discussed break-even analysis and actual costs of hedging and said he did not see any evidence of this analysis in the policy. He said it was acceptable to have hedging policy in place, but without benchmarking then the Council does not know what the real costs are. Cr Shier suggested that a close look at the policy and what had

happened over the last eight years indicates the policy approach may not have worked in the Council's favour.

Cr Davison said the Committee was intending to review the policy and may have a new policy by the end of the financial year. He said the Committee had received advice and heard different views from members so he would put this to the meeting.

Moved Cr Daly, seconded Cr Davison (pro-forma), "That the Council comply with the Treasury Risk Management Policy to have between 55-90% on fixed rates for long term debt."

The motion was put and LOST 1:2 on a show of hands.

Cr Shier asked officers if it was possible to have colour differentiation for different swaps in future reports. Cr Shier also asked if the swaps have settlement dates on the same day as the rollover of debt. The Manager Support Services said it does not match perfectly. Cr Shier suggested this was a gap risk so where possible the Council should realign reset dates and this should be part of the policy review.

THAT THE INFORMATION BE RECEIVED.

Davison/Daly

CARRIED

4.4 Use of Forestry Proceeds – Leithfield Beach

The Manager Support Services advised that the Council recently harvested the Leithfield Beach forestry block, which was a further block that was affected by the winds of October 2013. The decision to mill the block was primarily one of safety as the area was well used as a walking track. The objective of extracting the maximum value of the trees was secondary as it was never a good performing block. The proceeds from the harvest amounted to \$13,834. The Council received a letter from the Leithfield Beach Residents Association in May 2015 stating that the trees were planted by voluntary labour as a future fundraiser for Leithfield Beach and as such, the net proceeds should be spent within Leithfield Beach.

When the Finance, Audit and Risk Committee discussed the issue previously, it was generally agreed that the first call on any proceeds from the harvest will be used to reinstate or replant the relevant land. It has been estimated that the cost of replanting the block is \$15,000. With the requirement to replant the block in order to meet the Carbon Liability (which was estimated at \$96,000), the issue was re-litigated at the Amberley Ward Committee meeting. The feeling from the representative of the Leithfield Beach Residents Association was that it was the Council's responsibility to replant the block (to avoid the carbon liability) and that the proceeds should be fully utilised by the Leithfield Beach Residents, primarily to offset the cost of resurfacing the tennis courts at the Village.

Cr Davison said the Council had previously agreed to its policy approach on these matters and the cost of replanting was \$15,000, which was required to avoid greater costs through carbon liabilities, so it was a simple economic choice to replant rather than bear a greater cost.

Cr Shier summarised the discussion at the Amberley Ward Committee meeting on this topic and said a Leithfield Beach representative suggested that the local community had not been sufficiently consulted and he thought different things should happen with the proceeds of the harvest, while the Council should cover the costs of the replanting. Cr Shier said there was also a desire expressed to put native

trees in as well, but it was noted that it was not a good growing area, so it should just be planted again in pines. The Amberley Ward Committee resolved to approve planting the reserve in radiata pines at the minimum required density to ensure Council meets its obligations under the emissions trading scheme.

Cr Davison said his view was that the \$13,834 should go to replanting and he said the Council would still have to find additional funds to meet the overall costs. He asked the Committee if there was a good reason for not allocating the proceeds to replanting. The Manager Support Services reiterated that it was the view of the Leithfield community that it put in the trees for community projects and felt the proceeds should therefore go towards upgrading the local tennis courts.

Cr Daly said that Council forestry should be treated as a business decision and the proceeds need to go to replanting to avoid the greater costs of carbon credits. He said the proceeds were not covering the full costs of replanting anyway, so the Council still needed to find another \$2,000 approximately.

THAT THE COMMITTEE AGREES THAT THE HARVEST PROCEEDS OF \$13,834 GO TOWARDS THE COST OF THE REPLANTING OF THE LEITHFIELD BEACH PLANTATION IN RADIATA PINES AT THE MINIMUM REQUIRED DENSITY TO ENSURE THE COUNCIL MEETS ITS OBLIGATIONS UNDER THE EMISSIONS TRADING SCHEME.

Davison/Shier

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. 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.

Cr Davison advised that he met recently with Council auditors Bede Kearney and Karina Page. They expressed an awareness of the impacts of the earthquake and associated issues with the revaluation of roading assets this year, so there will be some tolerance and understanding on this matter. He said a major issue highlighted is improving capacity in the Finance Team and it was noted that an independent consultant had been employed to help find a solution to this matter.

The Manager Support Services said the consultant came in recently and interviewed the Finance Team and Management Team members and put together a proposal. He said this had not yet been discussed with the Chief Executive Officer and once that happened, the proposal would be brought to the following Committee meeting. The objective is to identify needs of other departments from a financial point of view, where the main pressure points were and options for moving forward. The Manager Support Services said the consultant is a very experienced former Council Chief Financial Officer. Cr Davison said the Council was looking for a solution and it was important that this Committee had a role in supporting this process as part of its audit function.

The Manager Support Services said the main pinch point is in asset revaluations and the proposal is to highlight immediate challenges in asset revaluation by the end of June. The Chief Executive Officer said that in his conversation with the auditors, he strongly resisted the intention to do a full revaluation of assets as they are in a state

of repair following the earthquake. He suggested that the Council would rather spend money on doing work than revaluations. He said the auditors were understanding about this as long as the Annual Report had clear disclaimers in the notes regarding valuations and it was noted that it will come right over time. The Chief Executive Officer said these were not liquid assets and do not underpin Council borrowing, so it was not particularly important as long as appropriate disclaimers and explanations are provided regarding the approach being taken.

Cr Davison agreed with this approach as the assets were steadily improving but the Council cannot recognise this at the moment and will in future. The Chief Executive Officer said the auditors indicated there may be timing issues again with the Annual Report as a potential outcome of this approach. Cr Davison asked if the Committee should formally resolve to support this approach at this stage, but the Chief Executive Officer said it was not necessary and it was worth waiting until the Committee had the opportunity soon to discuss this with the auditors. He said it may be a matter of needing extra resources to work through the audit so he was looking at options. Cr Davison noted that the Committee was meeting with the auditors on 11 May 2017 and there would be an opportunity for a discussion with them as a Committee only.

The Manager Support Services said that between now and the next meeting, officers will have reflected on what the auditors provided in the management report and put it into a matrix so items can be ticked off as resolved. He said he would have more detail regarding who was doing what through Management Team discussions, as the items identified were not just finance matters.

THAT THE INFORMATION BE RECEIVED.

Davison/Daly

CARRIED

6. RISK ITEMS

6.1 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 were two incidents and one injury but with no working days lost. The Team Leader Human Resources explained each incident and actions taken to address the risk in future.

With respect to the Hanmer Springs Thermal Pools, the Team Leader Human Resources noted good outcomes in lower numbers of incidents, while visitor numbers were increasing. He said the majority of incidents related to normal summer weather activity. The Team Leader Human Resources advised that the incident reported to Worksafe in January had been addressed and action taken to investigate non-slip flooring options. He said this shows the value of instant reporting and is evidence of the driven aspects of Health and Safety in the workplace. The Team Leader Human Resources noted a reported incident with a contractor removing safety goggles due to misting and getting debris in his eyes. He said this was a good example of the Council's overlapping responsibility with contractors and it reinforced the importance of having and using personal protective equipment that was fit for purpose.

Cr Davison thanked the Team Leader Human Resources for the report and said it a good sign that Health and Safety was being taken seriously in the organisation.

THAT THE INFORMATION BE RECEIVED.

Daly/Shier

CARRIED

**6.2
Performance
Report as at
the end of
March 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 March 2017.

Cr Shier noted that a number of the reports contained data that appeared to have not been updated and questioned the value of this if it was not current information being presented. Officers were asked to note this and follow up for the next meeting. In response to a question, the Chief Executive Officer said that presenting these performance reports were largely statutory requirements in the Department of Internal Affairs' recording system and although it may not appear relevant and worthwhile, the purpose is to report on this as required.

THAT THE INFORMATION BE RECEIVED.

Davison/Black

CARRIED

**URGENT
BUSINESS**

Nil.

**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 Ashley Rural Water Rate Collection for Waimakariri Ratepayers	The report contains information withheld to enable the Council to carry on, without prejudice or disadvantage, negotiations.	Section 48(1)(a)(i) & Section 7(2)(i).

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.

Daly/Shier

CARRIED

**Meeting
Ended**

The meeting ended at 3.30pm.

Next Meeting

The next meeting is scheduled for 11 May 2017.
