

HURUNUI DISTRICT COUNCIL

MINUTES



Meeting Finance, Audit and Risk Committee
Time and Date 9.30am, 20 July 2017
Venue Council Chambers, 66 Carters Road, Amberley

Members Present Cr Dick Davison (Chairperson), Mayor Winton Dalley (until 11.41am), Councillors Vince Daly (from 10.25am) and Geoff Shier.

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

Apologies Cr Marie Black. Cr Vince Daly for lateness and Mayor Dalley for early departure.
THAT THE APOLOGIES BE ACCEPTED.
Davison/Shier CARRIED

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 11 MAY 2017 ARE CONFIRMED.
Shier/Davison CARRIED

Matters arising

- Cr Davison discussed the matter of the Council taking on additional debt and expenditure, while also having other parties working on Council assets, and trying to understand the value of those assets once the work was completed. He said part of this was the technical side of recording the expenditure but more importantly having spent money fixing and improving assets, the Council has to balance the additional debt incurred with the additional value of the assets. The Manager Support Services said that for the current year the Council would not try to address this in much detail, but inevitably it will come up in the audit process. He said the Council was due next June to re-value the 3Waters assets, so by then it will have a better view of the situation. Cr Davison said in some situations the increased value of a repaired or replaced asset may be greater or lesser than the amount spent on it, so re-

valuing would need to capture this and ensure it was reflected in the Council's overall position. The Manager Support Services said there may also be situations where the Council will be replacing with better materials and there would be an additional cost for this, as insurance would not pay for replacement with higher cost materials. Cr Davison said that when the Council undertakes its Long Term Plan discussion with ratepayers next year, he would like a coherent answer for this matter.

The Chief Executive Officer said the Council may next year do a full valuation of 3Waters as well as Roding, to get a better idea of this situation and said he would presume that with all the money being spent on the Inland Road, it would increase the value of the road and that needs to be accounted for. Cr Davison commented that the valuation methodology was not easy, and rather than get bogged down in detail, at some stage the Council needed a clean slate position on its asset value and debt level and then to move on from that point of equilibrium. The Manager Support Services said there would be ongoing dialogue with auditors over how to do this and the auditors have noted that they wanted to be pragmatic in their approach.

2. Action Sheet

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

THAT THE INFORMATION BE RECEIVED.

Shier/Davison

CARRIED

3. Forward Programme

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

THAT THE INFORMATION BE RECEIVED.

Shier/Davison

CARRIED

4. FINANCE ITEMS

4.1 Financial Report as at the end of June 2017

The Manager Support Services provided the Financial Report for the end of June 2017. He noted that a corrected version of the report had been circulated to councillors and the correction related to page 17 of report. The Manager Support Services said this was the draft report for year end, but there would still be processes to go through before the final report can be given to the auditors, in particular matters like the fair value of derivatives and swaps, the revaluation of forestry and equity investments, as well as the revaluation of land and buildings, need to be finalised.

The Manager Support Services said the Council was showing a \$1.5M deficit against budgeted deficit of just under \$1M and with capital expenditure sitting on half of what was budgeted for. He said the various reasons for this was highlighted in the report. In the area of water supply, there was total capital expenditure just over \$1.5M, against a budget of \$3M and key projects were deferred, like the upgrade to the main Cheviot intake, the Amberley deep well water source and the Leithfield Beach water metering. In terms of sewer, there were variances in capital expenditure due to the deferred Hanmer Springs disposal project and upgrades to Waikari. The Manager Support Services said that for the August Council meeting he would have a full report on projects to be carried forward and the reasons for this. He said the Council would need to identify the projects and resolve to accept the carried forwards, then these would be incorporated into the new budget that the Council would be reporting against for that year.

In the area of Roading, this was down on budget for both subsidised capital expenditure, other direct expenditure and subsidies from NZTA. The Manager Support Services said the main focus was on emergency reinstatement work following the earthquakes. In the area of roadside construction, a lot of the budget for footpath maintenance had not been spent and much of this was pending on the trip hazard assessment, which was given a higher priority.

With respect to Public services, the key variance was being up on income, as grants were received for the youth programme and Together Hurunui but expenditure was down on budget due to some Hurunui Tourism Board projects not being carried out and the \$75,000 payment to the Canterbury Museum project not being requested yet. He said the Council was building up a fund to meet its Museum commitment.

Cr Shier noted the costs for the Waikari tanker and Waiau fire shed and said that given the change to the Fire and Emergency New Zealand (FENZ) organisation, was the Council committed to spending that money when it would all be passing over to FENZ. The Chief Executive Officer said the Council collected this money to protect local communities and ratepayers have knowingly paid for it for that purpose, so it seemed the right decision to carry on with this.

With respect to Regulatory Services, income was down on budget due to the lower level of resource consents and lower employment costs. The Manager Support Services noted that the District Plan review costs were not fully used, but it was picking up now. Cr Davison commented that the Council had been through the review process and the costs had been kept within budget at this stage, which was worth noting. Mayor Dalley said if the ongoing mediation is successful, it was hoped that the Council would not end up in the Environment Court and save those costs.

The Manager Support Services noted that the Thermal Pools draft figures show a profit of \$2.64M, which was down on budget and noted there would be a full report on this to the Committee the following week. Cr Davison said the Council would still receive its \$2M dividend, but the result would have an effect on Pools capital projects and reduced repayment of Pools debt.

Cr Shier asked if the provision of IT Support to Kaikoura District Council would continue and the Manager Support Services said it would and noted the Kaikoura Council had increased its staff significantly and demand on its services had increased since the November Earthquake, so the Council's provision of services had increased. He said this relationship is held up as a good example of shared service arrangements that work well across councils.

Cr Davison asked if the auditors would do a separate audit of the earthquake related costs area and the Manager Support Services said he recently gave them a full list of earthquake costs incurred to date, for their review. He said some grants received have come with conditions and this changes the way that money is recognised, so officers would have to work through this and may not be able to show it all at year end. Cr Davison said that the Committee was available to assist officers in any way to make the audit and Annual Report process run more smoothly and to avoid delays. The Manager Support Services said officers had certainly started the report process a lot sooner this year.

THAT THE INFORMATION BE RECEIVED.

Davison/Shier

CARRIED

**4.2 Rates
Arrears as at
the end of June
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 30 June 2017 was \$474,645.06. At the same point last year, the amount of rates owing was \$414,636.89. The Manager Support Services said the information was starting to show a trend but it was hard to identify any one person or group as an indicator of the trend, however officers continued to monitor this.

With respect to the Earthquake Rates Remission Policy, the Council has processed 28 applications for Rate Remissions, at a cost to date of \$19,001.58. The Manager Support Services said this amount would be included as part of the overall recovery costs. He discussed the matter of rates remissions for the next financial year, as the Council approved its policy for automatic remissions for properties with section 124 notices and he would calculate that impact later, but it effectively deducts the value of improvements from the capital value of the property, which is a remission. He advised that the Council's request for an Order in Council with respect to this matter, would not go through before the general election. He said that technically the Council's valuers, QV, should be revaluing properties but at the moment they were not actively revaluing, given the Order in Council process was signalling the Council's intentions.

Cr Daly arrived at 10.25am.

THAT THE INFORMATION BE RECEIVED.

Davison/Shier

CARRIED

**4.3 Treasury
Position as at
the end of June
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.

The report showed the compliance with the Treasury Risk Management Policy. The Council was previously not compliant with the policy in that it had only 41% of forecast debt set in fixed rates, whereas the policy requires the Council to be between 55% and 90%. While this was the case at 30 June 2017, two interest rate caps (of \$3M each) had been purchased with a start date of 14 July. The first Cap matures on 15 July 2020 and guarantees that the Bank Bill Benchmark (BKBM) base interest rate on \$3M will be no more than 2.95%. For this, there was a premium of \$11,700. The second Cap matures on 15 July 2021 and guarantees that the BKBM base interest rate will be no more than 3.10%. For this, the premium was \$24,900.

The 12 month forecast of core debt has been set at \$35M and the Annual Plan forecast is that the Council shall be in debt by \$35.8M. Currently, the Council is sitting at \$24M of debt with \$23M of the debt currently held with the Local Government Funding Agency (LGFA). Council also has a \$9M facility with Westpac, of which \$1M has been pulled down to assist cash flow.

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 4.44%. The Council has \$2M in LGFA debt due to mature on 15 December 2017 and its strategy is to pre-fund the renewal of this tranche of debt by pulling down a further \$2M of LGFA debt in July and place this on Term Deposit for five

months, thereby earning a greater level of interest in its term deposit than it is expected to pay in interest on the debt. The Manager Support Services advised that as part of the Long Term Plan preparations, there is the need to review the Treasury Policy and some initial discussions have been made with the Council on this matter.

In response to a question from Cr Shier, the Manager Support Services said the recent purchase of the caps now puts the Council at about 60% of lending being in fixed rate interest. Cr Shier said it would be useful to convert the premium paid for the caps into a percentage per annum, as it was easier to understand what the cost is, for example 0.1 or 0.2% on top. The Manager Support Services said officers do a revaluation of swaps and caps every year and these are the first caps the Council had done. Cr Shier said he was pleased with the caps approach as it aligns with settlement dates with LGFA debt, whereas all the swaps do not. He said that because the swaps have a gap between maturity dates, that creates a risk, but aligning management tools reduces the risk and debt. Mayor Dalley commented that the Council had its swaps before the LGFA came about and Cr Shier acknowledged this, but said it would be good in due course to align them and thereby look to remove the gap risk.

The Manager Support Services said the Council needed to review the Treasury Risk Management Policy and Cr Shier had provided a discussion paper to outline his thoughts on this, which was attached to the report. He said he would ask the Treasury Adviser to cast his eye over this and during one of the upcoming Long Term Plan (LTP) workshops, he would invite the Treasury Adviser to facilitate a workshop discussion to go through this.

Cr Shier said his discussion paper was about setting out key matters and getting them down on paper for members' consideration and the timing is important leading into the LTP, to have a discussion about the Policy. Cr Shier said his approach was looking for a way to improve things and address the bigger picture of management of interest rate risk. He said this was a real opportunity to change, not just local policy but across the sector. Cr Davison commented that the Council has more debt than planned, due to the impacts of the earthquakes and councillors need to have a good understanding of the Treasury Risk Management process. He said it appears the country was entering a period of interest rate increases, so it makes sense to incorporate this into the upcoming LTP process. Cr Davison thanked Cr Shier for his discussion paper and said it was useful to go through this process.

THAT THE INFORMATION BE RECEIVED.

Davison/Shier

CARRIED

The meeting adjourned for morning tea at 10.38am and reconvened at 11.02am.

5. AUDIT ITEMS

5.1 Audit New Zealand Management Report – Action Points – May 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 of the points needs to be carried out with the Management Team to ensure that there is clear direction to dealing with the issues raised. A number of the issues 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. Cr Davison asked the Manager Support Services to identify any matters

in particular and said the Committee wanted reassurance that officers were on target, that matters were being addressed and it would be done on time.

The Manager Support Services said he had prioritised issues around fixed assets and had contracted consultant Murray Stade to look at these issues. The consultant held workshops with Council engineers and had also reviewed the finance team and was due to discuss his report soon with the Manager Support Services. Cr Davison said he had not seen the report but needed reassurance that the report was useful, that officers were working through any recommendations and were on target with appropriate timelines. The Manager Support Services said it was unlikely all issues identified by the auditors would be resolved by September, but most would be well progressed by then, particularly regarding finance team capacity but also the fixed assets issue. The Chief Executive Officer said he was confident that the Council will be in a position at the end of this calendar year to have these issues addressed. Cr Davison said that ratepayers expect the Council to be competent in these areas and he did not want the detail, only to know that officers are on top of it.

Cr Shier asked if the audit items had been prioritised in terms of criticality and the Manager Support Services said the critical issues were to complete the annual report in the statutory deadline and the challenges have always been around the fixed asset process and specifically about capitalisation. Cr Shier said he would like these priority issues highlighted in the report so councillors can see it clearly.

Cr Daly noted the issue highlighted about the Customer Service Request (CSR) system and the Manager Support Services said this was a relatively small point, around dates that the Council records when a CSR was resolved, as there was sometimes a time lag between when the matter is resolved and when it was closed on the system. He said this was not considered a critical matter at this stage but was something to address later as a point of performance reporting. Cr Daly commented that in the last list of outstanding CSRs, as provided to councillors, there was a CSR on the list noted as closed, but he was aware that it had not been. In response to a question from Cr Davison, the Chief Executive Officer said that when people put in a CSR, they should get a response from officers at some stage that action is underway or if it has been resolved.

THAT THE INFORMATION BE RECEIVED.

Davison/Daly

CARRIED

5.2 Fraud and Detection Policy

The Manager Support Services provided a copy of the Council's Updated Fraud and Detection Policy. Highlighted was a minor change reflecting the ability for any external party to provide information to the Manager Support Services or the Manager Public Services if they suspect dishonest or fraudulent activity from a staff member, consultants or contractors. In addition, the process to advise the Council of any fraud investigation had been updated to allow the Manager Support Services or the Manager Public Services to do so, particularly if the investigation involves the Chief Executive Officer.

The Manager Support Services said the policy needs to be reviewed annually to ensure it is still relevant and this time it was decided to update the reporting procedure and process. Cr Davison noted the recent media coverage of the Ministry of Transport manager fraud case and the poor way in which the whistle-blower process was handled. He asked if the Council had a system robust enough that whistle-blowers would not be targeted and how confident officers were that

someone with a concern has a robust process in place that if knocked back, they have another avenue to follow. The Manager Support Services said that any issue would be reviewed first to ensure there was no malicious intent or whether it was a vexatious matter and there needs to be initial filtering before taking it to the auditors and the Council. He said the first port of call is the Manager Support Services and Manager Public Services and they need to reinforce this to staff. He said the key is the culture of the organisation reinforcing this message and there needs to be a normal process of reporting. Cr Shier noted an error on page 64 regarding where the responsibility sits, which should be the Manager Support Services and Manager Public Services. This was noted by officers.

THAT THE INFORMATION BE RECEIVED.

Shier/Davison

CARRIED

6. RISK ITEMS

6.1 Insurance Renewals

The Manager Support Services reported that the Council's Insurance policies were required to be renewed before 30 June 2017. The major restructure to the insurance policies took place with the 2013/2014 renewals and the Finance, Audit and Risk Committee reaffirmed the principles that were set out then, at the May meeting. The Manager Support Services noted that he had emailed councillors details of the renewed policy and a summary was provided in the report.

The Manager Support Services advised that there were now different insurers involved with the local government panel, but providing exactly the same cover. He reiterated that only a proportion of Council assets have earthquake cover but there were still a range of Council buildings with full cover. Those without cover were mostly community assets and pools. He said the premiums went up just on 8% from last year, which was a good result given the external pressures in the market.

Cr Daly asked if the Cheviot medical centre was covered sufficiently, at \$844,000, when other medical centres were covered for \$1M. He noted that the Cheviot building was being renovated at a cost of \$350,000, so the quoted figure may not be appropriate for full replacement cost. Cr Davison asked how these figures were calculated and said if the Cheviot building was destroyed, the Council would want it rebuilt with the same standard modern building and he thought all medical centres should be roughly the same, unless there was a significant difference in the square metre calculation. The Manager Support Services said this is a functional replacement approach and the Council would pay a premium on this basis. The Manager Support Services agreed to look into this matter. He advised that the Council would be re-valuing its above ground assets soon, so there would be an updated schedule of buildings to work from.

Cr Davison noted that the costs of demolition covered in the policies may not be enough for some buildings, as sometimes demolition is a significant part of the cost, so the Council may want to bear this in mind.

The Chief Executive Officer said he recently received questions from Department of Internal Affairs staff about the Council's decision to not insure some community buildings and had questioned this policy approach. He said they accepted the Council's position on this and that appropriate process was followed, but it did raise the matter and the Council may wish to consider whether it wants to continue this approach in light of reducing premiums. Mayor Dalley commented that this may

influence future funding applications as the Council was asking funders for assistance to work on earthquake-affected buildings, some of which may not be insured. Mayor Dalley said the decision by local communities was often a mix of being able to live without a community building if destroyed and the insurance being unaffordable for the community. He said there was a major difference in these two considerations.

THAT THE INFORMATION BE RECEIVED.

Davison/Daly

CARRIED

Mayor Dalley left the meeting at 11.41am.

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 one injury occurred to the end of June 2017, with no working days being lost. No workplace incidents required notification to the Ministry of Business, Innovation and Employment. No workplace injuries needed to be reported to the Accident Compensation Corporation during June 2017. The Team Leader Human Resources discussed the injury, which occurred in February, but was retrospectively reported. He said this was investigated and officers found no issues to address and the employee was now taking a cautious approach in respect of the risk area.

The Team Leader Human Resources reported on the Thermal Pools incidents and said the Pools Health and Safety Committee was looking at whether any patterns were forming around the most common incidents. Two incidents were reported to WorkSafe and there was no follow-up action required. In response to a question, the Team Leader Human Resources said that WorkSafe provides a formal response to all incidents reported to it, regardless of whether any further action is required.

THAT THE INFORMATION BE RECEIVED.

Davison/Shier

CARRIED

6.3 Security for Amberley Office

The Manager Public Services provided a report explaining that in September 2014, two Ministry of Social Development (MSD) employees were shot while they were working at the Ashburton Work and Income office. Since then, WorkSafe New Zealand has successfully prosecuted MSD on a charge of failing to take all practicable steps to ensure the safety of its employees. Security of the Amberley Council office has been of concern to managers for some time. Since the WorkSafe prosecution, officers consider the security for the Amberley office to be inadequate and that it does not meet the test expected of an employer to take reasonably practicable steps to ensure the safety of its employees. To address these concerns, it is planned to have one way locking systems to external doors of the building and to secure staff-only areas.

The Chief Executive Officer said officers had conducted an assessment of security of the office and were cognisant of the Council's duty to protect staff. He said it was about making a reasonable assessment of risk and developing systems appropriate to that risk. In response to a question, he said the Customer Service desk is appropriate for the assessed level of threat. He said the Mayor's Office and meeting rooms were not secured and at the moment officers did not consider the level of threat to justify security access for these areas. However, he said this could be reviewed if circumstances change or if councillors consider that something was

required for these areas. Cr Ward said he was comfortable with the current situation for the councillors area and meeting rooms, as he would not like to send the wrong message to the public about restricted access to these public areas. Cr Davison suggested that a panic button for the Mayor's office could be considered and the Chief Executive Officer noted this for consideration.

THAT THE INFORMATION BE RECEIVED.

Davison/Shier

CARRIED

**URGENT
BUSINESS**

Cr Davison noted that he was likely to be away on the date of the September meeting and sought the approval of the Committee to seek a swap with one of the Committees meeting the previous week. Committee members were happy with this and Cr Davison would explore this further with other Committee chairs.

**Public Excluded
Minutes**

THAT THE PUBLIC EXCLUDED MINUTES OF THE FINANCE, AUDIT AND RISK COMMITTEE MEETING HELD ON 11 MAY 2017 ARE CONFIRMED.

Davison/Shier

CARRIED

Meeting Ended

The meeting ended at 12.00pm.

Next Meeting

The next meeting is scheduled for 17 August 2017.
