
Finance, Audit & Risk Committee

OPEN MINUTES

Minutes of a meeting of the Finance, Audit & Risk Committee held in the Council Chambers, Horowhenua District Council, Levin, on Wednesday 24 June 2020 at 4.00 pm.

PRESENT

Chairperson	Mr P Jones
Deputy Chairperson	Mrs C B Mitchell
Members	Mr D A Allan
	Mr W E R Bishop
	Mr R J Brannigan
	Mr T N Isaacs
	Mr B J Jackson
	Mr S J R Jennings
	Mrs V M Kaye-Simmons
	Mr R R Ketu
	Mrs J F G Mason
	Ms P Tukapua
	HWTM B P Wanden

IN ATTENDANCE

Reporting Officer	Mr D Law	(Chief Financial Officer)
	Mr D M Clapperton	(Chief Executive)
	Mrs N Brady	(Deputy Chief Executive)
	Mr D McCorkindale	(Group Manager – Regulatory & Strategy)
	Mr B Maguire	(Group Manager – Infrastructure Development)
	Mrs L Slade	(Group Manager – People & Culture)
	Mr J Paulin	(Finance Manager)
	Ms S Hori Te Pa	(EA to Mayor and Chief Executive)
	Mrs K J Corkill	(Meeting Secretary)

ALSO IN ATTENDANCE

Ms M Houston (Accompanying Cr Ketu)

PUBLIC IN ATTENDANCE

There were three members of the public in attendance at the commencement of the meeting.

1 Apologies

There were no apologies.

2 Public Participation

7.1 Projects Update – Tokomaru Wastewater Discharge

Mrs Paton said “well done” to Council that this would be the last of HDC’s community wastewater discharges to finally go to land disposal. She requested that HDC now reinforced its positive environmental decision by submitting to the Palmerston North City Council’s Nature Calls process and insisting that PNCC also acted responsibly with its wastewater discharge. She further requested that Elected Members made the effort to attend the public meeting on 29 June 2020 in Foxton to discuss the issue.

Mayor Wanden advised that unfortunately next Monday’s Foxton meeting clashed with an extraordinary Council meeting to adopt the Annual Plan. However, Mrs Paton was advised that the matter was to be discussed at a workshop following today’s meeting, which she was invited to attend, and also that Elected Members had been presented with the consultation documentation by PNCC and work was underway on HDC’s response.

3 Late Items

There were no late items.

4 Declarations of Interest

There were no declarations of interest.

5 Confirmation of Minutes

MOVED by Cr Allan, seconded Cr Isaacs:

THAT the minutes of the meeting of the Finance, Audit & Risk Committee held on Wednesday, 27 May 2020, be confirmed as a true and correct record.

CARRIED

Mr Jones noted that it had been intended to have a presentation on swaps and how they worked; however because the CFO had been tied up with other matters, it was proposed this would occur at the next FAR Committee meeting.

6 Announcements

There were no announcements.

7 Reports

7.1 **Projects Update**

Purpose

To provide the Finance, Audit and Risk (FAR) Committee with an update on the projects being undertaken by the Infrastructure Group.

Mr Clapperton and Mr Maguire joined the table to add further comment and respond to any queries.

- A. Tokomaru Water Supply
- B. Tokomaru Wastewater Discharge

It was explained that the unbudgeted amounts recorded against these projects were due to the consent processes being undertaken, with it being difficult to budget for the unknown issues that could arise. The costs were usually dependent on the process that was required, the people that were involved,

and the outcome sought.

The CE proposed in future including a PC sum in the financials to reflect the cost that Council had incurred for such projects.

Mr Maguire explained Council's approach when providing estimates for consent work which was to have its advisors provide a lump sum to get to the consent lodgement. Thereafter it went to a time and cost incurred basis depending on the outcome of the lodgement; whether it was appealed, a hearing was required, etc. Costs were hard to estimate once it had passed the lodgement stage.

With regard to Tokomaru Water, that paperwork had been issued, it had gone to the submitters for sign off and receipt of the formal consent was expected within the next few days.

The Tokomaru Wastewater hearing was set for 28 July. It would be a one-day hearing, with one commissioner. Currently the evidence exchange was being worked through in preparation for the hearing.

Adding further clarification in terms of the financials, Mr Clapperton said what Council tried to do when a project was over budget, or where there were unbudgeted items such as for Tokomaru Water and Tokomaru Wastewater, Council still attempted to work within the budgeted amount for capital within that particular activity. For both Water and Wastewater, Council would endeavour to work within its total capital budget for those activities; however the financials in the Projects updates were reporting on location. Given that the rate was harmonised, it was a prudent way to look at how those costs were distributed.

It was suggested that reporting on a portfolio basis could assist to show the overall picture, with which the CE concurred.

The Chair added it would be useful to have financial information on the whole life of the project (both in graph and table form); to see the financials for last year, plus this year to date, compared with last year's total budget plus this years, would give a better indication particularly where projects spanned a significant number of financial years.

C. Foxton Beach Stormwater

Mr Maguire advised that lodgement had occurred. It was presently awaiting the testing of samples which were currently at the laboratory.

Responding to a query, Mr Maguire confirmed that the findings following the investigation programme to identify sources of contaminants and the development of a remedial programme of actions would be presented to Council at some stage so Elected Members could understand more clearly the proposed solution.

With regard to the hui to be scheduled in June with Rangitaane and, if that was to initiate a CIA process would that be done with Raukawa or quite separate, Mr Maguire said he understood the meeting with Rangitaane was scheduled for next week. He would enquire if that would include Raukawa and would report back.

E. Levin Stormwater

It was requested that Kawiū Marae and Kohutoroa Marae, at the north and south ends of the Lake, be included in the consultation with key stakeholders. Mr Clapperton said he would follow up with the Project Manager to ascertain if they came under the MTA umbrella or if they would be captured separately.

F. Foxton Wastewater Discharge

Appreciation was expressed for the progress photos included with the report.

G. Levin Wastewater Discharge

With the closing date for appeals being 23 June, Mr Maguire advised that there was a time lag while the Court processed the information, and Council expected to hear within the next couple of days whether there had been any

appeals filed.

MOVED by Mr Jackson, seconded Mayor Wanden:

THAT Report 20/217 Projects Update be received.

THAT this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

CARRIED

7.2 Eleven Month Report 1 July 2019 - 31 May 2020

Purpose

To present to the Finance, Audit & Risk (FAR) Committee the financial report for the eleven months ended 31 May 2020.

Speaking to the report, Mr Law noted that many of the trends identified in previous reports had continued, with the biggest one being in relation subsidies from NZTA because of the delay in some of the capital expenditure. At the request of the Chair, the loss on derivatives had been pushed down below the operational line so the true operational costs were clearer.

Mr Law advised some Capital Expenditure percentage corrections on page 52:

- "To meet growth" – is 80% less the year to date budget for growth, should read 86%;
- "To improve service" - 36% should read 49%;
- "To replace renewals" - 19% should read 32%.

He further noted that the graph for Total Capital Expenditure reflected the fact that COVID-19 had put a damper on Council's ability to meet its capital programme; and in terms of interest rate movement, the cost of funds had dropped below 3% which is what was anticipated and why the Annual Plan assumption had been changed to 3%. On page 59, highlighted was the fact that three floating rate notes had gone below 1%.

The Chair commented that this was the problem with derivatives. When interest rates fell, while there was a benefit in the lower cost of finance, there was the issue in terms of loss on derivatives. If/when interest rates did start to rise again, the number would show as a positive.

A further correction noted was at the top of page 50, "Total surplus/(deficit)" should read "more" not "less".

Also raised:

- page 55 – water supply variance and higher insurance costs: this could have been due to the budgets being more than they should have been. It was hard to predict what the insurance market was going to do when budgets were set. In this instance there was also a reduction in the wastewater insurance costs, but not enough to offset each other.
- page 49 – Executive Summary: there were a range of things that contributed to the \$2.01m deficit against a budgeted YTD operating deficit of \$2,772m, which included lower grants and in terms of operational expenditure, this was down in several places, as was other expenditure.
- page 54 – Professional Services
 - Chief Executive – unfavourable variance (\$180k): this was something that had previously been highlighted to Councillors. There were several unbudgeted projects where an external resource/expertise was required. These included submissions made to the Horizons Plan Change Two; the Pre-election Report preparation; the Arawhata Wetland; O2NL advocacy; Master Planning; and Central Government Advocacy.
 - Road Transport – favourable variance \$458k: this was for work that still

needed to be done. It was subsidisable work that Council was doing to its roads to fit in with O2NL.

- page 49 – Building consents - what they were looking like for the COVID-19 period would be circulated.
- page 55 – Solid Waste unfavourable variance: the wording in that description was not quite correct. It was not for consent fees; it was for the monitoring costs associated with the change in the consent.
- the Levin landfill – depreciation and provision for after-care costs: Council did not rate fund depreciation as such for the landfill as there was no real depreciation as a landfill was not renewed. In terms of after-care costs, planning for this was quite complex. It was important to understand the reason for recognising after-care costs now was that people dumping rubbish now should be contributing to those costs. Once a landfill was closed there would be no further users.

MOVED by Cr Bishop, seconded Deputy Mayor Mason:

THAT Report 20/218 Eleven Month Report 1 July 2019 - 31 May 2020 be received.

THAT this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

CARRIED

7.3 Audit Engagement and Proposal Letters and Audit Plan

Purpose

To deliver to the FAR Committee the three letters regarding the Audit New Zealand audit assignment for the next 3 financial years 2019/20, 2020/21, 2021/22, but with particular emphasis on the audit for the 2019/20 financial year.

Mr Law reiterated that these letters were procedural in nature, with the Audit Engagement and Proposal letters happening every three years and the Audit Plan yearly. Council's new Audit Director, Mr Lucy, was coming to see Officers tomorrow and one issue that would be raised with him was the timing of the Audit. HDC used to be quite early in the Audit cycle (August/September); but the timetable received had the final audit at the end of the cycle (23 October) which did not fit in with Council's Agenda preparation for the adoption of the Annual Report.

Responding to a query with regard to the difference between Council's budget for the audit against Audit's estimate, Mr Law said the final amount would depend on what happened during the audit. Mr Jones added that it also depended on Council's performance, which did not mean Council Officers, but if something happened during the year that affected Council's financial and non-financial performance measures, Council's decision making would be reviewed as well.

It was noted that the proposed Monitoring Report to track the recommendations from the last Audit was in the process of being compiled. Audit NZ had been asked, as part of their interim Audit, to report back on items that had been cleared so presentation of the Monitoring Report would wait until the interim audit had concluded.

Particularly for the newer Councillors, Mr Jones highlighted three 'responsibilities' from Appendix 1 in the Audit Engagement Letter:

- *Preventing and detecting fraud and error* – despite what people believed, Audit was not responsible for detecting and preventing fraud – that responsibility was Council's;
- *Compliance with laws and regulations* – Council had the responsibility for compliance with legislation;

- *Establish and maintain appropriate standards of conduct and personal integrity*
– Council was responsible for appropriate standards of conduct in terms of conflict of interest.

MOVED by Cr Brannigan, seconded Deputy Mayor Mason:

THAT Report 20/221 Audit Engagement and Proposal Letters and Audit Plan and Audit Plan be received.

THAT this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

THAT the letters from Audit New Zealand be signed by the Mayor on behalf of the Horowhenua District Council.

CARRIED

7.4 Emergency Provisions for COVID-19: Deactivation of Emergency Committee

Purpose

For the Finance, Audit & Risk Committee to consider recommending to Council the deactivation of the Emergency Committee that was put in place for emergency decision making and governance processes, and also special delegations, to respond to the COVID-19 pandemic.

MOVED by Cr Brannigan, seconded Deputy Mayor Mason:

THAT Report 20/224 Emergency Provisions for COVID-19: Deactivation of Emergency Committee be received.

THAT this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

THAT the Finance, Audit & Risk Committee recommends to the Horowhenua District Council that it deactivates the Emergency Committee that was put in place to respond to the COVID-19 pandemic.

CARRIED

4.44 pm

There being no further business, the Chairperson declared the meeting closed.

CONFIRMED AS A TRUE AND CORRECT RECORD
AT A MEETING OF THE FINANCE, AUDIT & RISK
COMMITTEE HELD ON

DATE:.....

CHAIRPERSON:.....