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# Finance, Audit & Risk Subcommittee

## OPEN MINUTES

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Minutes of an extraordinary meeting of the Finance, Audit & Risk Subcommittee held in the Council Chambers, Horowhenua District Council, Levin on Wednesday 16 May 2018 at 4.00 pm.

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### PRESENT

<b>Chairperson</b>	Mr P Jones
<b>Deputy Chairperson</b>	Cr B F Judd
<b>Members</b>	Cr W E R Bishop
	Cr R J Brannigan
	Cr R H Campbell
	Mayor M Feyen
	Cr J F G Mason
	Cr C B Mitchell
	Cr B P Wanden

### IN ATTENDANCE

<b>Reporting Officer</b>	Mr D Law	(Chief Financial Officer)
	Mr D M Clapperton	(Chief Executive)
	Ms S Grant	(Group Manager – People & Community)
	Mrs K J Corkill	(Meeting Secretary)

### PUBLIC IN ATTENDANCE

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

#### 1 Apologies

Apologies were recorded for Councillors Kaye-Simmons, Tukapua and Gimblett.

MOVED by Cr Campbell, seconded Mayor Feyen:

*THAT the apologies from Councillors Kaye-Simmons, Tukapua and Gimblett be accepted.*

**CARRIED**

#### 2 Public Participation

There has been no requests for public participation received by the 12 noon deadline.

#### 3 Late Items

There were no late items.

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#### 4 Declarations of Interest

There were no declarations of interest.

#### 5. Confirmation of Minutes – 21 March 2018

MOVED by Cr Mitchell, seconded Deputy Mayor Bishop:

*THAT the minutes of the Finance, Audit & Risk Subcommittee meeting held on Wednesday, 21 March 2018, be confirmed as a true and correct record.*

**CARRIED**

#### 6. Announcements

There were no announcements.

#### 7 Reports

##### 7.1 Nine Month Report 1 July 2017 - 31 March 2018

###### Purpose

To present to the Finance, Audit & Risk Subcommittee the financial report for the nine months to 31 March 2018.

Mr Law spoke to the report particularly noting that the variances identified in the Executive Summary were still evident with a reduction in depreciation figures due to a revaluation of assets prior to commencing the LTP process and in relation to the Statements of External & Internal Loans by Activity (pages 26 & 27) capital expenditure was being anticipated that had not yet occurred. If that capital expenditure did not occur Council had the ability to reduce the \$12m loan falling due in June as it may not be necessary to renew all of it. That would be known within the next fortnight.

Mr Law responded to queries and comments which included:

- why consents were down was not something he could expand on but he did not think it was anything to be worried about at the moment;
- in relation to the recorded loss as at 31 March 2018, there was an explanation of that in the commentary provided;
- there was a cutting and pasting error on page 15 under Solid Waste, Landfill Development, where the figure should read \$329,732 not \$52,465;
- in relation to the variance of \$405,000 in Governance Activity Expenditure (page 36), because targeted rates were for a specific activity they were ring-fenced and unders and overs were tracked. It was not funded from any other rate, but if the variance became too extreme the rate would be adjusted;
- in terms of the rates debtors (page 20) and how many of those chose not to pay or did not pay due to genuine hardship, that was hard to assess. Council did have the ability if there was a mortgage on the property to recover rates from the mortgagee. An exercise was to be undertaken over the next 12 months to gauge if there was an issue of genuine hardship within the district.
- the development work at North East Levin (page 14) had been discussed at a pre-meeting with a request made to change the report so that it was easier to follow and understand with the issue being the number of projects that did not get finished before the end of the year and were carried forward to the next year. This year it involved \$9m out of a total capital budget of \$26m and what was missing from the report was the carry forwards which needed to be added against the year's budget. The report would be revamped to provide all the information

Responding to the earlier question in terms of how many people were choosing not to pay their rates as opposed to non-payment due to genuine hardship, Mr Clapperton said he knew of only one ratepayer (from Hokio Beach) who had chosen not to pay and he believed the majority of non-payment was due to hardship.

With regard to overdue Water and Trade Waste (page 24) and whether that was recoverable, Mr Clapperton said it was.

- the number of applications and amount received via Rates Rebates was noted on page 10 – 1,878 applications totalling \$1,021,922;
- in relation to the Statement of Comprehensive Revenue and Expense, Council needed to be smarter in terms of displaying variances and this was a work in progress.

Mr Jones noted a technical issue in the Statement of Rates Debtors (page 23) which included a line for non-rateable. Mr Law clarified that there were properties that were non-rateable but they were still rated for water and sewer.

Referencing page 12 and the Total Capital Expenditure graph, Mr Jones said what worried him was that it showed a budget of \$21m with only \$15m spent. Looking further on in the Agenda Standard and Poors was critical of Council's ability to deliver on its budget. When looking at the statement of capital projects over \$50k he outlined the various issues which included the work not needing to be done, or it would be better done in a later year, or because a contractor could not be engaged. It also could be caused by staff not performing. Mr Jones said he would like to get a better picture of capital works that were not being achieved and if there were any consequences in terms of Council's levels of service if renewals were not spent.

Mr Jones continued that a theme from the Office of the Auditor General was that local authorities were not spending their capital budgets and Councils were not explaining to themselves and also to the community why that capital spend did not happen and what the consequences were of that money not being spent. He thought such an explanation might help Standard and Poors.

Mr Clapperton said the point was taken that Council did need to look at those things. He noted, however, the Foxton Wastewater Treatment Plant upgrade where the money had not been spent because Council had not yet received its consent. That would become a carry forward and if that was included Council was actually at 81% of its total capital budget which was not too bad and better than it had been in the past.

Mr Jones said he was also pleased to see the Summary of Performance Measures on page 28. There was a lot showing green, however looking at those showing red and blue – Land Transport would have 100% non-compliant. There needed to be a report back to the FAR Subcommittee on those measures that had not been achieved and the reasons for that and also some description of "unable to report".

MOVED by Cr Brannigan, seconded Cr Wanden:

*THAT Report 18/269 Nine Month Report 1 July 2017 - 31 March 2018 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 Treasury Report

### Purpose

To present to the Finance, Audit & Risk Subcommittee the Bancorp Treasury Report for the March 2018 quarter.

Speaking to what was a normal quarterly report from Council's independent Treasury Advisors, Bancorp, Mr Law noted the LGFA \$12m loan which matured on 7 June 2018 the treatment of which (whether to renew or reduce by \$6m) he would be discussing with Council's Treasury advisors next week.

The possibility of not reducing the loan by \$6m and investing that money was raised and discussed, with the CFO requested to provide a report to Council on the advantages, disadvantages and risks of that course of action.

Mr Clapperton noted that advice on this would be sought from the FARS Chairperson and also Bancorp. He further observed that Council's Treasury management processes were maturing and Council was going through a phase of managing its debt portfolio with significant benefits being seen. This discussion was part of a broader discussion on how Council might look at opportunities of managing its debt portfolio for the ultimate benefit of ratepayers.

Mr Jones congratulated the Chief Executive and staff for getting such a good result in terms of the interest rate.

MOVED by Deputy Mayor Bishop, seconded Cr Campbell:

*THAT Report 18/271 Treasury Report be received.*

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

*THAT the Chief Financial Officer bring forward a report to the Council meeting to be held on 23/24 May 2018 outlining the advantages, disadvantages and risks of not reducing the roll-over of the \$12m LGFA commercial paper due on 7 June 2018 by \$6m.*

**CARRIED**

## 7.3 Standard and Poors Credit Rating

### Purpose

To present to the Finance, Audit and Risk Subcommittee the Standard and Poors' report on the review of Council's credit rating.

Referencing the Key Rating Factors on page 68, Mr Jones noted that while the Budgetary Performance was rated as 'Weak', which was around capital expenditure, the other indicators were positive.

Mr Jones also gave a fuller explanation to some of what were generic statements in Standard and Poors report.

MOVED by Cr Wanden, seconded Cr Judd:

*THAT Report 18/272 Standard and Poors Credit Rating be received.*

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

**CARRIED**

#### 7.4 Council's Options for Insuring Below-ground Infrastructural Assets

##### Purpose

To evaluate the options for insuring Council's infrastructural assets for damage relating to a natural disaster.

It was noted that this meeting had been delegated the authority from Council to make the call as to whether Council did or did not withdraw from the Local Authority Protection Programme (LAPP) Fund.

Speaking to the report, Mr Law said it had been hoped that LAPP would have something in place by 1 June to provide some direction as to the way forward, but it had become obvious that what LAPP might morph into – whether it would exit insurance and move more into risk - would not be known for at least another year

In terms of Council's exposure, MWLass was offering another layer of cover (\$150m at a premium of \$28,000) to those in this region which meant the decision to take another year's risk was mitigated. There would also have to be a major disaster for Council to be badly affected. In a year's time it was quite likely the insurance scene was going to change quite markedly over the whole of New Zealand.

MOVED by Cr Campbell, seconded Cr Mitchell:

*THAT Report 18/273 Council's Options for Insuring Below-ground Infrastructural Assets 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 Subcommittee resolves to remain a member of LAPP for one (1) further year, pending an outcome of the reorganisation and remodelling of LAPP, while retaining HDC's share of the \$17m LAPP fund that may be used to cover the costs of Insurance Valuations and Risk Profiling if this becomes necessary.*

**CARRIED**

#### 7.5 Monitoring Report - Issues Identified during the 30 June 2017 Audit

##### Purpose

To present to the Finance, Audit & Risk Subcommittee the Monitoring Report covering issues identified during the 30 June 2017 Audit.

MOVED by Mr Jones, seconded Cr Judd:

*THAT Report 18/274 on Monitoring Report - Issues Identified during the 30 June 2017 Audit be received.*

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

**CARRIED**

## 7.6 Mayoral Discretionary Fund

### Purpose

To report to the Finance, Audit & Risk Subcommittee on the grants made from the Mayoral Discretionary Fund during the 2017/18 financial year.

MOVED by Mr Jones, seconded Cr Judd:

*THAT Report 18/270 Mayoral Discretionary Fund be received.*

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

*THAT due to the low dollar value within the Mayoral Discretionary Fund that this no longer be reported to the Finance, Audit & Risk Subcommittee.*

**CARRIED**

5.28 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  
SUBCOMMITTEE HELD ON

**DATE:**.....

**CHAIRPERSON:**.....