

## **Minutes of a meeting of the Audit, Risk and Finance Subcommittee**

**Held in the Council Chamber, Civic House, 110 Trafalgar Street, Nelson**

**On Tuesday 10 March 2015, commencing at 9.01am**

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Present: Mr J Peters (Chairperson), Councillors I Barker and B McGurk, and Mr J Murray

In Attendance: Her Worship the Mayor R Reese, Councillor G Noonan, Chief Executive (C Hadley), Group Manager Corporate Services (N Harrison), Manager Operations (S Davies), Manager Communications (P Shattock), Manager Administration (P Langley), and Administration Adviser (S McLean)

### **1. Apologies**

There were no apologies.

### **2. Confirmation of Order of Business**

There was no change to the order of business.

### **3. Interests**

There were no updates to the Interests Register, and no interests with items on the agenda were declared.

It was agreed that the Interests Register would be presented to the next Audit, Risk and Finance Subcommittee meeting.

### **4. Public Forum**

There was no public forum.

### **5. Delegations and Terms of Reference**

Document number A1297307, agenda page 6 refers.

The Chairperson said the Subcommittee's terms of reference would be reviewed to ensure they were in line with best practise, and any proposed changes would be reported to the Governance Committee for consideration.

In response to a question, Group Manager Corporate Services, Ms Harrison, advised that monitoring of capital projects was included in the delegations under monitoring of financial and service performance.

**6. Status Report – Audit, Risk and Finance Subcommittee 10 March 2015**

Document number A1324298, agenda page 7 refers.

Resolved

***THAT the Status Report – Audit, Risk and Finance Subcommittee 10 March 2015 (A1324298) be received.***

Barker/Murray

Carried

**7. Chairperson’s Report**

The Chairperson highlighted the important and necessary step of establishing the Audit, Risk and Finance Subcommittee. He said the focus was on improving responsibilities and undertakings in the areas of audit, risk and finance, and he was looking forward to working with officers and the Subcommittee to achieve this.

**8. Corporate Report for the Period Ending 31 January 2015**

Document number A1313350, agenda pages 8-26 refer.

Group Manager Corporate Services, Nikki Harrison, presented the report.

In response to concerns about report information not being considered by the Governance Committee, it was confirmed that all councillors receive a copy of Audit, Risk and Finance Subcommittee agendas. The Chief Executive, Clare Hadley, added there was ongoing discussion between group managers and committee chairpersons in regards to financial items and outcomes for each committee.

In response to a question, Ms Harrison advised there were likely to be further savings this financial year, but that some savings highlighted in the report were as a result of timing differences. She added that asset managers would be revising projections in April, in order to inform the final Long Term Plan 2015-25.

In response to a question, Ms Harrison advised that the total shareholder funds increase included a mix of surplus and reserve movements.

Ms Harrison said the transfer of funds to the Unsubsidised Roding account was required because the Maitai Walkway was not considered to be close enough to the city to be covered in the Inner City

Enhancement account. She said the Maitai Walkway funding had been split into three accounts, with a portion in parks and reserves. Ms Harrison added that the Inner City Enhancement account was mainly funded by parking income.

There was agreement that the Major Projects Status Report was beneficial for the Subcommittee, and it could be further improved by including details of project size and overall timeframes.

In response to a question about projects with budgets in the red category, Manager Operations, Shane Davies, confirmed that those projects would stall if New Zealand Transport Agency (NZTA) funding was not received. The Chief Executive, Clare Hadley, highlighted the high degree of confidence in receiving NZTA funding due to the inclusion of those projects in the Regional Land Transport Plan.

In response to questions, Ms Harrison advised that any funds received from forestry insurance claims were kept within the account that the claim related to. She said that Emissions Trading Scheme (ETS) payments had been made and the price was lower than budgeted and lower priced euro credits were able to be used for the current years liability up to 31 December 2014. It was suggested that the topic of ETS be a matter for a future memo or report to the Subcommittee.

There was a discussion on landfill charges, with concern raised about the percentage increase in these charges.

Senior Asset Engineer – Solid Waste, Johan Thiart, explained that the budget had included material from Buller and the Nelson Waste water treatment plant which did not materialise.

Senior Asset Engineer – Solid Waste, Johan Thiart, spoke about the budgeted 20% dry solids in Nelson North wastewater sludge, and the intention to increase this to 40% dry solids by delaying the carting of dewatered sewage sludge. He advised the decrease in water content would then reduce tonnage costs, resulting in overall savings for Council.

Ms Harrison advised that even if savings from sludge dry solids were taken into account, this would not come close to recovering this year's loss in the landfill account.

Mr Thiart advised that if landfill charges were not increased, the majority of the prior year surpluses in the landfill reserve fund would be used to offset the projected deficit for this year. He added that increasing the fees from May 2015 would still result in the need to use a portion of the prior year's surplus.

It was highlighted that landfill fees were already set to increase in July 2015 to the amount recommended in the report. It was also noted that the higher fee appeared to be at market value.

Mr Thiart advised that the joint landfill agreement with Tasman District Council would not be affected, as the decision called for was only applicable to this financial year.

In response to a question, Ms Harrison confirmed that the landfill account was a closed account.

In response to a comment on replacing water meters, Mr Davies confirmed the process for replacement was already underway.

After discussion on the list of Additional Major Projects which were reported to Council separately, it was agreed that further details would be provided in future so the Subcommittee could understand and assess any potential risks to those projects.

Comments were made on the fixed rate maturity profile. Ms Harrison advised that the figures reflected Council's ability to issue term debt for the past two years. She added the profile also reflected that there had been no increase in short term debt this financial year.

The recommendations were taken separately.

Resolved

***THAT the report Corporate Report for the Period Ending 31 January 2015 (A1313350) and its attachments (A1313445, A1314763, A1314760, A1313550, A1313349 and A793514) be received and the variations noted.***

Barker/McGurk

Carried

Recommendation to Governance Committee and Council

***THAT the landfill charges be increased from \$114 per tonnes (inclusive of GST) to \$121 (inclusive of GST) effective 15 May 2015;***

***AND THAT landfill users be given two weeks notice of the increase in landfill charges;***

McGurk/Murray

Carried

***AND THAT approval is given for a transfer of all capital expenditure and debt relating to the Maitai Walkway to be made from the Inner City Enhancement account to the Unsubsidised Roding account in order to properly account for interest and debt in future years.***

Barker/McGurk

Carried

**9. Letter to the Council on the Audit for the Year Ending 30 June 2014**

Document number A1304574, agenda pages 27-37 refer.

Group Manager Corporate Services, Nikki Harrison, presented the report.

In response to a question, Ms Harrison advised that the indices used in the revaluation of infrastructural assets were being reviewed in response to the comments from Audit.

There was discussion on the reduction in staff numbers and Council's ability to carry out control functions. The Chief Executive, Clare Hadley, advised that staff numbers referenced in the Audit letter included vacancies at the time of audit. She said there had been no significant impact on operations as a result of restructuring, and there was no ongoing concern amongst management in relation to staff numbers.

In response to a question, Mrs Hadley advised that a consultant was assessing the impact to Council of the new health and safety requirements for contractors. She said there would likely be an adjustment to the level of health and safety expertise in the organisation.

Mrs Hadley assured the Subcommittee that Council's health and safety requirements and procedures were extended to contractors and consultants.

It was agreed that the Subcommittee would benefit from a follow up report containing management responses to the points raised in the Audit letter.

Resolved

***THAT the report Letter to the Council on the Audit for the Year Ending 30 June 2014 (A1304574) and its attachment (A1297813) be received;***

***AND THAT a follow up report on points raised in the Letter to the Council on the Audit for the Year Ending 30 June 2014 be prepared for the Audit, Risk and Finance Subcommittee.***

Murray/Barker

Carried

Attendance: The meeting adjourned for morning tea from 10.17am to 10.35am.

## 10. Procurement Policy and Debt Management Process

Document number A1312127, agenda pages 38-50 refer.

Group Manager Corporate Services, Nikki Harrison, presented the report.

It was agreed that the report on Procurement Policy and Debt Management Process should be referred to the Governance Committee as there was value in the Committee receiving and discussing this item.

It was suggested that the Subcommittee would benefit from a report on Council's Debt Management Policy.

Attendance: The meeting adjourned from 11.04am to 11.12am.

Resolved

***THAT the report Procurement Policy and Debt Management Process (A1312127) and its attachments (A1293789, A1316053 and A1324271) be referred to the Governance Committee;***

***AND THAT a report on the debt management policy be brought to the next Audit, Risk and Finance Subcommittee meeting.***

Murray/Barker

Carried

## 11. Liability Management and Investment Policies

Document number A1312122, agenda pages 51-79 refer.

Group Manager, Corporate Services, Nikki Harrison presented the report.

In response to a question, Ms Harrison explained the purpose of forward start swaps and collars. She highlighted that forward start swaps were a mechanism to lengthen the term of a swap portfolio.

It was agreed that the Liability Management Policy (LMP) should include reference to Council not undertaking speculation.

In response to questions, Ms Harrison advised that the measure on equity had been removed from the Specific Borrowing Limits section of the LMP. She said the register of guarantees provided would be presented to the Subcommittee on an annual basis. Ms Harrison advised the Debenture Trustee was Foundation Corporate Trust and detail on this could be included in the LMP.

It was agreed that the first sentence in the New Zealand Local Government Funding Agency section of the LMP needed further clarification.

Her Worship the Mayor highlighted that the use of the dividend stream to reduce rates could be assessed by the Subcommittee in the future.

Concerns were raised that investments in the Marina and camping grounds were not included in the Investment Policy. It was suggested that several Investment Policies could be created based on different types on investment.

In response to a question, Ms Harrison advised that the miscellaneous loans section in the Investment Policy referred to loans to organisations such as Theatre Royal and Nelson Enterprise Loan Trust. She added that information on these loans would be reported to the Subcommittee on an annual basis.

It was agreed that the Investment Principles section in the Investment Policy would be updated to reflect that any investment would have risk and would be appropriately managed.

Concern was raised about reference to Council holding no investments purely for income earning purposes. It was queried if this reflected current holdings, and if not, if Council's portfolio would be impacted. It was agreed that if any investments held for purely income earning purposes were identified, these would be listed in the Investment Policy.

It was agreed that the first sentence in the New Zealand Local Government Funding Agency section of the Investment Policy needed further clarification.

Resolved

***THAT the report Liability Management and Investment Policies (A1312122) and its attachments (A1261456 and A1261457) be received.***

Barker/Murray

Carried

Recommendation to Governance Committee and Council

***THAT the Liability Management and Investment Policies, with amendments from the Audit, Risk and Finance Subcommittee, be adopted.***

Barker/Murray

Carried

## 12. Proposed Meeting Dates

It was clarified that the Subcommittee could meet in-between set meeting dates should the need arise.

It was noted that a work plan for the Subcommittee may be arranged.

It was suggested that the proposed meeting dates be reviewed to ensure alignment with the adoption of the Annual Report.

Her Worship the Mayor reminded the Subcommittee that any workshops for the Subcommittee would need to be confirmed through the Chairperson's Report.

There being no further business the meeting ended at 11.56am.

Confirmed as a correct record of proceedings:

\_\_\_\_\_ Chairperson \_\_\_\_\_ Date