DISTRIBUTION:

Elected Members:

His Worship the Mayor
Cr D A Adams
Cr J M Bubb
Cr B A Gordon
Cr G A Harris
Cr P H Keall
Cr G R Leonard
Cr M P McLean
Cr P A Milner
Cr H T Shepherd
Cr D H Swales
Cr J H Thorp
Cr A A Tubman

Independent Member:

P Bennett

Audit NZ

Naude Kotze
Leon Pieterse

Staff:
L D Cavers
D Peddie
K Conomos
Council Secretary

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HAURAKI DISTRICT COUNCIL

AUDIT & RISK COMMITTEE

A G E N D A

DATE:	**Tuesday, 20 October 2015**
TIME:	**9.00am**
VENUE:	**Hauraki Room** **William Street** **PAEROA**
MEMBERS:	**P Bennett (Chairperson/Independent Member)** **J P Tregidga** **Cr B A Gordon** **Cr D A Adams** **Cr G R Leonard** **Cr A A Tubman**

L D Cavers
Chief Executive

HAURAKI DISTRICT COUNCIL

AUDIT & RISK COMMITTEE

NOTICE IS HEREBY GIVEN THAT A MEETING OF THE AUDIT & RISK COMMITTEE WILL BE HELD IN THE HAURAKI ROOM, PAEROA OFFICE, WILLIAM STREET, PAEROA ON TUESDAY 20 OCTOBER 2015 COMMENCING AT 9.00AM

ORDER OF BUSINESS

1. **APOLOGIES** **Pages**

2. **DECLARATION OF LATE ITEMS**

Pursuant to Section 46A(5) of the Local Government Official Information and Meetings Act 1987, the Chairman is to call for late items to be accepted. In the event of a late item, an explanation must be given as to why the item was not on the agenda and why discussion cannot be delayed for a subsequent meeting.

3. **DELARATIONS OF INTEREST**

(*Members are reminded of their obligation to declare any conflicts of interest they might have in respect of the items on this agenda).*

4. **CONFIRMATION OF MINUTES**

4.1 AUDIT & RISK COMMITTEE MEETING HELD TUESDAY 18 AUGUST 2015 (1402610) **8**

RECOMMENDATION

THAT the minutes of Tuesday 18 August 2015 be taken as read and confirmed.

5. **BUSINESS / DISCUSSION**

KPMG Partner David Sutton and KPMG Director Bineeta Nand will attend at 10:10am to meet the Committee.

5.1 2014/15 DRAFT ANNUAL REPORT – AUDIT AND RISK COMMITTEE REVIEW (1441347, 1444531) **15**

The Corporate Services Manager provides the Audit and Risk Committee with the opportunity to review the draft Annual Report for the year ending 30 June 2015, in particular the financial information, developed to date. A copy of the Annual report is provided separately.

RECOMMENDATION

THAT the report be received.

5.2 AUDIT NZ DIRECTORS UPDATE (1412416, 1319214) **18**

The Strategic Planner and Corporate Services Manager presents items raised by Audit NZ in their Audit report for the year ended 30 June 2014.

RECOMMENDATION

THAT the report be received.

5.3 TREASURY REPORT AS AT OCTOBER 2015 (1444040, 1391827) **27**

The report updates on the current position of the loan/debt status, against the parameters outlined in the Council's Financial Strategy and Liability Management Policy.

RECOMMENDATION

THAT the report be received.

5.4 PRESENTATION ON INTEREST RATES SWAPS AS AT OCTOBER 2015 (1444053) **51**

A PowerPoint presentation on interest rate swaps has been prepared for the information of the Committee.

5.5 INTERNAL DEBT (1413121) **54**

The Corporate Services Manager has reported on internal debt as at October 2015.

RECOMMENDATION

THAT the report be received.

5.6 OVERVIEW OF COUNCIL'S INSURANCE POLICIES (1418216) **57**

The Corporate Services Manager provides an overview of Councils insurance policies.

RECOMMENDATION

THAT the report be received.

5.7 RATES INFORMATION (1399211) **63**

The Strategic Planner presents information about how rates are received through direct debits, automatic payments, internet banking and so on as well as present information about the frequency of rates instalments.

RECOMMENDATION

THAT the report be received, and

THAT the Audit and Risk Committee discuss the report.

5.8 DELEGATIONS FOR DEPARTURE FROM PROCUREMENT POLICY (1444054) **69**

The Strategic Planning Projects Manager seeks consideration to the updating of the provisions in Council's Delegations Manual. This is to allow for the Chief Executive and Departmental Managers to approve particular purchasing processes that are currently within their purchasing delegations but which are not in accordance with the current provisions of the Council's Procurement Policy.

RECOMMENDATION

THAT the report be received, and

THAT the Audit and Risk Committee recommend pursuant to Section 32 of the 7th Schedule to the Local Government Act 2002, the Council delegate to the Chief Executive the power to approve departures from the Procurement Policy procedures for Negotiable and Discretionary purchases where, after consideration of a written report from an Authorised Purchasing Officer, he is satisfied that the recommended purchasing process is appropriate to the circumstances and will result in a cost effective purchasing option for the Council and that all such approved departures from the Discretionary purchasing provisions in the Procurement Policy shall be reported to the next available Council meeting, and

THAT the Audit and Risk Committee recommend pursuant to Section 32 of the 7th Schedule to the Local Government Act 2002, the Council delegate to Departmental Managers the power to approve departures from the Procurement Policy procedures for Negotiable purchases where, after consideration of a written report from an Authorised Purchasing Officer, they are satisfied that the recommended purchasing process is appropriate to the circumstances and will result in a cost effective purchasing option for the Council and that all such approved departures from the Negotiable purchasing provisions in the Procurement Policy shall be reported to the next available Management Team meeting, and

THAT the Audit and Risk Committee recommend that the Council Delegations Manual be amended accordingly.

5.9 RISK MANAGEMENT PROJECT UPDATE (1412425) **75**

The Strategic Planner provides an update on the risk management project.

RECOMMENDATION

THAT the report be received.

5.10 AUDIT AND RISK COMMITTEE WORK PROGRAMME (1412432, 1252510) **77-80**

The Strategic Planners presents the Audit & Risk Committee's proposed work programme and Terms of Reference for consideration. The draft work programme is included as Appendix A and Terms of Reference as Appendix B.

RECOMMENDATION

THAT the report be received, and

THAT the Committee amend / make comment to the work programme as it deems necessary.

6. MATTERS TO BE TAKEN WITH THE PUBLIC EXCLUDED

RECOMMENDATION

THAT the public be excluded from the following parts of the proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter 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:

Item No.	**General subject of each matter to be considered**	**Reason for passing this resolution in relation to each matter**	**Ground(s) Under Section 48(1) for the Passing of this Resolution**
1	Rates in Arrears	**Section 7(2)(a)** – Protect the privacy of natural persons, including that of deceased natural persons.	Section 48(1)(a) That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.

HAURAKI DISTRICT COUNCIL

AUDIT & RISK COMMITTEE

MINUTES OF A MEETING OF THE AUDIT & RISK COMMITTEE HELD IN THE HAURAKI ROOM, PAEROA OFFICE, WILLIAM STREET, PAEROA ON TUESDAY 18 AUGUST 2015 COMMENCING AT 9.00AM

PRESENT Mr P Bennett (In the Chair), His Worship the Mayor Mr J P Tregidga, Crs B A Gordon, G R Leonard, D A Adams and A A Tubman

IN ATTENDANCE Messrs L D Cavers (Chief Executive), D Peddie (Finance Manager), Ms Katina Conomos (Strategic Planner) and Ms C Black (Council Secretary)

APOLOGIES

RESOLVED

THAT the apology for lateness of Cr Tubman be received and sustained.

ARC15/42 Adams/Leonard **CARRIED**

LATE ITEMS

There were no late items.

DELARATIONS OF INTEREST

There were no declarations of interest.

CONFIRMATION OF MINUTES

AUDIT & RISK COMMITTEE MEETING HELD TUESDAY 16 JUNE 2015 (1375613)

RESOLVED

THAT the minutes of Tuesday 16 June 2015 be taken as read and are a true and correct record.

ARC15/43 Tregidga/Gordon **CARRIED**

BUSINESS / DISCUSSION

TREASURY REPORT AS AT 31 JULY 2015 (1400461)

The Corporate Services Manager reported on and provided an update on the current position of the Loan and Interest Swap status.

Cr Tubman attended the meeting 9.15am.

It was requested that the Corporate Services Manager forward a report to the next meeting on internal debt.

The Corporate Services Manager also offered to meet with committee members on an individual basis for further explanation.

The Chief Executive suggested that a representative from PWC be invited to run a workshop for the Audit & Risk Committee on Swaps. The Committee suggested that alternatively as a cost saving measure, they seek an explanation by way of a circulated document from PWC or the Corporate Services Manager to provide information on the subject which is easily understood. The Committee also suggested that a workshop on the topic of depreciation is needed.

RESOLVED

THAT the report be received.

ARC15/44 Leonard/Bennett **CARRIED**

AUDIT NZ MANAGEMENT REPORT – PROGRESS UPDATE (1397617, 1319214)

The Strategic Planner and Corporate Services Manager provided a report updating on the progress of items raised by Audit New Zealand in their Audit report, year ended 30 June 2014.

The Corporate Services Manager explained the list provided from Audit NZ Management letters for year ended 30 June 2014.

RESOLVED

THAT the report be received.

ARC15/45 Bennett/Tregidga **CARRIED**

CYBER SECURITY (1400533, 1400542)

The Strategic Planner provided information about Cyber Security, received from Audit NZ, for the Committee's information.

The Corporate Services Manager advised that Audit NZ undertake cyber security testing annually which was conducted this week.

The Committee discussed that Council management need to identify potential cyber security issues and/or risks and add them to the risk register when developed to be reported back to the Committee.

RESOLVED

THAT the report be received.

ARC15/46 Bennett/Tubman **CARRIED**

RISK MANAGEMENT PROJECT (1397625, 1319214, 1382946)

The Strategic Planner provided the Committee with an update on the Risk Management project and sought support 'in principle' for the draft risk matrix.

RESOLVED

THAT the report be received, and

THAT the Audit and Risk Committee endorse 'in principle' the work undertaken thus far on the Risk Matrix as presented.

ARC15/47 Tubman/Tregidga **CARRIED**

INTERNAL AUDIT UPDATE (1397622)

The Strategic Planner and Corporate Services Manager reported on and provided an update regarding the request for proposal for an Internal Audit provider.

Proposals were requested from five different companies.

Paul Bennett, in his capacity as CEO of Braemar Hospital, declared existing relationships with a number of companies who have submitted proposals to HDC, as follows: Braemar Hospital have relationships with Deloitte and BDO, and Graham Naylor is the Chairman of Braemar Hospital Ltd.

The Committee noted these relationships but didn't regard these as a conflict of interest.

Council staff advised that the proposals have been reviewed and further clarification regarding price attributes is being sought. The decision to appoint an internal auditor will need to be reported to Council and the Committee expressed a desire to be involved in this decision.

The Committee discussed the process from here and agreed that staff will prepare a report to the Chair with recommendations from the "Request for Proposal" process. The Chair will then decide whether a special meeting of the Audit and Risk Committee is required to consider the matter further.

RESOLVED

THAT the report be received.

ARC15/48 Adams/Leonard **CARRIED**

The meeting adjourned at 10.43am
The meeting reconvened at 11.00am

ANALYSIS OF COMMITTEE'S SELF ASSESSMENT SURVEY RESULTS (1399038, 1399059)

The Strategic Planner reported on and presented the compiled results of the Audit & Risk's self assessment survey and provided an opportunity for discussion around the results.

The members were taken through each page of the survey.

Independence

- The Committee discussed that it would be good practice to have 'Committee only time' with Audit NZ without Council staff in attendance. It was considered that this would be appropriate to happen once per year, or as required.
- The Committee discussed that it would also be good practice to have 'Committee only time without staff'. Again, this was considered appropriate on an as-needs basis.
- The Committee discussed that these items could be standing items or questions on the agenda that are used if required.

Open and effective relationships

- Councillor Adams noted that Paul Bennett's contact details have not been made available to the Committee. It was agreed that the Council Secretary circulate Paul Bennett's contact details to the Committee.
- It was also requested that the Chair update the Committee on any pertinent activity or correspondence that the Chair has been involved in with staff or Audit NZ, in between Committee meetings.

Meeting organisation

- The members raised no significant issues in this area.

Training Needs

- The Committee members stated that they would like more training as regards to financial literacy.

Frequency of reports on self assessment results

It was agreed that the Committee's self assessment survey be undertaken every 12 months and that this be added to the forward work programme.

RESOLVED

THAT the report be received, and

THAT the Committee agree to include standing questions at the start of their meeting agendas from here forward regarding Committee only time, and Committee only time with Audit NZ being required.

ARC15/49 Leonard/Gordon **CARRIED**

AUDIT & RISK COMMITTEE WORK PROGRAMME (INCLUDES TERMS OF REFERENCE - TOR) (1397615, 1252510)

The Strategic Planner reported on the Audit & Risk Committee's work programme and Terms of Reference document as requested by the members at the 16 June meeting. No amendments were made to the work programme and the current TOR.

The Committee discussed whether the Deputy Chair should be the Mayor rather than the Deputy Mayor, but decided that it should remain as is, on the basis that it is recommended good practice not to have the Mayor as the Chair of the Audit and Risk Committee.

RESOLVED

THAT the report be received.

ARC15/50 Gordon/Adams **CARRIED**

MATTERS TO BE TAKEN WITH THE PUBLIC EXCLUDED

RESOLVED

THAT the public be excluded from the following parts of the proceedings of this meeting.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter 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:

Item No.	**General subject of each matter to be considered**	**Reason for passing this resolution in relation to each matter**	**Ground(s) Under Section 48(1) for the Passing of this Resolution**
1	Progress Report Regarding Rating Sales	**Section 7(2)(a)** – Protect the privacy of natural persons, including that of deceased natural persons.	Section 48(1)(a) That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.

ARC15/51 Gordon/Leonard **CARRIED**

RESOLVED

THAT the public be re-admitted to the meeting and that the business in committee discussed be confirmed.

ARC15/53	Tubman/Gordon	**CARRIED**

The meeting closed at midday.

CONFIRMED

P Bennett
Chairperson

20 October 2015

HAURAKI DISTRICT COUNCIL

Information Report

To:	Audit and Risk Committee
From:	Corporate Services Manager
Date:	Monday, 5 October 2015
File reference:	Document: 1441347 Appendix A: 1444531 Annual Report
Meeting date:	Tuesday, 20 October 2015
Subject:	**2014/15 Draft Annual Report – Audit and Risk Committee Review**

Recommendation:

THAT the report be received.

Purpose

The purpose of this report is to provide the Audit and Risk Committee with the opportunity to review the draft Annual Report for the year ending 30 June 2015, in particular the financial information, developed to date.

Background

As required by the Local Government Act 2002, the Council must prepare an Annual Report every year, reporting on its non-financial and financial performance. The Annual Report communicates to the community what the Council has achieved in the financial year, and measures against what Council said it was going to do in its Long Term Plan or Annual Plan for that year.

The draft Annual Report for the 2014/15 measures against the third year of the 2012-22 Hauraki Long Term Plan and the 2014/15 Annual Plan.

The Council considered the draft Annual Report developed to date excluding financials at its meeting of 30 September 2015. The final Annual Report is scheduled for adoption at the Council meeting of 28 October 2015.

Issues and options

The Annual Report is a draft and is subject to change as a result of review by Audit New Zealand.

Commentary on Variances to Budget

Statement of Comprehensive Income

Operating
The operating deficit was $4.8 million higher than forecast ($3.0 million actual deficit compared to $1.8 million budgeted surplus).

The main factor in this variance to budget was $3.4 million of forecast subsidy income for water capital that was not received during the year from Ministry of Health. This income is forecast to be received in 2015/16.

The other significant factor was the $1.8 million decrease in the fair value of interest rate swap contracts due to declining interest rates during the year. Council is required to assign a book value to its swaps every year and report movements in the book value as part of its surplus/deficit. At 30 June 2014 Council's swaps were valued at $600,000. At 30 June 2015 they were valued at -$1.2 million.

Revaluations
The total comprehensive income deficit was $32.8 million. This was $34.6 million lower than budgeted. As well as the variances outlined above, the actual decrease in the value of Infrastructure assets excluding Roading was $29.8 million (compared to a Nil forecast.). The previous year's revaluation increase of $20.1 million related to roading assets.

Statement of Financial Position
Overall borrowings are $7.8 million lower than budget due to the deferral of capital projects. Property, plant and equipment is $40.9 million lower, primarily due to higher than forecast valuation decreases in infrastructure, and the impact of deferring the completion of some water supply capital projects, and the construction of the Paeroa Library, to 2015-16.

Statement of Cash flows
Compared to budget, Council paid less for purchases and construction of Property, Plant and Equipment ($8.4 million) due to project deferrals as outlined above. Offsetting this were lower than budgeted Council receipts from Other Revenue ($3.9 million), primarily water subsidy income. Council also received $1.0 million more from sales of Property, Plant and Equipment than was budgeted. The effect of these, and other smaller changes, was to decrease the forecast net cash requirement from borrowing and cash reserves by $6.6 million.

Conclusion

The Audit and Risk Committee is provided with the opportunity to review the draft 2014/15 Annual Report as developed to date. Some further changes will be required to this document as a result as Audit New Zealand's review. The document is scheduled for Council adoption on 28 October 2015.

Duncan Peddie
Corporate Services Manager

Appendix A

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HAURAKI DISTRICT COUNCIL

Information Report

To:	Audit and Risk Committee
From:	Strategic Planner and Corporate Services Manager
Date:	Tuesday, 13 October 2015
File reference:	Document: 1412416
Meeting date:	Tuesday, 20 October 2015
Subject:	**Audit NZ Management Report – Progress Update**

Recommendation:

THAT the report be received.

Purpose

To present a progress report to the Audit and Risk Committee regarding items raised by Audit New Zealand in their Audit report, year ended 30 June 2014.

This is a standing item on the Committee's agenda.

Background

Following the completion of the 2013/14 Annual Report audit, Audit New Zealand provided their report for the year ended 30 June 2014.

This report presents, as Appendix A, a progress report regarding action against the items raised by Audit New Zealand.

Changes are marked in the Attachment in blue highlight, as a progress updates since this was last reported. Completed actions have now been placed in 'grey' text.

We expect that at the next meeting of the Audit and Risk Committee on 9 December the Council will have received an Audit Report for the 2014/15 Annual Report which will then supersede this report.

Cyber Security

At the last meeting of the Committee on 18 August 2015, the Committee received a paper regarding Cyber Security. The Corporate Services Manager also advised that Audit NZ conduct an annual audit regarding Cyber Security. The annual audit occurred in August 2015 and on 1 September 2015 staff were advised that there were no new issues arising from the audit and there were no issues outstanding from last year.

Budget Implications

Currently, there are no budget implications associated with addressing the items raised by Audit New Zealand.

Conclusion

The report presents to the Audit and Risk Committee staff progress against items raised by Audit New Zealand in their Audit report, year ended 30 June 2014.

Katina Conomos
Strategic Planner

Duncan Peddie
Corporate Services Manager

Appendix A

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Action List from Audit NZ Management Letters for Year ended 30 June 2014

Interim Management Report						
No.	**Audit NZ reference**	**Management Point**	**HDC Response and Action to be taken**	**Responsible**	**By**	**Progress**
Urgent						
1.	1.2	Payroll - Implement a system generated payroll master file changes report to ensure all changes are identified and independently reviewed.	To be implemented within the next financial year.	Duncan Peddie/Maree Ralls.	30 June 2015	This was implemented on 15 May 2015. A report is automatically sent to the Corporate Services Manger to review. An additional report on Accounts Payable Masterfile changes is also sent to the Corporate Services Manager, the Finance Manager and Accounting Team Leader.
2.	1.3	Expenditure - Roll out electronic purchase order system and ensure effective segregation of duties is implemented.	Reviews are carried out to ensure that no personal expenditure is authorised in this manner. Look at introducing a compensating control, such as a system report that captures incidents where one manager has completed the whole process.	Elaine Rattigan / Heather Byrne	End of 2015	New functionality has become available within Authority however this needs to be tested and evaluated before implementation. This is a work in progress and is scheduled for the end of the year.
3.	1.3	Expenditure - $100 Financial delegation for all staff.	Guidelines to be developed, and training provided to all staff so it is clear what expenditure is appropriate to be approved under this delegation.	Elaine Rattigan / Heather Byrne	End of 2015	Not yet started.
4.	3.2	Implement an organisation wide risk register and risk management policy.	The Audit and Risk Committee have noted the development of an organisation-wide risk register as a priority and have this on their work programme.	Langley Cavers / Duncan Peddie / Katina Conomos	End of 2015	In progress through to December 2015. A project scope approved in April 2015 by the Audit and Risk Committee.

Action List from Audit NZ Management Letters for Year ended 30 June 2014

Interim Management Report						
No.	**Audit NZ reference**	**Management Point**	**HDC Response and Action to be taken**	**Responsible**	**By**	**Progress**
			Staff to scope this work and prepare a policy and plan to discuss with the Committee.			An internal staff working party has been formed and work has commenced. Risk identification across the organisation has commenced. A separate project update report to the Audit and Risk Committee has been prepared.
Necessary						
5.	4.3	Develop formal policy or guidance material to ensure adequate and consistent project management practices are being applied.	In the last two years the Council has introduced new business case templates consistent with the good practice material provided by the Treasury Department The merits of a formal policy regards project management will be considered by the Chief Executive and Management Team.	Langley Cavers	End of 2015	Not yet started but staff will consider this matter as part of the Risk Management Policy. Furthermore, this matter has also been raised through an internal project looking at Corporate Systems improvements across the organisation. Staff expect a project regarding project management improvements will be scoped in the near future.
Beneficial						
6.	4.2	Better alignment of sensitive expenditure policies	Sensitive expenditure policy to be amended for the points raised in the management letter.	Heather Byrne	31/1/15	The Sensitive expenditure policy was accepted by the Audit and Risk committee on 17 Feb 2015 and the subsequent Council meeting. Staff have included in their forward programme an audit of compliance with this new policy.

Action List from Audit NZ Management Letters for Year ended 30 June 2014

Interim Management Report						
No.	**Audit NZ reference**	**Management Point**	**HDC Response and Action to be taken**	**Responsible**	**By**	**Progress**
7.	4.2	Review and monitoring of fuel card expenditure	Reviews to be signed by reviewer	Heather Byrne	End of 2015	The Finance Team have arranged for monthly, electronic reports from suppliers to be received, and analysis is now undertaken by the Finance Team.
8.	1.5	Council does not have a formal process for identifying or monitoring compliance with significant legislative provisions	The Audit and Risk Committee have recently expressed a desire to oversee implementation of significant new legislation, in particular the Health and Safety Bill. The Management Team is responsible for maintaining an awareness of legislative changes with their respective areas and ensuring compliance. Over the next 12 months, with reporting through to the Audit and Risk Committee, we expect that there may be the need for formal reporting processes regarding new legislation but not for all legislative compliance matters.	Management Team	End of 2015	Ongoing.
9.	2.1	Stormwater and land drainage service requests – additional	Adjustments have been made to the 2015 Long Term Plan performance measures to address	To be determined.	End of 2015	To be determined. This matter has been raised with

Action List from Audit NZ Management Letters for Year ended 30 June 2014

Interim Management Report						
No.	**Audit NZ reference**	**Management Point**	**HDC Response and Action to be taken**	**Responsible**	**By**	**Progress**
		data to be recorded to ensure that reporting on performance measures is accurate	the concerns raised by Audit NZ. Staff support the recommendation of Audit NZ to add additional fields into the customer service request systems and will look to implement this throughout 2015, after which time further guidance will be provided to staff.			the Annual Plan team for further consideration.
Outstanding						
10.	Revenue Controls (page 12)	Amendments made to water system and rating master files are not independently reviewed	Investigate possible options for this throughout 2015.	Don Sandford	~~30 June 2015~~ End of December 2015	Not yet started. This project needs to consider whether the changes made to the masterfile for payroll (item 1.2 above) can be used to achieve this.
11.	GL Reconciliations (page 12)	The reconciliation between SVDS and Authority for rating information is not independently reviewed	The information in Authority and SVDS is automatically reconciled monthly. The Information Services Manager carries out an independent, annual review of the reconciliation. This process has been in place for some time but is not evidenced well. Evidence of this annual review to be documented going forward.	Barry O'Neil	30 June 2015	Process has been reviewed, with evidence of review being recorded.
12.	GL Reconciliations	Reconciliation between the fixed asset register	Are carried out on an annual basis by the Finance Manager as part of	Heather Byrne	30/4/15	New programme has been implemented.

Action List from Audit NZ Management Letters for Year ended 30 June 2014

Interim Management Report						
No.	**Audit NZ reference**	**Management Point**	**HDC Response and Action to be taken**	**Responsible**	**By**	**Progress**
	(page 13)	and the GL should be carried out monthly	the Annual Report process. Comments are noted with regards to this being a monthly reconciliation and endeavours will be made to increase the frequency of reconciliation as suggested.			
13.	Suspense accounts (page 13)	Should be reconciled and reviewed regularly	New programme has been put in place to ensure that all reconciliations are carried out monthly or quarterly.	Elaine Rattigan	31/12/14	Complete – no further action required.

Final Management Report						
No.	**Audit NZ reference**	**Management Point**	**HDC Response and Action to be taken**	**Responsible**	**By**	**Progress**
Necessary						
14.	2.2	Rates resolution – there were discrepancies between the Annual Plan Rating FIS and the rates resolutions.	To be addressed in the upcoming 2015 Long Term Plan.	Duncan Peddie	17 June 2015	Complete - The Rating FIS and Rates Resolution for the Long Term Plan were reviewed to be consistent and compliant.
15.	3.5	Contract Management – Audit NZ recommend that a fully functional contract management system be implemented that can link to the Finance System, and provide sufficient information on performance throughout the contract that can be used to assist in contract renewal decisions.	This matter will be considered in the Council's forward work programme.	Duncan Peddie	End of 2015	Not yet started but staff will consider this matter as part of the Risk Management Policy.
16.	3.5	The Contracts Procedure Manual should be reviewed	As above, this matter	Duncan	End of	As above.

Action List from Audit NZ Management Letters for Year ended 30 June 2014

Final Management Report						
No.	**Audit NZ reference**	**Management Point**	**HDC Response and Action to be taken**	**Responsible**	**By**	**Progress**
		and updated to ensure it is in line with best practice and reflects the current processes and delegations of the District Council.	will be considered in the Council's forward work programme.	Peddie	2015	
Outstanding						
17.	2.2 (Page 6) and Appendix 1 (Page 12)	Naming of the Rating Funding Impact Statement - Relevant Rating information should be included in the FIS, or a document called the Rating FIS. In the 2014/15 Annual Plan it is still called the Rating Policy	This is being address in the Council's 2015 Long Term Plan.	Duncan Peddie	11 March 2015	Completed.
18.		An independent review of the supplier master file changes should be carried out.	Monthly reviews will be implemented	Elaine Rattigan	30 June 2015	Completed. NB: Heather Byrne is now responsible for this.
19.	Appendix 1 (Page 13)	Conflict of Interest declarations should be a standing agenda item and Council and Committee meetings.	The Audit and Risk Committee requested the interest register be a standing item at the start of each meeting.	Duncan Peddie / Katina Conomos	30 June 2015	This has been implemented (as at November 2014). Further improvements will be made to the declaration of conflict of interest forms.
20.	Appendix 1 (Page 14)	Tender deposits - Balance of tender deposits/contributions/contract retentions to be reviewed with balances written back as required.	A review of this account has been carried out, and after investigation a number of old balances have been written off.	Duncan Peddie	30 June 2015	No further action required.
21.	Appendix 1 (Page 14 and 15)	Sensitive Expenditure Policy - Travel and Accommodation and Goods and Services Expenditure sections of this policy to be reviewed to ensure	This policy will be reviewed.	Duncan Peddie	31/1/15	The Sensitive expenditure policy was accepted by the Audit and Risk

Action List from Audit NZ Management Letters for Year ended 30 June 2014

Final Management Report						
No.	**Audit NZ reference**	**Management Point**	**HDC Response and Action to be taken**	**Responsible**	**By**	**Progress**
		consistency.				committee on 17 Feb 2015 and at a subsequent Council meeting. Staff have included in their forward programme an audit of compliance with this new policy.
22.	Appendix 1 (Page 14 and 15)	Sensitive Expenditure Testing – Audit NZ identified instances where one-up approval processes had not been followed.	Managers to be reminded about the process for approving all expenditure.	Elaine Rattigan / Heather Byrne	30 June 2015	Following this feedback from Audit NZ, a communication went to all managers in 2014. Also see item #2 above.

HAURAKI DISTRICT COUNCIL

Information Report

To:	Audit & Risk Committee
From:	Corporate Services Manager
Date:	Tuesday, 13 October 2015
File reference:	Document: 1444040 Attachment A: 1391827
Meeting date:	20/10/2015
Subject:	**Treasury report as at October 2015**

Recommendation:

THAT the report be received.

Purpose

This report is an update on the current position of the loan/debt status, against the parameters outlined in the Council's Financial Strategy and Liability Management Policy.

The matter or suggested decision does not involve a new activity, service, programme, project, expenditure or other deliverable.

Background

At the last meeting of the Audit and Risk Committee on 18 August 2015, the Committee raised a number of questions regarding the presentation of the Treasury Report.

In an attempt to address those questions, this Treasury Report has been reworked. Feedback is welcome as to whether this report is more suitable for the Committee's needs.

Debt management

With respect to debt management, the Council has a range of policy which outlines the parameters within which debt must be managed.

Financial Strategy

The overall forecast quantum of net external debt per annum is outlined in the Council's Financial Strategy, and updated annually through the Council's Annual Planning process.

External debt is defined as the debt that the Council owes to its external lenders, such as banks. Net external debt is external debt less Councils cash and other similar liquid assets.

One of the three directions outlined in the Council's Financial Strategy relates to debt and states that the Council's intention is "to prudently reduce debt levels."

For 2015/16 the Council's net external debt was forecast at a maximum of $45m.

The Long Term Plan, Annual Plan and Annual Report do not report on internal debt specifically as this is not a requirement of any financial reporting standards. Internal debt is presented in a separate report on the Committee's agenda.

The Council's Financial Strategy outlines four debt caps. The table below outlines the Council's performance against the target caps as at 30 June 2015.

Financial Strategy debt caps	Performance against debt caps as at 30 June 2015	Compliance with debt caps
Total net external debt will not exceed 175% of total revenue in any year.	111%	YES
Net interest expense is ≤ 15% of rates revenue in any year.	7%	YES
Net interest expense is ≤ 10% of total revenue in any year.	6%	YES
Net external debt per rating unit is ≤ $5,000 in any year.	$2,872	YES

Liability Management Policy

The Council stipulates a range of policies within its Liability Management Policy relating to the prudent management of debt. For the purposes of this report, these policies are each addressed separately, as relevant.

For reference, the Liability Management Policy is included as Attachment A.

Interest Rates

The Liability Management Policy stipulates **parameters for the fixed/floating interest rates** meaning that the Council's debt/borrowings should be within the following limits.

Minimum fixed rate	Maximum fixed rate
55%	90%

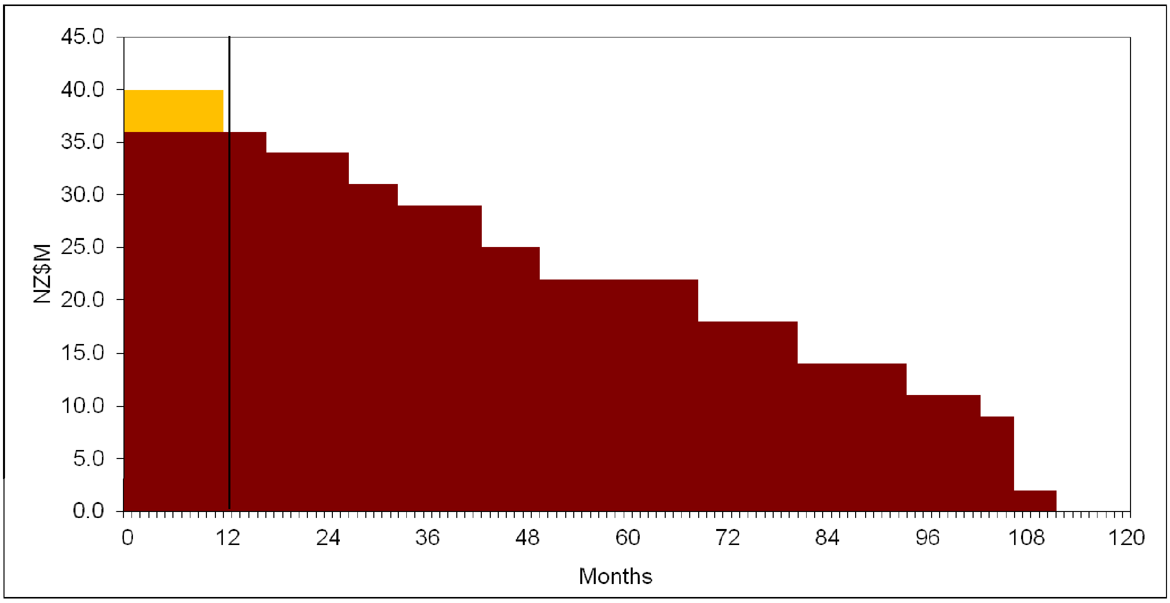
Current performance	Compliance with policy
As at 30/9/15 the overall fixed/floating mix is 80% fixed / 20%floating.	**YES**

The **fixed rate amount** at any point in time should be within the following maturity bands:

Fixed Rate Maturity Profile Limit		
Period	**Minimum %**	**Maximum %**
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	15%	60%

Current performance	Compliance with policy
As at 30/9/15 the overall fixed/floating mix is 21%.	**YES**
As at 30/9/15 the overall fixed/floating mix is 19%.	**YES**
As at 30/9/15 the overall fixed/floating mix is 60%.	**YES**

This following chart shows the dollar amount of debt that is fixed and how this changes as time progresses. The chart takes a snapshot as at 30 September 2015. An updated chart as at October 2015 will be tabled at the meeting.



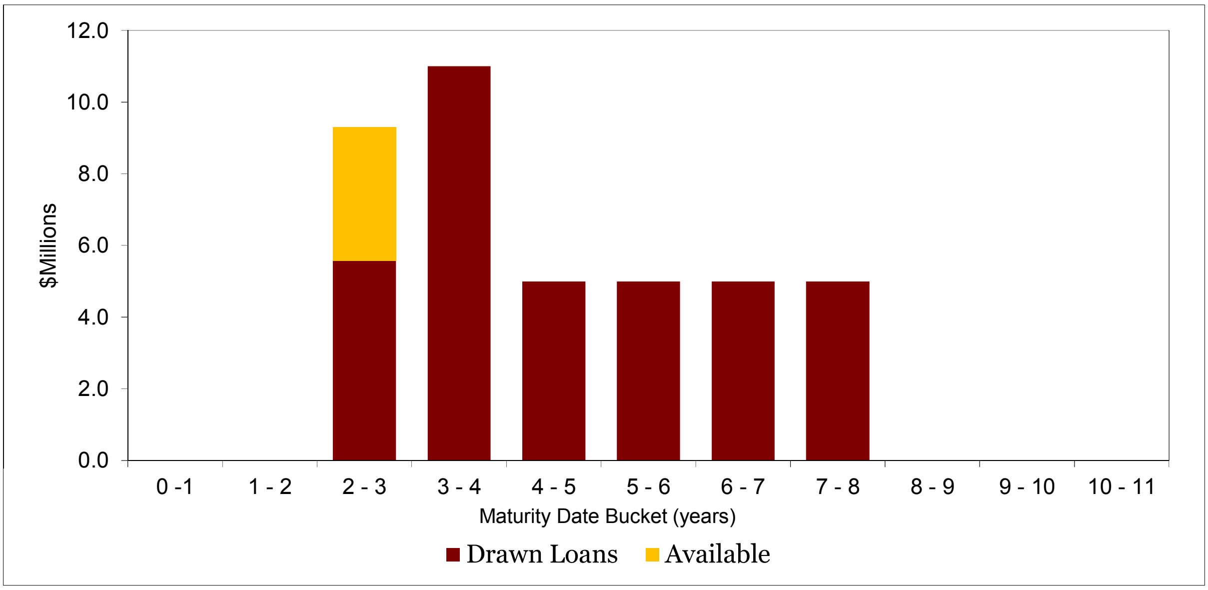
The red part of the graph shows the amount of debt which is fixed (this includes fixed rate bonds together with payer swaps) meaning debt which gets repriced in one year or later. The top of the yellow area represents the forecast debt in a year's time. The yellow area therefore illustrates the amount of debt deemed floating and includes any forecast debt that has not been pre-hedged. Any existing loans or financial instruments which will be repriced within the next 12 months are included in the yellow area.

Loan maturities

The Liability Management Policy stipulates **parameters for the maturity profile of Council's loans.** The loan maturities at any point in time should be within the following bands:

Loan Maturity Profile Limit			Current performance	Compliance with policy
Period	**Minimum %**	**Maximum %**		
0 to 3 years	15%	60%	As at 30/9/15 the proportion of maturities is 23%.	**YES**
3 to 5 years	15%	60%	As at 30/9/15 the proportion of maturities is 40%.	**YES**
5 years plus	10%	40%	As at 30/9/15 the proportion of maturities is 37%.	**YES**

This following chart shows the quantum of debt by maturity date and demonstrates that Council is spreading its loan maturities.



The amount showing as available on the chart is the amount of Council's BNZ flexible borrowing facility that is undrawn at 30 September (4.7m of the 7.0m facility is undrawn).

The Liability Management Policy requires that the **Council will ensure that it has, at all times, sufficient funds available to meet its obligations as they fall due**.

Credit-worthiness

To give the Council reasonable certainty that obligations will be honoured, the Council's Policy requires that in all its borrowing and interest rate management transactions its counterparties have **a long-term Standard & Poor's (or equivalent Fitch or Moody's rating) Credit rating of at least A+ or above and a short term rating of A-1 or above**, as well as stipulates maximum borrowing amounts per counterparty.

The table below sets out the Policy requirements and Council's current position.

Counterparty	Minimum S&P long term/short-term credit rating	S&P rating as at 30 Sept 2015	Maximum borrowing per counterparty	Current amount borrowed	Compliance with policy
ANZ	A+ / A-1	AA-	$10m	$0m	**YES**
BNZ	A+ / A-1	AA-	$10m	$3.1m	**YES**
LGFA	AA- / A-1	AA+	Unlimited	$34.0m	**YES**

Giving of loan guarantees

The Liability Management Policy provides for Council to act as a guarantor to bank loans for incorporated organisations which will provide, improve or develop amenities for recreation, amusement or the instruction of the public.

The total combined amount the Council may guarantee at any one time shall not exceed 10% of the general rates levied in any year. The maximum amount the Council may guarantee to any one qualifying organisation shall be 5% of total rates levied, except that in special circumstances the limit of 5% may be exceeded upon Council resolution.

Organisation	Guarantee
Paeroa Centennial Park Board	$30,000
Waihi Netball Association	$50,000
Total guarantees	$80,000
As a percentage of general rates levied for 2015/16 (NB: ≤10%)	0.9%
Compliance with policy	**YES**

The Policy requires that for each organisation that the Council has provided a loan guarantee the Council shall be provided with:

- A six-monthly unaudited financial report within three months of the first six months of the financial year.
- An annual audited financial report within four months of the balance date.
- A statement from the bank lending the money to the qualifying organisation each year that shows the principal outstanding at the end of that period and payment made during the year.

Council's Investment Management Policy refers to investments in organisations to meet Council's social or other priorities. Council has loaned money to two community organisations for this purpose, as follows:

Organisation	Overview of arrangement
Goldfields Railway	5 years from 23/10/14 for $30,000 , unsecured and no interest.
Paeroa Promotions Trust	Loan of $40,000 is repayable 31/3/16, unsecured and no interest.

Conclusion

It is recommended that the report be received and, if the Committee feels anything warrants it, that the report be submitted to Council for its consideration.

Duncan Peddie
Corporate Services Manager

Attachment A

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Liability Management Policy

Principles and Purpose

The Council is governed by the following relevant legislation:

- Local Government Act, 2002
- Local Government (Financial Reporting and Prudence) Regulations, 2014, in particular Schedule 4.

The Local Government Act, 2002 (LGA) contains a number of sections which impact on the Liability Management Policy. The key sections are noted below:

101(1): PRINCIPLES OF FINANCIAL MANAGEMENT – A local authority must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community.

104: CONTENTS OF LIABILITY MANAGEMENT POLICY – This section details what is required in the Liability Management Policy.

Part 6 SUBPART 4: BORROWING AND SECURITY – There are a number of sections within this Part of the Act which cover the following:

- prohibition on borrowing in foreign currency
- constraints on receiver
- rates as security
- register of charges maintained by local authority
- protected transactions
- the Crown not liable for debts.

Objectives of the Policy

This policy addresses a number of key objectives, along with those required purely for legislative compliance.

The following objectives have been identified.

Prudence

Section 101(1) requires the Council to be prudent in managing its debt. The Council can achieve this by ensuring long-term financial stability. This is measured by financial ratios.

Prudence can also be achieved by making certain that strong control systems are in place. This should ensure that decisions are made by persons with appropriate skills at the correct level of responsibility, and that policies are complied with.

Flexibility

Where possible the Liability Management Policy should have sufficient flexibility to permit the Council to take advantage of the tools available within the legislation. This clearly needs to be consistent with other key objectives, e.g. financial prudence.

An inflexible policy may deny the Council the opportunity to reduce risk, cost or both.

Risk

Risks should be minimised. However it is necessary to recognise there are trade-offs between the reduction of risk and the cost associated with this.

Borrowing exposes the Council to three principal risks:

- Liquidity and Funding Risk – Liquidity risk is where the Council does not have the ability to access committed funding at a future time as required. Funding risk centres on the ability to re-finance or raise new debt at acceptable pricing and maturity terms.
- Interest Rate Risk –The risk that the Council will be exposed to changes in market conditions, particularly wholesale interest rates, prevailing at any time. It is important to consider this on a forward looking basis when issuing new debt and refinancing existing debt on an ongoing basis. It may impact on the maturity profile of issued debt and the process of re-financing.
- Credit Risk – The risk that a party to a transaction, such as a counterparty or a financial intermediary/institution, may not settle or provide committed funding as and when required. This risk is applicable where the Council is both a borrower and an investor, with the more significant risk arising when the Council is an investor.

Liquidity and Funding Risk Management

The Council must ensure that it is able to meet its obligations as they fall due. These include ongoing operational expenditures and the repayment of maturing debt obligations, which are not being re-financed. A key factor in funding risk management is to spread and control the risk to reduce the concentration of risk at any one time.

This should be achieved through short-term and long-term liquidity and funding management.

Minimise Total Cost of Borrowing

Protecting and minimising the total cost of borrowing over the medium to longer term is a key objective within the Liability Management Policy.

The total cost of borrowing not only includes the interest expense but also advisory fees, transaction costs, internal administrative costs and the commitment of staff resource.

The total of these costs needs to be minimised, rather than focusing on one of the individual items to the exclusion of the others.

An approach to minimising the total cost of borrowing is internal borrowing. This enables the Council to bypass paying the fees and margins between external borrowing and investing interest rates. Internal borrowing also minimises credit risk because the Council is investing funds internally rather than with a third party.

Policies

Interest Rate Exposure (Sec 104(a) LGA)

Interest rate exposure arises from movements in wholesale interest rates over time and the refinancing/raising of new debt that may result in an adverse interest market.

If interest rates are decreasing it may be desirable to have a high percentage of the Council's debt held at a floating interest rate to take advantage of the falling interest rate. Conversely in a period of increasing interest rates it would be better to hold fixed rate debt.

However, it is difficult to form a view of long-term interest rates given the numerous domestic and international influences on our economy. The only way in which optimal interest rate mixes can be determined is by having the benefit of an accurate forecast of future interest rates and movements.

Domestic and international fund managers and corporate treasury departments are often incorrect in their predictions of future trends in interest rates. Such behaviour, i.e. forecasting future interest rates, should be regarded as highly speculative from the Council's perspective.

Exposure to interest rate risk can be reduced by raising debt at a mixture of floating and fixed interest rates. In addition it is appropriate to have a mix of maturity dates so re-pricing risk is minimised.

Where core debt is at a low level, such as less than $4 million, it may be difficult to efficiently have a flat maturity profile and/or a mixture of fixed and floating interest rates to ensure interest rate risk is minimised. It may be possible to minimise interest rate risk, but potentially suffer from increased transaction and administration costs because of smaller individual debt parcels.

If current interest rates are substantially lower than that currently being paid by the Council, it may be appropriate to re-finance. Other cost factors, such as the transaction costs of re-financing, must also be considered. If the re-financing involves a substantial portion of the Council's overall debt, special consideration must be given to how it can be made compatible with the Council's overall desired maturity profile.

Using hedging instruments - which include forward rate agreements, interest rate swaps, and interest rate options, can reduce interest rate risk. These should only be used for the purpose of hedging interest rate risk against specific borrowings.

The use of hedging instruments is viewed by some as somewhat risky. There have been a number of instances where financial instruments have been used and significant negative results have resulted. It should be noted that these instances are where the instruments were used in a speculative rather than a hedging nature (e.g. Hammersmith Council in London in the late 1980s).

However, the use of hedges to offset risk may be to the Council's advantage. It would be appropriate if the scale of the transaction were such that there is a significant exposure to a prevailing set of interest rates. By entering offsetting interest rate contracts or the use of other sophisticated tools, the dangers associated with any large position can be minimised.

In deciding whether to use a hedge, two factors should be considered. Firstly, the Council must be confident that the proposed transaction is a genuine hedge, i.e. that it does in fact reduce total risk. Secondly, the cost of the hedge must be justified by the reduction in risk that is achieved.

If there is absolute certainty of the answers to these two questions, then a hedge is appropriate. It is likely that independent expertise would be sought in planning such a transaction.

Liability Management Policy 1 (a): Fixed/Floating Interest Rates

The Council should maintain a mix of fixed and floating interest rates, either directly via individual fixed rate debt securities, or via alternative interest rate management instruments, e.g. interest Rate Swaps.

Net debt/borrowings
Council debt/borrowings should be within the following fixed/floating interest rate risk control limit:

Master Fixed/Floating Risk Control Limits	
Minimum fixed rate	**Maximum fixed rate**
55%	90%

"Fixed Rate" is defined as an interest rate re-pricing date beyond 12 months forward on a continuous rolling basis.

"Floating Rate" is defined as an interest rate re-pricing within 12 months.

The percentages are calculated on the rolling 12 month projected net debt level calculated by the Council management (signed off by the Chief Executive). Net debt is the amount of total debt net of cash/liquid financial investments. This allows for pre-hedging in advance of projected physical drawdown of new or refinanced debt. When approved forecasts are changed, the amount of fixed rate hedging in place may have to be adjusted to ensure compliance with the policy minimums and maximums.

The fixed rate amount at any point in time should be within the following maturity bands:

Fixed Rate Maturity Profile Limit		
Period	**Minimum %**	**Maximum %**
1 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	15%	60%

The fixed/floating interest rates control limits are outlined below:

- The above interest rate risk control limits apply when net external debt exceeds $25 million.
- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Any interest rate swaps with a maturity beyond 10 years must be approved by the Council.
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".
- Purchased borrower swaptions mature within 18 months.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate cannot be counted as part of the fixed rate cover percentage calculation.
- The forward start period on swap/collar strategies is to be no more than 24 months, unless the forward start swap/collar starts on the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.

Approved financial instruments are as follows:

Category	Instrument
Cash management and borrowing	▪ Bank overdraft ▪ Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) ▪ Uncommitted money market facilities

	▪ Retail and wholesale bond Fixed Rate Note (MTN) Floating Rate Note (FRN) ▪ Commercial paper (CP)/ Promissory notes ▪ Finance leases
Interest rate risk management	Forward rate agreements (FRAs) on: ▪ Bank bills ▪ Government bonds Interest rate swaps including: ▪ Forward start swaps (start date <24 months) ▪ Swap extensions and shortenings Interest rate options on: ▪ Bank bills (purchased caps and one for one collars) ▪ Government bonds ▪ Interest rate swaptions (purchased swaptions and one for one collars only)

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

<u>Liability Management Policy 1 (b): Maturity Profile</u>
The funding risk management control limits are outlined below:

- External term loans and committed debt facilities together with available liquid short-term investments must be maintained at an amount exceeding 110% of existing total external debt. Liquid treasury investments have a term of no more than three months.
- The Chief Executive has the discretionary authority to re-finance existing debt on acceptable terms and conditions. Such action is to be reported to the Council's Audit and Risk Committee.
- The Council has the ability to pre-fund up to 12 months forecast debt requirements including re-financings.
- The maturity profile of the total committed funding, in respect to all loans and committed facilities, is to be controlled by the following system and apply when external debt exceeds $25 million:

Period	Minimum %	Maximum %
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	40%

- A maturity schedule outside these limits will require specific Council approval.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration ownership, redemption value and effective cost of funds.

<u>Liability Management Policy 1 (c): Hedging</u>
The Council will only enter into a hedging transaction where it can be clearly demonstrated that:

(i) the transaction is to be used to reduce risk associated with an existing position (it is expressly prohibited to enter into speculative contracts)
(ii) the transaction will reduce risk to the Council, by adjusting an undesirable maturity profile or a fixed versus floating interest rate position
(iii) the cost of the transaction is exceeded by the reduction in risk.

Liquidity (Sec 104(b) LGA)

There is a need to have a policy that ensures the Council has sufficient funds available to meet its immediate cash outflow obligations as they fall due and are payable.

The key factors influencing this policy are prudence, flexibility, minimising total costs and having short term borrowing capacity.

The 1996 Local Government Amendment Act specifically provided for short term borrowing in section 122J. The Local Government Act, 2002 replaced the specific and prescriptive powers previously in place with a general power of competence, specifically in section 12(2):

> For the purposes of performing its role, a local authority has -
> (a) full capacity to carry on or undertake any activity or business, do any act, or enter into any transaction; and
> (b) for the purposes of paragraph (a), full rights, powers, and privileges.

The Council needs to have strong forecasting systems in place to ensure it minimises the need for borrowing, especially short-term borrowing, and maximises the returns available from the investment of surplus funds.

Liability Management Policy 2
The Council will ensure that it has, at all times, sufficient funds available to meet its obligations as they fall due. Potential sources of funds include cash deposits and committed but undrawn lines of bank facilities.

Pursuant to Section 12(2) of the Local Government Act, 2002, the Council may borrow funds on a short-term basis to provide for efficient and effective cash management. Borrowing under this policy shall be used for the purpose of meeting temporary cash flow shortfalls and will not be used as a permanent source of funds. (For the purpose of this policy "permanent sources of funds" are those funds borrowed for a term longer than 12 months).

The Council delegates responsibility for establishing short-term debt and overdraft facilities and the day-to-day management of any Council overdraft facility to the Chief Executive and staff. The long-term borrowing requirements for any year are approved by the Council.

Credit Risk (Sec 104(c) LGA)

In any financial transaction, there is a risk that the counterparty may be unable or unwilling to settle the transaction as agreed. This risk is reduced when the Council is the borrower as the Council would be the settler of the transaction, although there is a risk of a bank lender not providing committed funding upon demand. However where the Council has transacted a hedge contract, such as an interest rate swap, there is a need to ensure the party with which the transaction has been placed is capable of settling that transaction over the entire term.

Risks are minimised by limiting the Council's dealings to counterparties with appropriate industry standing, credit rating, financial adequacy and track record.

Liability Management Policy 3
The Council will satisfy itself, in all its borrowing and interest rate management transactions with counterparties, that:

- they have a long-term Standard & Poor's (S&P) (or equivalent Fitch or Moody's rating) credit rating of at least A+ or above, and/or short term rating of A-1 or above
- banks are New Zealand registered banks with the Reserve Bank of New Zealand
- the New Zealand Local Government Funding Agency Limited (LGFA) has a long-term credit rating of at least AA-.

This is to give the Council reasonable certainty that obligations under concluded contracts will be honoured.

The following table sets out the policy limits:

Counterparty	Minimum S&P long term/short term credit	Interest rate risk management instrument	Total maximum per counterparty, including

	rating	maximum per counterparty ($million)	investments ($million)
NZ Registered Bank	A+/ A-1	10.0	20.0
LGFA	AA-/A-1	unlimited	unlimited

In determining the usage of the above gross limits, the following product weightings will be used:

- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional · Maturity (years) · 3%.

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as possible. Maturities should be well spread. The approval process must take into account the liquidity of the instrument and prevailing market conditions the instrument is traded in and re-priced from.

Individual counterparty limits are kept in a spread sheet by Council management and updated on a day to day basis. Credit ratings should be reviewed on an ongoing basis and in the event of material credit downgrade, this should be immediately reported to the Council and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Debt Repayment Policy (Sec 104(d) LGA)

This policy gives effect to the objective of minimising the Council's interest rate risk.

Liability Management Policy 4
Funding terms are to be set to ensure that the overall borrowing is consistent with an even spread of debt maturities.

Where repayment by the use of a sinking fund or loan repayment reserve is contemplated, sufficient funds will be provided to enable the repayment of the loan at the time contemplated.

Where the Council has surplus long-term funds these may be used to repay debt if this doesn't compromise other aspects of the liability management policy.

Specific Borrowing Limits

The amount of debt that is raised by the Council clearly has implications for the Council's overall financial position and future income streams required to fund the debt. This is fundamentally dictated by the community's ability to pay.

Appropriate limits on total borrowing should be reflected as ratios or dollar limits in terms of income streams, interest expense and debt per assessment.

Liability Management Policy 5(a)
The Council must ensure that its borrowing satisfies the following limits:

Net external debt / total revenue	≤	**175%**
Net external public debt per assessment	≤	**$5,000**
Net interest expense /total revenue	≤	10%
Net interest expense /rates revenue	≤	15%

- Total revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net external debt is defined as total consolidated external debt less liquid financial investments.
- Net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- Annual rates revenue is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act, 2002.
- Borrowing limits are measured on Council only not consolidated group.
- Disaster recovery requirements are to be met through the liquidity ratio.

Liability Management Policy 5(b)
There are no limits on internal borrowing.

Provision of Security

In the past, territorial local authorities offered the ability to levy a special rate as security to a lender. This afforded the lender significant comfort (i.e. reduced their risk), and lower interest rates could be achieved.

The current approach provides for similar security by way of a debenture trust deed, giving the ability for a receiver to set a rate to repay any principal and interest owing. It now also allows councils to offer assets as security. It is likely that assets as a form of security would be viewed by the lenders as more risky than special rates; this would imply an increase in the cost of interest to the Council. It is therefore unlikely that assets would be offered as security to lenders.

The Council should not prevent itself from offering fixed assets as security if this was the most appropriate course of action to take. It needs to be recognised that the Council is prohibited from giving any form of security over certain classes of land, or over assets held under a trust or endowment.

Liability Management Policy 6
In general, the Council will secure its borrowings against its rates revenue.

The Council is prepared to give security over its assets. Before giving security against any assets, the Council must be satisfied that doing so is fairly reflected in the cost of borrowing. Comparisons of the cost of borrowing between different alternative borrowing transactions must account for different requirements as to the giving of security.

Giving of Loan Guarantees

The provision of a guarantee on behalf of an organisation should enable the provision of goods or services at a lower cost because of a reduction in the organisation's cost of interest. This indirect benefit to the Council must be weighed against the lack of control associated with guaranteeing the obligations of another party, the increased risk to the Council that is involved, and whether there are any offsetting considerations such as the potential availability of assets to offset obligations under the guarantee.

It is appropriate to cap the limits on the total to be guaranteed, both overall and to any one organisation. Monitoring of the guaranteed party is a first step towards limiting the Council's risk. Consideration should be given to requiring notice of any abnormal or extraordinary events that relate to a substantial change in the nature, objectives or functions of the guaranteed organisation, or that could affect the ability of the guaranteed organisation to meet its financial obligations. Notice would be required as soon as the event occurred, or it became reasonably possible to occur.

The most serious disadvantage guarantees is the absence of controls on guaranteed organisations, as opposed to purely procedural reporting requirements. There should be rules requiring organisations to maintain their ability to meet their obligations, analogous to interest coverage ratios and balance sheet ratios required of the Council by the borrowing limits policy. These rules are yet to be developed.

The remedies for the failure of a guaranteed organisation to comply with the agreement to guarantee its obligations require consideration. While the terms of a particular agreement to guarantee should specify the remedies available to the guarantor, these remedies must lie purely against the guaranteed party. They cannot, as a matter of contractual privity, affect the rights of the lender.

Liability Management Policy 7
The Council may act as guarantor to bank loans for an incorporated organisation which will provide, improve, or develop amenities for recreation, amusement or the instruction of the public.

The total combined amount the Council may guarantee at any one time shall not exceed 10.0% of the general rates levied in any year. The maximum amount the Council may guarantee to any one qualifying organisation shall be 5.0% of total rates levied, except that in special circumstances the limit of 5.0% may be exceeded upon Council resolution.

Each organisation that the Council has provided a loan guarantee shall provide to the Council:

- a six-monthly unaudited financial report within three months of the first six months of the financial year

- an annual audited financial report within four months of the balance date
- a statement from the bank lending the money to the qualifying organisation each year that shows the principal outstanding at the end of that period and payment made during the year.

Internal Borrowing/Investing

Where possible, the Council will borrow or invest funds internally, so as to minimise its total cost of borrowing while still providing a market rate of return on its investments. The Council will also borrow or invest internally to minimise its credit risk. The Council may include a margin on borrowings or investments to recover administration costs.

Liability Management Policy 8(a)
Where at all possible, the Council will borrow or invest internally rather than externally.

Liability Management Policy 8(b)
The Council will charge interest on internal borrowings, charged in arrears, at a margin above the Council's average borrowing costs for the year. The basis point margin is determined by the Chief Executive.

Liability Management Policy 8(c)
The Council will pay interest on internal investments, charged in arrears, at a margin below the Council's average borrowing costs less a basis point margin determined by the Chief Executive.

New Zealand Local Government Funding Agency Limited
Liability Management Policy 9
Despite anything earlier in this Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA, e.g. borrower notes
- provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself
- commit to contributing additional equity (or subordinated debt) to the LGFA if required
- secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue
- subscribe for shares and uncalled capital in the LGFA.

Delegation of authority

Council delegations are held in the Delegations Manual.

Investment Policy

Principles and Purpose

The Council is governed by the following relevant legislation:

- Local Government Act, 2002.
- Local Government (Financial Reporting and Prudence) Regulations, 2014, in particular Schedule 4.
- Trustee Act, 1956.

The investment policy, required by legislation, is one aimed at formalising existing approaches and ensuring a fresh view is taken in light of the other changes and requirements included within the Local Government Act, 2002 (LGA).

The Trustee Act, 1956 highlights that when acting as a trustee or investing money on behalf of others, trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trustee Act, 1956, Part II Investments.

There are two main sections of the Local Government Act, 2002 that impact on the Investment Policy, noted below:

- 102(4)(c): INVESTMENT POLICY – Requires every local authority to adopt an investment policy using the special consultative procedure.
- 105: CONTENT OF INVESTMENT POLICY – Details what is required in an Investment Policy.

Objectives of the Policy

Section 105 LGA requires the Council to include its objectives in terms of which financial and equity investments are to be managed. The following objectives have been identified.

Prudence
Section 101(1) LGA requires the Council to be prudent in managing its investments. The Council, as a responsible corporate citizen and custodian of public funds, recognises that it should manage investments in a prudent manner. This will require a risk averse approach with care to ensure unnecessary risks are avoided.

For the Investment Policy, prudence can be achieved by ensuring that strong control systems are in place. This should ensure that decisions are made by those persons with appropriate skills at the correct level of responsibility, and that policies are complied with.

Flexibility
Where possible the Investment Policy should have sufficient flexibility to permit the Council to take advantage of all the tools and opportunities available. This clearly needs to be consistent with other key objectives, e.g. financial prudence.

Minimisation of Risk and Maximisation of Returns
These two objectives are effectively opposing forces. It is well documented that investments with low risk carry low returns and conversely those investments with high risk carry high returns. The Council should seek to maximise returns from a given risk acceptance position; it is important to establish what degree of risk the Council is prepared to accept and then seek to maximise returns.
Prudence requires a degree of conservatism in investments, meaning that the Council should be more risk averse than the average investor. Therefore, it should predominantly invest in low risk, low return investments.

Liquidity
It is emphasised in the Liability Management Policy that liquidity management is essential. A key element of this is the negotiability of investments and timing and matching of investment maturities to expected outflows, e.g. operating expenditures, project payments and debt retirement.

Given the uncertainty that inevitably surrounds forecasting, it is prudent that the Council provides some coverage factor for unexpected transactions as provided by the liquidity management policy through committed unused bank facilities and treasury investments of no more than three months.

When making investment decisions it is important to consider the length of time the investment will be placed for and the liquidity of the investment.

Policies

The policies provide a framework within which decisions can be made, rather than providing a prescriptive set of criteria that is currently employed for surplus funds management.

General Policy (Sec 105 LGA)

Investment Policy 1
The Council, as a responsible corporate citizen and custodian of public funds, recognises that it should manage investments in a prudent manner. This will require a risk averse approach and care to ensure unnecessary risks are avoided.

The Council aims to maximise its returns in the long-term while ensuring risks remain within the Council's accepted range.

New Zealand Local Government Funding Agency Limited investment
Despite anything else in this Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment. The Council's objective in making any such investment will be to:

- obtain a return on the investment
- ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

Because of these dual objectives, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA and be a guarantor.

Disposition of Revenue and Proceeds

Investment Fund
The Council's most significant investment was previously its shareholding in Power New Zealand. When the shares were sold the sale proceeds were placed into a notional investment fund.

The Council identified a number of key strategic assets including the Power New Zealand share holding, forestry holdings and leasehold sections held at Waihi Beach. The net proceeds from the sale of these assets was or will be placed into the same investment fund (net proceeds are defined as gross sale proceeds less costs of sale, any accrued debt arising from previous holding costs not previously funded, and any rehabilitation costs.)

The Council has determined that in the interests of fairness and equity the investment fund benefits should be ascribed to the benefit of all ratepayers. Twenty five percent of the fund income will be allocated to funding of projects. Seventy five percent will be used to reduce the District General Rate.

General Funds

Proceeds from the investment of surplus funds are credited to the District General Rate pool. Separate reserve funds are allocated interest at the estimated average rate of return achieved for the financial year.

Asset sale proceeds are generally credited to the fund or activity that provided the funding for the original purchase. Asset sale proceeds could also be credited to funds notified in the resolution by the Council approving sale if required or appropriate.

Investment Policy 2

Returns from investments, after the deduction of expenses, will be applied as follows:

- 25% of the income from the Investment Fund will be credited to the District Community Projects Assistance Fund. This fund will be used to assist with the completion of community projects. The Council will allocate the funding on a project-by-project basis.
- 75% of the income from the Investment Fund will be used to reduce the District General Rate requirement.
- Interest will be credited to separate reserve funds on the basis of the estimated average yield on surplus funds for the financial year less the margin for recovery of overheads.
- Returns will be applied in accordance with any resolution of the Council.
- Returns will be applied to the Council's general operating revenues.

Net asset sale proceeds will be credited to the fund or activity which originally provided the funding for the asset's original purchase, or to any other fund as per the Council resolution.

Management and Reporting (Sec 105(d) LGA)

Delegated authority to approve investments should rest with the Chief Executive. However, for practical reasons the power to negotiate such investment needs to be extended.

Operational Procedures will, where possible, ensure that:

- There is clear segregation of duties between persons executing treasury arrangements, those authorising treasury arrangements, confirming, settling and accounting/reporting.
- Transactions are made only with approved counterparties.
- Transactions comply with legislative requirements.
- Monthly reconciliation of all cash holdings, surplus funds and investments are completed. These are to be independently reviewed and approved by the Corporate Services Manager.
- There is close control over daily, weekly and monthly and longer-term cash flow projections so that the Council's working capital requirements are met.

Quarterly reports should be made to the Council for the three month periods ending 30 September, 31 December, 31 March and 30 June each financial year. Included within these reports should be details of the following:

- Investments on hand at the end of the quarter, including the names of counterparties, sums invested with each, terms of each investment, and interest rates being earned.
- The average earnings rate on investments made during the quarter.
- A commentary on movements in interest rates during the quarter and the effect of these on anticipated returns for the financial year. This could include a comparison to interest rates earned over the previous six months.

Investment Policy 3a

The Chief Executive shall have delegated authority to negotiate and authorise any investment transaction within the approved policy, and shall be authorised to delegate that authority.

Investment Policy 3b

Quarterly reports will be made to the Council (for the three month periods ending 30 September, 31 December, 31 March and 30 June each financial year).

Included within these reports should be details on:

- Investments on hand at the end of the quarter, including the names of counterparties, counterparty credit rating, sums invested with each, terms of each investment, and interest rates being earned.
- The average earnings rate on investments held during the quarter.

Acquisition of New Investments and Credit Risk (Sections 105(c) and 105(e) LGA)

Credit risk (also called default risk) is the risk that a counterparty will not be able to meet interest or principal payments when due.

The credit risk of issuers can be established via international credit agencies such as Moody's, Fitch, and Standard and Poor's (S&P). When viewing the ratings supplied by the agencies it is relevant to consider the instruments or debt type being rated.

There are different debt types depending on the security or ranking offered.
Credit risk can be reduced by limiting investments to highly credit rated organisations and diversifying the type and maturity of investments.

The Council may, from time to time, wish to promote the development and expansion of commercial organisations through the advance of funds. It should be recognised that while there may be sound reasons to justify the advances, this may involve a departure from normal investment policy. The following policy is to cover this eventuality.

Investment Policy 4(a)

Credit risk will be minimised by investing only in high quality investments. For the purposes of this Policy, this means that investments will only be acquired that have Standard & Poor's ratings for short-term investments of A-1 or higher and for long-term investments of A+ or higher. Equivalent Moody's and Fitch ratings may apply.

Approved financial instruments are as follows:

Category	Instrument
Investments (no greater than 12 months)	Short term bank deposits Bank certificates of deposit (RCDs) Treasury bills
Investments	LGFA borrower notes

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved.

All unsecured investment securities must be senior in ranking. The following types of investment instruments are expressly excluded:

- Structured debt where issuing entities are not a primary borrower/ issuer.

- Subordinated debt, junior debt, perpetual notes and debt/equity hybrid notes such as convertibles.

Investment Policy 4(b)

The Council may, in its discretion, acquire investments of up to $500,000, that depart from Investment Policy 4(a) where it considers that the departure would advance its broader social or other policy objectives.

A Council resolution is required to authorise an investment under this provision, and that resolution shall note that it departs from the Council's ordinary policy on credit risk and the reasons justifying that departure.

Return on Investment (Sec 105(e) LGA)

The Council should, within the parameters of other policies, seek to maximise the returns on its investments. The returns must, however, reflect the risk involved.

Government stock is regarded as a risk-free investment and as such is the benchmark from which the pricing of other investments is determined.

A higher risk should only be accepted if the expected return is also higher. Although greater returns may be achieved by investing in securities issued by corporates (such as company debentures) it must always be remembered that the higher yield represents the extra margin that is generally required to compensate the investor for increased default risk.

Investment Policy 5
The expected return on all funds invested should reflect the risk involved, according to the following guidelines:

- If a potential investment carries greater risk than is consistent with the Council's credit risk policy then an investment will not be made, irrespective of the expected returns.
- Where there are two investments of equivalent risk within the Council's risk constraints, the investment with the higher expected return shall be selected if compliant with counterparty credit limits.
- If there are two investments of different risks, but both are within the Council's risk constraints, an assessment will be made of the trade-off between the risks and expected returns of the two options. The investment that is considered to be the most attractive for the Council, having regard to prudence, policy compliance, the risks and the expected returns, will be selected.

Liquidity and Term (Sec 105(b) and 105(e) LGA)

The liquidity and term of investments are important considerations in relation to an overall investment portfolio. The failure to match the availability of funds to expected cash outflows, or to provide for unexpected outflows, can carry considerable costs in the form of short-term bridging finance, penalty interest costs, and capital loss.

The ability to liquidate an investment is determined by the existence of potential buyers. A lack of liquidity may force the seller to discount the price below its current market value. Liquidity is affected by characteristics such as the credit-worthiness of the issuer and the volume of supply.

The term of investments can vary from a one-day term, such as call deposits, to a long-term, such as 10 years. When investments are less liquid, the maturity or term of the investment assumes higher significance.

Investments should be principally focused on credit quality of the issuer, term, liquidity and policy compliance; investment maturities should closely match expected cash outflows and liquidity management requirements.

Often investments have been made on the basis of best return without identifying what ultimate maturity date is required. To invest with a significant degree of certainty requires comprehensive forecasting systems and procedures.

Investment Policy 6
The Council's portfolio shall be arranged to provide sufficient funds for planned cash outflows and to otherwise allow the payment of obligations as they fall due.

Individual investments shall be chosen with regard to:

- the period of time for which the funds are surplus to requirements
- the maturity of the investment. Investment terms are for no greater than 12 months
- the ability to liquidate the investment before its maturity
- the extent to which the portfolio already provides funds as required
- the credit quality of the counterparty
- market conditions.

Portfolio Diversification (Sec 105(b) LGA)

An important method of reducing the exposure of the Council to any single adverse investment is to spread the amount invested across a number of investments and counterparties. This reduces the danger of extreme losses but also reduces the possibility of large returns.

Past examples of financial collapse of major companies clearly illustrates the inherent dangers in a high exposure to any one form of investment or single issuer.

However, sometimes the cost of diversification may exceed the benefits of diversification by the increased administrative costs and the non-marketability of small parcels that may result.

Investments may be classified into broad risk types: risk free, near risk free, and low risk. There are others that can be classified as medium to high risk investments but these are excluded under this policy (see Investment Policy 4(a)).

Investment Policy 7

When investing, the Council will seek to minimise its risk by investing only in institutions with a high degree of security or credit rating, and by limiting maximum exposure in certain cases. The Council has established the following requirements for all financial investments:

Counterparty/ Issuer	Minimum long term / short term credit rating	Investments maximum per counterparty ($million)	Total financial investment portfolio	Total maximum per counterparty, including risk management instruments ($million)
Risk Free: NZ Government	n/a	unlimited	100%	unlimited
Risk Free: LGFA	n/a	unlimited	100%	unlimited
Low Risk: NZ Registered Bank	A+/ A-1	10.0	100%	20.0

In determining the usage of the above gross limits, the following weightings will be used:

- Investments (e.g. Bank Deposits) – Transaction Principal · Weighting 100%.

To avoid undue concentration of exposures, financial investments should be made with as wide a range of approved counterparties as possible. Maturities should be well spread. The approval process must take into account the liquidity of the instrument and prevailing market conditions the instrument is traded in and re-priced from.

Individual counterparty limits are kept in a spread sheet by Council management and updated on a day to day basis. Credit ratings should be reviewed on an ongoing basis and in the event of a material credit downgrade this should be immediately reported to the Council and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Settlement Risk (Sec 105(e) LGA)

One way to mitigate investment settlement risk is the adoption of costly, time-consuming verification procedures for the transfer of funds and securities. In general, however, it is better to concentrate on the soundness of the other parties to the transaction. The critical factors that reduce settlement risk are similar to those stated in the Liability Management Policy in relation to credit risk:

- appropriate industry standing
- financial adequacy
- long-term S&P credit rating of at least A+ or above
- track record.

Investment Policy 8
The Council will satisfy itself, in all its investment transactions that counterparties:

- are financially adequate
- have an appropriate industry standing
- have an appropriate track record
- have an appropriate credit rating

in sufficient degree to give the Council reasonable certainty that obligations under contracts will be performed.

Interest swaps explained

Presentation to the Audit and Risk Committee
20 October 2015

FRED_n1444053

What are interest swaps?

- A contractual agreement between two parties to exchange interest payments.
- Fixed and floating interest-rate payments on a *notional* amount of principal are exchanged over a specified term.
- One party pays interest at a fixed rate and receives interest at a floating rate. The other pays interest at the floating rate and receives the fixed-rate payment.

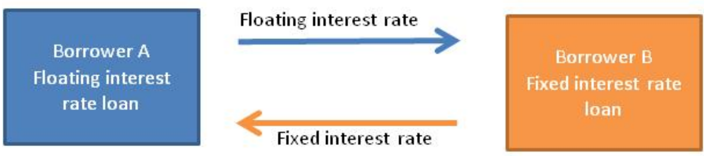
2

What is the benefit?

- Limits or manages exposure to interest rate fluctuations.
- If interest rates subsequently rise, pushing floating rates higher, the fixed-rate payer obtains additional savings at the expense of the floating-rate payer.
- Conversely, if rates move lower, the floating-rate payer obtains additional savings at the expense of the fixed-rate payer.

3

Visually...



Khan Academy videos

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4

Current Interest Swaps

- 3.43% to 4.96%
- 1 to 9 years
- $1m to $6m
- Total live swaps $33m
- Governance should be monitoring compliance with Council's policy relating to interest swaps.

5

HAURAKI DISTRICT COUNCIL

Information Report

To:	Audit and Risk Committee
From:	Corporate Services Manager
Date:	Tuesday, 13 October 2015
File reference:	Document: 1413121
Meeting date:	Tuesday, 20 October 2015
Subject:	**Internal Debt**

Recommendation:

THAT the report be received.

Purpose

The purpose of this report is to report to the Audit and Risk Committee on the Council's internal debt.

Background

In its simplest form, internal debt is funds which the Council lends itself from accumulated financial reserves and/or surpluses.

The Council funds some of its activities using targeted rates. The income from these targeted rates can only be applied to the activities which they were collected for. Because of surpluses and deficits that may occur in individual activities, and because of the lumpy nature of capital expenditure, some targeted rates areas, or 'funds', will at times have a surplus cash balance and some will have a deficit balance (which would result in the need for that activity to borrow).

The Council also has an 'Investment Fund' set aside from past windfalls, and some 'Special Funds' accumulated from financial contributions and past quarry surpluses. These are available to be lent as internal debt.

As with external debt, the Council has a range of policy which outlines the parameters within which debt must be managed.

There are several policies set out in the Council's Liability Management Policy relating to internal debt. These are:

- That where at all possible, the Council will borrow or invest internally rather than externally.
- That the Council will charge interest on internal borrowings, charged in arrears, at a margin above the Council's average borrowing costs for the year. The basis point margin is determined by the Chief Executive.

- That the Council will pay interest on internal investments, charged in arrears, at a margin below the Council's average borrowing costs less a basis point margin determined by the Chief Executive.

The benefit of 'borrowing' from these internal funds is that the Council can do so at a lower cost than by borrowing from external sources, and Council earns a higher return on these reserves than it would do if they were invested at a bank.

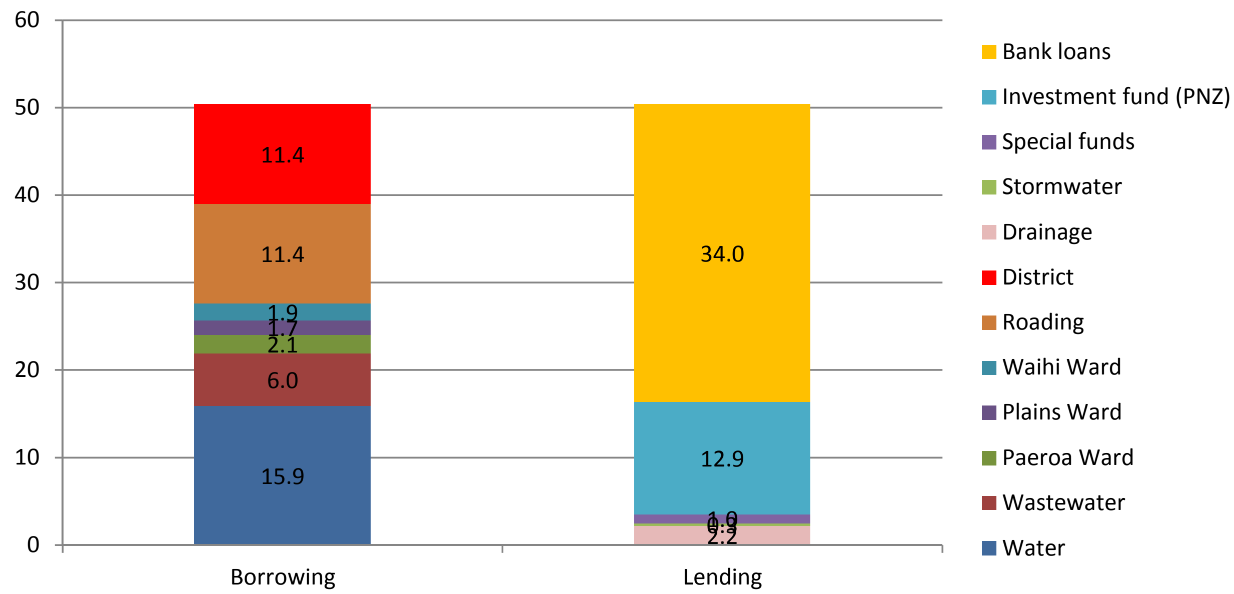
For the past few years the basis point margin has been set at 0%, which means the interest paid or received by 'funds' has been at the average interest rate that Council has paid on external borrowing. For 2014/15 this was 4.92%. This includes the line fee for Council's flexible borrowing facility as this is a cost of organising borrowing.

Discussion

The following diagram broadly shows the overall balanced debt position of the Council, inclusive of internal and external debt and the sources of that debt.

On the left hand side the *borrowing* column outlines activities which currently have debt owing to the Council (e.g. the Water activity owes Council $15.9m). On the right hand side the *lending* column shows the activities from which, and/or mechanisms through which, the Council is "borrowing" the money. The two columns must always balance each other out.

Lending and Borrowing Position



The Investment Fund, Special Funds and the Drainage and Stormwater activities represent the activities (or funds) from which the Council can internally borrow. These amount to $16.4m of the right hand (Lending) column.

The Investment Fund of $12.9m is made up of $12m of Power New Zealand share proceeds, plus $5.9m of Waihi Beach property sales, less $5m of withdrawals to fund roading seal extensions.

As at 30 June **2014**, the borrowing activities (left hand column) had approximately $50m of debt. This is funded from the $16m of internal funds available plus $34m of external debt (bank loans).

NB: Each Drainage District and Town Stormwater scheme is rated for separately, and has its own credit/debt balance, however, in the above diagram, the Stormwater and Drainage funds have been shown as amalgamated.

Conclusion

In future, reports regarding internal debt will be presented to the Audit and Risk Committee two times a year, once in preparation of the Annual Plan which will outline a forecast internal debt position and once upon completion of the Annual Report which will outline an actual internal debt position.

It is recommended that the report be received and, if the Committee feels anything warrants it, that the report be submitted to Council for its consideration.

Duncan Peddie
Corporate Services Manager

HAURAKI DISTRICT COUNCIL

Information Report

To:	Audit and Risk Committee
From:	Corporate Services Manager
Date:	Tuesday, 13 October 2015
File reference:	Document: n1418216
Meeting date:	20/10/2015
Subject:	**Overview of Council's Insurance Policies**

Recommendation:

THAT the report be received.

Purpose

The purpose of this report is to provide the Audit and Risk Committee with an overview of the Council's insurance policies.

Background

The Council currently has 14 different types of insurance policies, covering a wide-range of its business.

There are also a range of collaborations within New Zealand local government for insurance purposes which the Council participates in. These are explained in brief here. **Appendix A** then contains a high level overview of each of the 14 of Council's insurance policies.

Local Authority Shared Services & Aon
The Council is a member of Local Authority Shared Services (LASS) and LASS coordinates shared insurance services across 10 councils within the Waikato, being:

Hamilton City Council
Hauraki District Council
Matamata-Piako District Council
Otorohanga District Council
South Waikato District Council
Thames-Coromandel District Council
Waikato District Council
Waikato Regional Council
Waipa District Council, and
Waitomo District Council.

LASS has engaged Aon New Zealand Ltd to administer the shared services insurance programme.

11 of Council's 14 insurance policies are arranged through LASS.

Riskpool
Two of Council's insurance policies are arranged through Riskpool. Riskpool is a trust fund created by New Zealand local authorities to provide long-term, affordable professional indemnity and public liability protection solely for local government organisations. Riskpool consists of 54 local authorities in New Zealand.

LAPP
The Local Authority Protection Programme Disaster Fund (LAPP) is a charitable trust that provides protection for local authorities to specifically pay their share of infrastructure replacement costs for water, sewage and other essential services damaged by natural disaster.'

The LAPP fund was established in 1993 and was designed to dovetail with the emergency management that Central Government provides for these assets. Since 1991, central and local government has shared responsibility for replacement costs for essential services damaged by natural disaster. Beyond a threshold (for Council this is $352,000), central government will pay 60% of the restoration costs. The LAPP fund assists members to cover the 40% share, up to a maximum probable loss of $125m. Above this, the Council would have to find some other way of funding its 40% contribution.

33 local authorities are members of LAPP.

Civic Assurance Ltd (Civic)
Civic Assurance is a Council Controlled Organisation (CCO) owned by the majority of the local authorities in NZ. Council is a shareholder in Civic Assurance. Civic used to provide insurance to a number of Councils. Due to several Christchurch City claims that are not yet settled it is not able to place insurance at the moment.

Civic is Riskpool's Fund Manager and Scheme Manager. It provides the risk management, administrative and actuarial services for Riskpool and also employs Riskpool's General Manager and Legal Officer. Civic Assurance holds the shares of the trustee company for Riskpool on behalf of the members and is responsible for appointing its Directors.

Civic Assurance is also the Fund Administrator for LAPP.

What the Council <u>does not</u> insure
Council does not insure playgrounds, or other general equipment. Council's excess on its material damage policy is $10,000 so does not insure most assets that are worth less than this. This does expose Council to a risk greater than the $10,000 excess, if a number of those assets were lost or destroyed in a single event, e.g. in a disaster or the loss of all the equipment in a fire in a major building.

How claims are processed
Claim Forms for vehicles are the only form available to staff on the intranet, but otherwise, all claim inquiries in the first instance come through the Finance Team.

The Accounts Payable / Receivable Officer provide staff with claim forms if necessary. Staff are requested to fill in the Claim Form, return it to the Accounts Payable / Receivable Officer and then the Finance Team decide whether or not to lodge the Claim Form.

Conclusion
This report is intended to provide an overview of the Council's insurance policies. As Corporate Services Manager I am responsible for the insurance arrangements for the Council and any inquiries should therefore be directed to me in the first instance.

Duncan Peddie
Corporate Services Manager

Appendix A: Summary of current insurance policies

Insurance type	Coverage	Main policy exclusions	Sum insured or limit of liability	Excess	Annual Premium (2014/15)	Insurer
Infrastructure	Disaster		$125m (40% = $50m)	$352,000	$86,000	LAPP
Material damage – buildings/equipment	All risks including Earthquake, but excluding fire including fire occasioned by or through or in consequence of any natural disaster.	Building Defects/Mould, Burning out of motors over 5kw, Defective or faulty materials in course of manufacture, Fraudulent misappropriation, Landslip & subsidence (loss of land), Mechanical Breakdown/Boilers, Nuclear radiation, Public confiscation, Terrorism, War, Wear & Tear, Infrastructural Assets including but not limited to Reservoirs (in ground), Dams, Wharves, Reticulation & the like, Political Risk Endorsement, Electronic Date Recognition, Electronic Data Exclusion, Transmission & Distribution Lines.	$125m (value of buildings covered $80.6m). NB: the $125m cover for buildings is the total LASS coverage for a single event over all/any impacted LASS Councils. For example, if an earthquake were to impact multiple councils the total cover claimable over all the impacted councils would be $125m.	$10,000	$74,500	AIG NZ Ltd (LASS)
Material damage – fire	Fire including Fire occasioned by or through or in consequence of any natural disaster	Nuclear Radiation, Public Confiscation, Terrorism, War, Infrastructure Assets including but not limited to Reservoirs (in ground), Dams, Reticulation & the like, Building Defects & Mould Exclusion, Electronic Data Recognition Exclusion, Transmission & Distribution Lines.	$125m (value of buildings covered $80.6m)	$10,000	$31,600	AIG NZ Ltd (LASS)
Motor vehicle	Unforeseen & unintended damage to own vehicles, Third Party Liability.	Driven in an unsafe condition, Driven outside the description of use, Loaded in excess of the manufacturer's recommended specifications, Loss of Use, Mechanical/electrical breakdown/failure, Under influence of liquor of drugs, Unlicensed Drivers, War, rebellion, nuclear weapons, Wear & Tear, Terrorism, Damage caused by	Market Value at the time of loss except cars under 12 months old insured for Replacement - Limit any one vehicle unless declared $200,000. Third Party Liability - Limit to any one accident $10m Except Airside Liability	$500	$19,100	Zurich Auto (LASS)

Insurance type	Coverage	Main policy exclusions	Sum insured or limit of liability	Excess	Annual Premium (2014/15)	Insurer
		weight of vehicle or vibration in excess of the Sublimit.	restricted to $2m. Fleet Value $2.8m			
Public liability	Protection for Civil Liability in connection with the Member's business & arising from occurrences resulting in Accidental Personal Injury or Property Accident Damage occurring within the Territorial Limits.	n/a	Total limit for all claims in the aggregate during the period $2m. Each & every claim $2m but Employee's Property $1m. Care, Custody & Control $1m. Forest & Rural Fires Act $1m. Products Hazard - each & every claim and in all during the Period $2m Wreck Removal $1m Services & Repair $1m Exemplary / Punitive Damages $1m.	$5,000	$35,300	Riskpool
Professional indemnity	Protection for Civil Liability in respect of any Claim made against the Member during the Period for breach of Professional Duty arising out of any negligent act, negligent error or negligent omission, of the Member including Defence Costs.	n/a	Each & every claim $200m but Total limit for all claims in the aggregate during the period $200m but Total limit for all claims in the aggregate for Weathertightness Claim $500,000.	$10,000	Combined with premium for the public liability insurance noted above.	Riskpool
Statutory liability	Covering defence costs & fines arising out of an allegation or breach of any Act of Parliament other than an "excluded" Act.	Fines under Health & Safety in Employment Act, Asbestos, Dishonest Acts, Deliberate Disregard, Personal Grievances, Private Prosecutions, Radioactivity, War/Terrorism.	To any one claim & in the aggregate per insured $1m.	$1,000	$2,900	DUAL NZ Ltd (LASS)
Employers liability	Liability arising out of claims made by Employees for injuries outside the scope of Accident Compensation Legislation	Amounts recoverable under the Accident, Rehabilitation & Compensation Insurance Act 1992. Wilful, intentional or deliberate conduct of the insured. Dishonest, fraudulent,	To any one claim & in the aggregate per insured $1m.	$1,000	$1,500	DUAL NZ Ltd (LASS)

Insurance type	Coverage	Main policy exclusions	Sum insured or limit of liability	Excess	Annual Premium (2014/15)	Insurer
		criminal or malicious acts of the Insured.				
Business interruption	Consequential Loss resulting from Physical loss or damage to any property used by the insured.	n/a	Addition Expenses / Increased Costs of Working $10m, Claim Preparation Expenses $2.5m, Loss of Revenue $1.5m, Loss of Rents Receivable $100,000.		$3,000	Chartis NZ Ltd (LASS)
Forestry	Forests as declared against loss to trees including harvested trees awaiting transportation from harvest area caused by Fire, Hail Strike, Malicious Damages & Impact.	Damage by snow or ice, Consequential Loss, Branches, Dead or Dying Trees, Nuclear risks, War, rebellion & similar, Subterranean fire, earthquake or volcanic eruption, Windstorm, Consequential losses, Liability to Third Parties.	Fire Fighting Costs $250,000. Re-Establishment Costs $291,375. Fire, Impact & Malicious Damage $2,598,196. Hail $20,000, Current Crop Valuation $961,400	$5,000	$2,100	Insurance Facilitators (LASS)
Forest and rural fire act costs	Costs incurred in relation to a fire event as Fire Authority for a Rural Fire District pursuant to the Forest & Rural Act 1977 except to the extent that the fire fighting costs have been - Reimbursed by grant from the Rural Fire Fighting Fund under s46B(1)(a) of the Fire Service Act - Recovered from a person or persons responsible for the fire event under s43 of the Forest & Rural Fires Act 1977, or other civil proceeding, reparations award of criminal prosecution - Recovered by levy imposed by the Fire Authority under s46 or s46A	Costs Levied by another fire Authority, Costs to calculate claim for assistance from Rural Fire Fighting Fund, Costs to impose of enforce levy under the Forest & Rural Fires Act 1977, Costs to receive, handle or challenge apportionment of fire control costs by the National Rural Fire Officer, War, Mutiny, Civil commotion, Public Confiscation, Terrorism, Nuclear Radiation.	$100,000	$5,000	$4,000	DUAL NZ Ltd (LASS)

Insurance type	Coverage	Main policy exclusions	Sum insured or limit of liability	Excess	Annual Premium (2014/15)	Insurer
	of the Forest & Rural Fires Act 1977					
Aviation non owners liability	Legal liabilities arising as a result of accidental loss or damage to aircraft not owned by the insured.	Employee & Others, Workers Compensation, Illegal Uses, Geographical Limits, Pilots not advised, Transportation of Aircraft, Landing & Take off areas, Contractual Liability, Number of Passengers, Other Passengers, Nuclear Risks, War, Hijacking & Other Perils, Noise & Pollution.	Section 1 Hull $200,000. Section 2 Liability $1m.	$1,000	$1,200	Kiln Asia Singapore PTE Ltd (LASS)
Crime	Direct financial loss sustained by the Insured arising from or in connection with any single act or series related, continuous or repeated acts (which shall be treated as a single act) discovered during the policy period or applicable Discovery Period & reported to the Insurer as per the policy wording.	Property Damage, War or Terrorism, Fees costs & Expenses, Fines, penalties & damages, Consequential Loss, Credit Risks, Failure to maintain computer, Proprietary Information, Profit Loss or Inventory Computation Losses, Loss sustained after knowledge, Prior or subsequent discovery of loss.	To any one claim in the annual aggregate $2m. Claims Preparation Costs $50,000.	$25,000	$6,400	AIG NZ Ltd (LASS)
Personal accident	Covering injured persons for benefits in respect of injury as a result of an accident.	Age Limit 80 years (unless declared & agreed). With respect to insured persons being between 65 & 80 years of ages, Permanent Disablement is deleted & replaced by Paraplegia/Quadriplegia. The Death Benefit is reduced to $10,000 where there are no dependants.	1 Mayor & 12 Councillors at $50,000 each, 5 Managers at $100,000 each.	$0	$679	Ace Insurance Ltd (LASS)

HAURAKI DISTRICT COUNCIL

Decision Report

To:	Audit and Risk Committee
From:	Strategic Planner, Corporate Services Manager
Date:	Tuesday, 13 October 2015
File reference:	Document: 1399211
Meeting date:	20/10/2015
Subject:	**Rates information**

Recommendation:

THAT the report be received, and

THAT the Audit and Risk Committee discuss the report.

Purpose

The purpose of the report is to present information about how rates are received through direct debits, automatic payments, internet banking and so on as well as present information about the frequency of rates instalments.

The matter or suggested decision does not involve a new activity, service, programme, project, expenditure or other deliverable.

Background

At its meeting on 16 June 2015, the Committee requested that the Strategic Planner prepare a report on the notice period for rates instalments and associated GST implications; frequency of rates instalments; frequency of water rates instalments; how to encourage more uptake of automatic payment plans and early payment discounts so that the Committee may discuss these matters further.

This report addresses each of these matters separately.

Issues and options

The driver behind discussions to date has been principally from a point of concern around rates affordability, reducing rates in arrears, and whether there is more that the Council can do to encourage ratepayers to take up the regular direct debit payment system.

There are currently **10,274 rateable properties** in the Hauraki District. As at **1 July 2015** the rates outstanding are as follows:

	Water Rates ($000)	Rates ($000)
Current financial year	755	0
Arrears outstanding from previous years	720	1,982
Total Outstanding in 2015	1,475	1,982

Of the arrears outstanding from previous years, approximately $450,000 is associated with Maori freehold land. All arrears associated with Maori Freehold Land that can be written off in accordance with our Remission Policy have been actioned. The arrears balance of $450,000 represents rates on Maori Freehold Land that are uncollectable or are unable to be remitted in accordance with the Council's Remission Policies..

Comment [LDC1]: We should make a statement as to how much of this should be written off in accordance with our remission policy

Comment [k2]: Elaborated, but the $450k is, according to Barry, not able to be written off or collected.

By comparison, for **2014** the rates outstanding were as follows:

	Water Rates ($000)	Rates ($000)
Total Outstanding in 2014	900	2,615

The reduction in rates in arrears between 2014 and 2015 is attributable in part to a write off of arrears associated with Maori Freehold Land; write off of statutory barred rates, and resolution of some outstanding rates debt through Council's debt collection agency.

Direct debits
In the month of August 2015, there were 3,561 direct debit payments processed for rates (non-water payments).

These direct debit payments are made to Council in a variety of ways. Approximately 400 ratepayers have weekly direct debits, 500 have fortnightly direct debits and 1,000 have monthly direct debits. We also have 1,200 ratepayers who have arranged direct debit upon the instalment due dates. We have 18 ratepayers who have arranged an annual direct debit.

This information indicates that approximately one third of ratepayers are using a form of direct debit payment.

Direct debits (water rates)

There are **7,350 of rateable properties connected to a Council water supply**.

Comment [LDC3]: Can you please cnfirm that this is properties not water meters. Most rural properties have multiple water metres -yes it is rateable properties

Comment [k4]: Barry says yes it is properties not water meters.

In August 2015, there were 2,150 direct debit payments processed for water rates.

This number has increased from the same time a year ago, when 1,900 direct debit payments were processed.

Similarly to rates instalments direct debit payments for water rates are made to the Council in a variety of ways. Approximately 230 ratepayers have weekly direct debits, 280 have fortnightly direct debits and 330 have monthly direct debits. We also have 820 ratepayers who have arranged direct debit upon due date.

This information indicates that approximately one quarter of ratepayers are using a form of direct debit payment for water rates.

How do we presently encourage take up of direct debit payment plans?
On receipt of every change of property ownership, the Council sends a direct debit payment form to the new owner. This is included in a "Welcome to the Hauraki District" pack that the Council provides to every new property owner.

When engaging with ratepayers by phone, the Rates Team actively encourage ratepayers to set up direct debit payments.

If and when the opportunity arises to speak with a ratepayer who has a direct debit for rates but not water rates, the Rates Team encourage the ratepayer to add the water rates to the existing direct debit arrangement. Anecdotally, most of the time, when people are asked they agree to this.

Automatic Payments
The Council does not have accurate information regarding the number of ratepayers using automatic payment plans. This is because the ratepayer makes an automatic payment arrangement direct with their bank without Council's knowledge or input.

To undertake analysis of Council's banking information and isolate automatic payments to provide a report on numbers of ratepayers on automatic payment plans would be reasonably time consuming and this exercise has not been undertaken.

A weakness of the automatic payment system is that a ratepayer may set up an automatic payment plan but not adjust this annually, based on the most current rates assessed. However, if the Rates Team is in contact with a ratepayer with an automatic payment plan the Rates Team would take the opportunity to advise the ratepayer what the automatic payment should be in order to cover the rates set, however, the onus remains with the ratepayer to action this.

NB: With direct debit arrangements, the Council updates the arrangement annually to reflect the rates owing. For this reason, the direct debit payment plans are the preferred mechanism for Council.

Rates instalments
In accordance with Council's policies, rates (excluding water) are payable in three instalments throughout the year, being October, February and May, with the payment due date being the last Wednesday of the month.

Presently the rates instalment notices are posted on the first of the month.

The Committee and Council have previously noted concern to staff that by the time the rates notice arrives, the period to payment date means that there is inadequate notice time for ratepayers.

Section 48(3) of the Local Government (Rating) Act 2002 requires that a rates invoice must be delivered to the ratepayer of the rating unit at least 14 days before the date on which a rates payment is due. 14 days is defined in the Act as 'days' not 'working days.

There has also been some criticism in the past of the timeliness of the rates notices. An assessment of timeliness for the last two years rates notices is as follows:

Instalment period	Date that notices were posted	Comment
October 2015	1 October	On Time
May 2015	1 May	On Time
February 2015	1 February	On Time
October 2014	1 October	On Time

May 2014	1 May	On Time
February 2014	10 February	Late – penalty date extended

Whilst in the past there have been timeliness issues, as presented above, this has not been the case recently.

Increasing the notice period of rates instalments
It is possible to increase the notice period for rates notices, and post them earlier than current practice.

The main reason that we currently post the rates notices on the first of the month has been the way that the Council has to account for GST. Each rates instalment is approximately $7.5m GST inclusive. The GST on each instalment is $1m.

GST is returned based on when an invoice is issued. If Council was to issue the rates notices earlier, e.g. on 30 September or 1 September rather than 1 October, Council would have to pay this $1m to the IRD a month earlier. The interest cost of this would be approximately $12,000 per annum ($1m X 5% for three months).

Another factor would be that staff would need to bring forward the current timetable for preparation of the rates instalments and rates strike. With appropriate lead times this is entirely possible and could be implemented from the 2016/17 financial year.

Frequency of rates instalments
Councillors have also queried whether it is possible to increase the frequency of rates instalments, for example, from three to four instalments per annum.

Whilst the quantum of rates would not change per rating unit, from a customer perspective, four instalments as opposed to three instalments would mean that each instalment is for a lesser amount. An opposing consideration is whether some ratepayers would react unenthusiastically to receiving Council rates notices in their letterboxes more frequently.

There would be some additional costs and resource implications associated with an additional instalment.

Each rates instalment costs approximately $6,800 for printing and dispatch (made up of $2,800 for printing and $4,000 for postage).

An additional instalment would likely add to the current workload / resource requirement in several areas of the organisation, as follows:

- Every rates instalment generates peaks in phone activity for the Rates Team and Customer Service Team.
- Instalments also generate a peak in Mail Room activity, as the Mail Room receipts all incoming mail.
- Rates instalments also generate electronic transaction receipting peaks for the Accounts team.

Whilst difficult to quantify, it is reasonable to expect that there would be additional staff time incurred if an additional instalment was carried out.

For the most recent instalment (1 October 2015), 224 ratepayers received their rates instalment notice by email. To date, the Council has not run a public communications campaign to encourage ratepayers to receive their rates instalment notices by email, but as ratepayers are requesting this service the Rates Team are making it available to them.

Encouraging more ratepayers onto emailed rates instalment notices may reduce some of the printing and postage costs associated with the instalments. Some ratepayers who have requested email copies of their rates instalment notices have also requested that they continue to receive the

Comment [LDC5]: The discussion below does not indicate what the benefits would be from increased rates instalments. It is my understanding that by shifting to more frequent payments that payment amount is reduced and is therefore less of a financial burden. The average rates bill would be reduced by 25% if we added an extra payment. Is this significant for the people paying.

If other utility companies can invoice monthly why is it not possible for Council to do so.

Comment [LDC6]: Is it possible to move to emailing of rates instalments? Would this save any costs?

Comment [k7]: Comments re. Emails made below.

Comment [LDC8]: But would the same number of contacts be made if there were more frequent instalments hard copy notice also. Emailing rates notices could also remove the delay caused by the postal system, giving ratepayers more notice before the due date.

Staff's view is that an additional instalment would not have a significant positive impact on rates in arrears and that efforts would be better spent in encouraging more ratepayers onto direct debit payment options and onto receiving notices via email

Water rates instalments

Targeted rates for water are presently by way of two instalments per year, with the instalments dates for the various supplies being staggered throughout the year.

Councillors have previously made comments that increasing the frequency of water rates instalments for (some) large volume users would have merit.

This table below provides *average* water consumption and water rates for users above 2,000kL per annum broken into consumption bandwidths. This information is current as at October 2015.

Consumption band	Number of ratepayers in this band	Average water rates bill in this band (per annum)	Average water consumption in this band (per annum)
>100,000kL	1	$338,497	268,371kL
25,001 – 100,000kL	3	$36,190	28,564kL
10,001 – 25,000kL	57	$17,666	13,911kL
5,001 – 10,000kL	135	$9,222	7,220kL
2,001 – 5,000kL	146	$4,170	3,191kL

Should the concept warrant further exploration, staff would suggest the following would need to be considered.

- Identification of a 'threshold' for large volume users and identification of the number or properties.
- Options analysis for estimates versus actual readings.
- Targeted engagement with stakeholders.

The Audit and Risk Committee may wish to establish a small working party to work alongside staff to explore these options further.

Early payment discounts

The Audit and Risk Committee have previously queried whether an early payment discount would have merit to encourage timeliness of rates payments. This concept has not been discussed by the Committee or Council in any detail and could take a variety of forms including:

- a discount could be offered to ratepayers who pay 100% of their rates in one instalment.
- a discount could be offered for on time payment for each instalment period
- a discount could be offered for on time payment for the first instalment period of the year.

Staff are aware that the in 2010/11 the Waikato Regional Council removed a 2.5% early payment discount on rates that they had in place.

The Council consulted on this matter through their Annual Plan process. The consultation process demonstrated that there was reasonable support from submitters to retain the early payment discount scheme; however the Council made the decision to abandon the scheme as it was inequitable. The reasons included:

1) The scheme was not self funding. For the Council, the cost of discounts was $1.395m.
2) All ratepayers were rated the "net cost" of the scheme (approx. $1.15m)
3) 72% of ratepayers accounting for 75% of rates income currently took up the discount

Comment [LDC9]: Is it possible to provide some more detailed data for this. What is average water bill for urban properties, what is average rates bill for rural properties, what is the typical cost per reading etc.

Without that information it is difficult for Councillors to consider whether the should pursue this further or not

Comment [k10]: Further information presented.

Comment [LDC11]: What are we looking at. Early payment of 100% of the total rates in instalment 1 or a discount if paid on time with each instalment?

Comment [k12]: Addressed in the bullet points below.

Comment [k13]: This figure is directly lifted from a WRC report. We could remove the figure if it is confusing.

4) The ratepayers who do not take up the discount were levied an additional $286,000 (25% of the net cost) in their rates.
5) A number of ratepayers who did not take up the discount and spread their rate payments over the year may have been doing so for financial reasons and may not have a choice to pay early. At the time of this decision approximately 10% of ratepayers paid by direct debit arrangements.

In the Waikato Regional Council report on this matter, it noted that Horizons Regional Council were proposing to introduce an early payment discount on rates. Their proposal stated that rates would be increased by approximately $1 million to provide for this discount. Those ratepayers who pay on time would receive a 3 per cent discount – negating the increase in rates. However those ratepayers who elected to pay their rates by instalments or who are late in paying would not receive the discount. For these ratepayers their rates bill would have, in effect, increased by 3 per cent.

Staff have not explored this matter further beyond seeking information from the Waikato Regional Council. Staff do not recommend pursuing further investigation on early payment discounts as at first investigation it would appear that the burden would likely fall to those who can least afford it.

Staff would suggest that efforts rather be put into campaigns to promote direct debit payment plans.

Significance and Engagement Assessment

This decision is not considered significant as it does not trigger any of the Significance and Engagement thresholds. No engagement is required at this point in time.

Conclusion

This report is intended to satisfy the questions raised by the Committee previously and therefore presents information about rates received through direct debits and automatic payment, as well as information about the frequency of rates instalments and early payment discounts.

Katina Conomos
Strategic Planner

Duncan Peddie
Corporate Services Manager

HAURAKI DISTRICT COUNCIL

Decision Report

To:	Audit and Risk Committee
From:	Strategic Planning Projects Manager
Date:	Tuesday, 13 October 2015
File reference:	Document: 1444054 Appendix A: Extract from Procurement Manual Appendix B: Proposed Changes to Delegations Manual
Meeting date:	Tuesday, 20 October 2015
Subject:	**Delegations for Departure From Procurement Policy**

Recommendation:

THAT the report be received, and

THAT the Audit and Risk Committee recommend pursuant to Section 32 of the 7th Schedule to the Local Government Act 2002, the Council delegate to the Chief Executive the power to approve departures from the Procurement Policy procedures for Negotiable and Discretionary purchases where, after consideration of a written report from an Authorised Purchasing Officer, he is satisfied that the recommended purchasing process is appropriate to the circumstances and will result in a cost effective purchasing option for the Council and that all such approved departures from the Discretionary purchasing provisions in the Procurement Policy shall be reported to the next available Council meeting; and

THAT the Audit and Risk Committee recommend pursuant to Section 32 of the 7th Schedule to the Local Government Act 2002, the Council delegate to Departmental Managers the power to approve departures from the Procurement Policy procedures for Negotiable purchases where, after consideration of a written report from an Authorised Purchasing Officer, they are satisfied that the recommended purchasing process is appropriate to the circumstances and will result in a cost effective purchasing option for the Council and that all such approved departures from the Negotiable purchasing provisions in the Procurement Policy shall be reported to the next available Management Team meeting; and

THAT the Audit and Risk Committee recommend that the Council's Delegations Manual be amended accordingly.

Purpose

Staff are seeking consideration to the updating of the provisions in Council's Delegations Manual to allow for the Chief Executive and Departmental Managers to approve particular purchasing processes that are currently within their purchasing delegations but which are not in accordance with the current provisions of the Council's Procurement Policy.

This matter is being brought to the Audit and Risk Committee for their feedback in the first instance before presenting this report to Council.

The matter or suggested decision does not involve a new activity, service, programme, project, expenditure or other deliverable.

Background

In undertaking purchases of goods and services for the Council, staff are required to follow the procedures as laid out in:

- The Delegations Manual – determines the level of expenditure delegated to each position holder; and
- The Procurement Policy – determines the thresholds and procedures for undertaking the purchase. The procedures in question are attached as Appendix A

There are no issues with purchases below $5,000 where staff can use their discretion, or for purchases above $100,001 where purchases must go to public tender unless otherwise authorised by resolution of Council.

However the Procurement Policy has the following procedures for two types of purchases:

Negotiable Purchases: *Purchase amounts of $5,001 - $50,000 are deemed to be negotiable purchases whereby the Authorised Purchasing Officer shall have the ability to negotiate with and/or invite quotes from at least three preferred suppliers. It is expected this negotiation will lead to a demonstrably competitive purchase.*

Discretionary Purchases: *Purchase amounts of $50,001 - $100,000 are deemed to be discretionary purchases whereby written quotations are to be obtained from a minimum of three independent preferred or selected suppliers/contractors.*

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Issues and options

There have been a growing number of instances for Negotiable and Discretionary purchases where the procedures laid out in the Procurement Policy are not able to be complied with without preparing a report to Council seeking approval for departure from the Procurement Policy. In these instances the reasons for such departure have proven to be robust and the Council has approved these requests

In implementing the purchasing requirements for Negotiable and Discretionary purchases staff are finding that meeting the criteria for these purchases, particularly in relation to obtaining 3 quotations, is often difficult, and in some cases impractical. In these instances it is necessary for staff to prepare a report for Council consideration which delays the purchasing process.

Examples of the issues that are being faced by staff in implementing the negotiable and Discretionary purchases include:

- There are not three suppliers who are able to provide the goods or services
- The best price may be the “All of Government Price” which will be the best price available but quotations still need to be obtained from 2 further suppliers
- Staff may prefer to purchase from a local supplier (as is encouraged in Council’s Procurement Policy) but quotations still need to be obtained from 2 further suppliers
- The goods or services may be additional to work a supplier has already been undertaking for the Council. This most notably occurs on contracts or extended contracts
- The preferred supplier may be the only supplier who has equipment compatible with Council’s existing equipment
- A supplier may have particular knowledge and experience with the matter the Council is seeking goods or services for.

In all the above cases a report would be required for Council which could result in time delay of up to a month as approval is sought to depart from the procurement policy.

Staff believe it would be more time and cost effective to address these issues by way of delegations to the Chief Executive and Departmental Managers within their current financial delegations.

At present the Chief Executive has delegated authority to purchase goods and services up to $100,000 and Departmental Managers have delegated authority to purchase goods and services up to $50,000.

Given the level of these existing delegations Council is requested to consider the following delegations to the Chief Executive and Departmental Managers to allow for specific departures from the Procurement Policy but within their existing financial delegations. This would result in a more timely approach to these types of purchases.

It is recommended that a delegation to the Chief Executive be approved to cover both Negotiable and Discretionary purchases as follows:

- The Chief Executive have delegated authority to approve departures from the Procurement Policy for Negotiable and Discretionary purchases where, after consideration of a written report from an Authorised Purchasing Officer, he is satisfied that the recommended purchasing process is appropriate to the circumstances and will result in a cost effective purchasing option for the Council and that all such approved departures from the Discretionary purchasing provisions in the Procurement Policy shall be reported to the next available Council meeting.

It is recommended that the delegation to the Departmental Managers be approved to cover Negotiable purchases only as follows:

- Departmental Managers have delegated authority to approve departures from the Procurement Policy for Negotiable purchases where, after consideration of a written report from an Authorised Purchasing Officer, they are satisfied that the recommended purchasing process is appropriate to the circumstances and will result in a cost effective purchasing option for the Council and that all such approved departures from the Negotiable purchasing provisions in the Procurement Policy shall be reported to the next available management team meeting.

Appendix B shows the recommended delegations as they would appear in Councils Delegations manual.

New deliverable

The recommendations contained in this report do not relate to a new deliverable but rather to changes in purchasing procedures for the procurement of goods and services.

Significance and Engagement Assessment

This decision does not trigger the Significance and Engagement Policy thresholds and therefore is not considered significant under the Significance and Engagement Policy 2014.

The level of engagement considered appropriate for this matter is to amend the delegations manual and inform affected staff of the new delegations and reporting regime.

Budget Implications

There are no budget implications arising from the recommendations.

Conclusion

The recommended delegations to the Chief Executive and the Departmental Managers are within their current purchasing of goods and services limits. The recommended changes will provide a more timely approach to the purchase of goods and services in the instances where the requirements for Negotiable or Discretionary purchases are not practical to meet and, for Discretionary Purchases, any departures from the Procurement Policy procedures will be reported to Council.

Feedback is sought from the Audit and Risk Committee before this matter is presented to the Council at their meeting on 28 October 2015.

Mark Buttimore
Strategic Planning Projects Manager

Appendix A

Extract from Council Procurement Policy showing Purchasing Thresholds

a) The purchasing thresholds are set as follows: In all cases, as noted above staff must ensure local providers are given the opportunity to quote where applicable.

i. **Negligible Purchases:** All staff are eligible to make purchases up to $100. These amounts are deemed to be negligible purchases and do not require a purchase order.

ii. **Minor Purchases:** Purchase amounts of $101-$5,000 are deemed to be minor purchases and may be procured from any preferred supplier.

iii. **Negotiable Purchases:** Purchase amounts of $5,001 - $50,000 are deemed to be negotiable purchases whereby the Authorised Purchasing Officer shall have the ability to negotiate with and/or invite quotes from at least three preferred suppliers. It is expected this negotiation will lead to a demonstrably competitive purchase.

iv. **Discretionary Purchases:** Purchase amounts of $50,001 - $100,000 are deemed to be discretionary purchases whereby written quotations are to be obtained from a minimum of three independent preferred or selected suppliers/contractors.

v. **The > $100,001 Purchase:** Purchase amounts of $100,001 or greater must go to public tender unless authorised by resolution of Council. Tenders are to be called in accordance with tender procedures.

*** Note that non-price attributes may influence the purchasing decision, e.g. the ability to supply, the ability to support the product, and compatibility with existing equipment etc.**

Appendix B

Extract from Council Delegations Manual showing recommended changes

That pursuant to Schedule 7 (32) of the Local Government Act 2002, and all other powers thereunto enabling, the delegations listed below are hereby approved with immediate effect, subject however to the following limitations:

Conditions on Expenditure:

(1) *Before exercising any of the powers given by any delegation, every officer must be satisfied that full allowance has been made for the proposed expenditure in the approved estimates*

(2) *Contracts will only be entered into in order to carry out the functions and activities of the Department for which the Manager concerned has responsibility.*

(3) *Officers shall incur expenditure only within accounts for which they have authority to operate.*

(4) *From time to time, management may delegate the task of purchasing standard items to their employees providing all other conditions on expenditure are adhered to.*

(5) *A Purchase Order as required by Council's purchasing processes must be supplied to the supplier in all events. Where purchases are made using a Goods Purchase Order, accounts for payment will need to be authorised by the Manager responsible, and go through a strict control process before payment is approved.*

(6) *Petty cash is available from the Corporate Services team, and in area offices and libraries, for use in purchasing small items (such as milk, stamps) on request. A receipt is required for all purchases.*

(7) *Goods and Services Tax: All amounts specified in any part of this Delegations Manual are exclusive of GST.*

(8) *To make such payments of a non-contractual nature as are required by statute or are necessary to maintain the effective functioning of the Council including, but not limited to, payroll, remittances to Inland Revenue Department, and investments of Council funds:*

Sub-Delegation: *Corporate Services Manager*
Finance Manager

(9) *All purchases shall be made in accordance with the Council's Procurement Policy provided that:*

Council delegate to the Chief Executive the power to approve departures from the Procurement Policy procedures for Negotiable and Discretionary purchases where, after consideration of a written report from an Authorised Purchasing Officer, he is satisfied that the recommended purchasing process is appropriate to the circumstances and will result in a cost effective purchasing option for the Council and that all such approved departures from the Discretionary purchasing provisions in the Procurement Policy shall be reported to the next available Council meeting

Council delegate to Departmental Managers the power to approve departures from the Procurement Policy procedures for Negotiable purchases where, after consideration of a written report from an Authorised Purchasing Officer, they are satisfied that the recommended purchasing process is appropriate to the circumstances and will result in a cost effective purchasing option for the Council and that all such approved departures from the Negotiable purchasing provisions in the Procurement Policy shall be reported to the next available Management Team meeting

HAURAKI DISTRICT COUNCIL

Information Report

To:	Audit and Risk Committee
From:	Strategic Planner
Date:	Tuesday, 13 October 2015
File reference:	Document: 1412425
Meeting date:	Tuesday, 20 October 2015
Subject:	**Risk Management Project Update**

Recommendation:

THAT the report be received.

Background

The development of a risk register and framework is a priority for the organisation and this is supported by the Audit and Risk Committee, the Chief Executive and Management Team.

At its meeting on 21 April 2015, the Audit and Risk Committee discussed and endorsed a Risk Management project brief and project milestones, and at its meeting on 16 June 2015 the Committee approved a budget of up to $40,000 expenditure for the Risk Management project to be budgeted from the Council contingency fund.

Issues and options

Project Update

This project update is sorted into the following topics:

1. Risk identification
2. Risk analysis
3. Project budget
4. Next steps.

1. Risk identification

Staff have now embarked upon risk identification across the organisation. At the time of writing this report, risk identification has been undertaken across three departments at the Council with a further four to go. Staff have been open to discussing risk and have been supportive of the need for this exercise. This task will continue through to the end of November 2015 after which a consolidated risk register will be presented to the Audit and Risk Committee.

2. Risk analysis

Staff have undertaken risk analysis on two projects to test risk analysis methodology. A verbal update regarding this work will be presented at the meeting.

3. Project budget
At its meeting on 16 June 2015, the committee endorsed a project budget of $40,000 for the Risk Management Project. Expenditure to date is $19,881 which is broken down as follows:

- Risk Management Training (Chris Peace) $11,109
- Project Management (Katina Conomos) $8,772

4. Next steps
Work will continue on the following tasks.

- Complete the initial risk identification exercise across the organisation.
- Risks will then be prioritised in order or risk rating and a plan developed for undertaking risk analysis for risk rated high and above, or as determined necessary by the Management Team.
- Presentation of risk register to Audit and Risk Committee and risk identification workshop with Audit and Risk Committee.
- Consideration will be given to the establishment of an internal risk management review team or forum, the purpose of which would be to maintain an ongoing momentum regarding risk monitoring and identification.
- Risk management policy developed.

Significance and Engagement Assessment

This decision is not considered significant because this report concerns a project update and also seeks in principle endorsement for work undertaken thus far.

Budget Implications

This report presents information regarding progress against budget above.

Conclusion

This report provides the Audit and Risk Committee with an update on the Risk Management project.

Katina Conomos
Strategic Planner

Decision Report

To:	Audit and Risk Committee
From:	Strategic Planner
Date:	13 October 2015
File reference:	Document: 1412432
Meeting date:	20 October 2015
Subject:	**Audit and Risk Committee Work Programme**

Recommendation:

THAT the report be received, and

THAT the Committee amend / make comment to the work programme as it deems necessary.

Purpose

This is a standing item on the Committee's agenda and the Committee is welcome to make comment to the programme if required.

Draft Work Programme & Terms of Reference

The draft work programme is included as **Appendix A.**

The Audit and Risk Committee Terms of Reference are attached as **Appendix B.**

Katina Conomos
Strategic Planner

Appendix A - Audit and Risk Committee – Proposed Work Programme

NB: the Committee is delegated to hear and decide upon appeals made on matters relating to Council's Rates Remission Policies. These would be brought forward to the Committee as required.

Meeting date	Agenda items
20 October 2015	• Draft 2014/2015 Annual Report • Audit NZ director to attend the meeting and verbally update the committee regarding the Annual Report findings. • Internal Auditors attend to meet the Committee. • Quarterly report for period Jul - Sep 2015 • Treasury report • Internal Debt report • Presentation regarding interest rate swaps • Risk management report • Rates information. • Progress report regarding previous Audit Management Report findings • Progress report regarding rating sales
9 December 2015 (following Operations Committee)	• Internal Audit report regarding procurement • Treasury report • Presentation regarding depreciation • Risk management framework and risk register. • Progress report regarding previous Audit Management Report findings • Progress report regarding rating sales • Report regarding policies/guidance for rates in arrears

Appendix B - Audit and Risk Committee – Terms of Reference

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Audit and Risk Committee – Terms of Reference
Adopted – 26 November 2014

Membership:	Mayor, Deputy Mayor (Deputy Chairperson), three Councillors and an Independent Member (Chairperson), to be appointed by the Council
Meeting Frequency:	Every 2 months and as required
Quorum:	As set by Standing Orders
Purpose:	The purpose of the Audit and Risk Committee is to: • Monitor the Council's external and independent internal audit processes. • Recommend to Council an appropriate risk management system and monitor the effectiveness of that strategy. • Ensure the independence and effectiveness of Council's internal audit processes. • Monitor existing corporate policies and recommend new corporate policies to prohibit unethical, questionable or illegal activities. • Provide a communication link between management, internal auditors/external auditors and Council. • Support measures to improve internal controls.
Responsibilities:	The Council delegates to the Audit and Risk Committee the following responsibilities: • To engage with Council's external auditors regarding the external audit work programme and agree the terms and arrangements of the external audit. • To recommend to Council the terms and arrangements for the external audit programme. • To review the effectiveness of the annual audit and 10 year plan audit. • To monitor the management teams response to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented. • Internal control. • To monitor existing corporate policies and recommend new corporate policies to prohibit unethical, questionable or illegal activities. This includes a reviewing/monitoring role of the documentation of all policies and procedures. • To review Council's insurance policies on an annual basis. • To monitor the implementation of the requirements of the Health and Safety Reform Bill. • To monitor the Council's major risks (via a risk register) on no less than a bi-annual basis. • To work in conjunction with the CE in order to be satisfied with the existence and quality of cost-effective internal control and risk management systems, the proper application of processes, and agree the scope of the annual independent internal audit work programme. • To monitor the delivery of the independent internal audit work programme. • To review the annual independent internal audit plans and assess

Audit and Risk Committee – Terms of Reference
Adopted – 26 November 2014

	whether resources available to the internal audit are adequate to implement the plans. • To assess whether all significant recommendations of the independent internal audit have been properly implemented by management. Any reservations the independent internal auditor may have about control risk, accounting and disclosure practices should be discussed by the committee. • To review the effectiveness of the risk management policies and processes. • To review the effectiveness of the control environment established by management including computerised information systems controls and security, including reviewing/monitoring the documentation of all policies and procedures. • To review the process of the development of the financial strategy and related financial policies as required by the long-term plan. • To monitor Council's treasury activities to ensure that it remains within policy limits. Where there are good reasons to exceed policy, that this be recommended to Council. • To engage with independent internal auditor and external auditor on any specific one-off audit assignments.
Delegations:	The Council delegates to the Audit and Risk Committee the following powers and duties: • The Audit Committee shall have delegated authority to approve the appointment of the independent internal auditor risk management and internal audit programmes audit engagement letters and letters of undertaking for audit functions additional services provided by the external auditor. • The Audit Committee can conduct and monitor special investigations in accordance with Council policy, including engaging expert assistance, legal advisors or external auditors, and, where appropriate, recommend action(s) to Council. • The Audit Committee can recommend to Council: o Adoption or non-adoption of completed financial and non-financial performance statements. o Governance policies associated with Council's financial, accounting, risk management, compliance and ethics programmes, and internal control functions. o Accounting treatments, changes in generally accepted accounting practice. o New accounting and reporting requirements. • The Audit Committee may not delegate any of its responsibilities, duties or powers.