



Hastings District Council

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OPEN

A G E N D A

RISK AND AUDIT SUBCOMMITTEE MEETING

Meeting Date: **Monday, 18 February 2019**

Time: **10.00am**

Venue: **Landmarks Room
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings**

Subcommittee Members	Chair: Mr J Nichols <i>Ex Officio: Mayor Hazlehurst</i> Deputy Mayor Kerr (Deputy Chair) Councillors Nixon and Travers <i>(Quorum=3)</i>
Officer Responsible	Chief Financial Officer, Bruce Allan
Committee Secretary	Christine Hilton (Ext 5633)

Risk and Audit Subcommittee – Terms of Reference

A subcommittee of the Finance and Risk Committee

Fields of Activity

The Risk and Audit Subcommittee is responsible for assisting Council in its general overview of financial management, risk management and internal control systems that provide:

- Effective management of potential risks, opportunities and adverse effects; and
- Reasonable assurance as to the integrity and reliability of the financial reporting of Council; and
- Monitoring of the Council's requirements under the Treasury Policy

Membership (4 Members)

Chairman appointed by the Council

The Mayor

Deputy Mayor

2 Councillors

An independent member appointed by the Council.

Quorum – 3 members

DELEGATED POWERS

Authority to consider and make recommendations on all matters detailed in the Fields of Activity and such other matters referred to it by the Council or the Finance and Risk Committee

The subcommittee reports to the Finance and Risk Committee.

HASTINGS DISTRICT COUNCIL
RISK AND AUDIT SUBCOMMITTEE MEETING
MONDAY, 18 FEBRUARY 2019

VENUE: Landmarks Room
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings

TIME: 10.00am

A G E N D A

1. Apologies

At the close of the agenda no apologies had been received.

Leave of Absence had previously been granted to Councillor Kerr.

2. Conflict of Interest

Members need to be vigilant to stand aside from decision-making when a conflict arises between their role as a Member of the Council and any private or other external interest they might have. This note is provided as a reminder to Members to scan the agenda and assess their own private interests and identify where they may have a pecuniary or other conflict of interest, or where there may be perceptions of conflict of interest.

If a Member feels they do have a conflict of interest, they should publicly declare that at the start of the relevant item of business and withdraw from participating in the meeting. If a Member thinks they may have a conflict of interest, they can seek advice from the General Counsel or the Democratic Support Manager (preferably before the meeting).

It is noted that while Members can seek advice and discuss these matters, the final decision as to whether a conflict exists rests with the member.

3. Confirmation of Minutes

Minutes of the Risk and Audit Subcommittee Meeting held Monday 5 November 2018.
(Previously circulated)

4. 2019/20 Budget update

5.	Procurement and Contract Management Project update	9
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REPORT TO: RISK AND AUDIT SUBCOMMITTEE

MEETING DATE: MONDAY 18 FEBRUARY 2019

FROM: CHIEF FINANCIAL OFFICER
BRUCE ALLAN
STRATEGY MANAGER
LEX VERHOEVEN

SUBJECT: 2019/20 BUDGET UPDATE

1.0 SUMMARY

- 1.1 The purpose of this report is to inform the Subcommittee about the budget process undertaken for the 2019/20 Annual Plan, the challenges that this budget poses and the risks that the organisation faces through the key decisions that it has to make.
- 1.2 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.3 The objective of this decision relates to numerous service delivery, decision making, financial management and consultative provisions within the Local Government Act 2002.
- 1.4 This report concludes by recommending that the report be received.

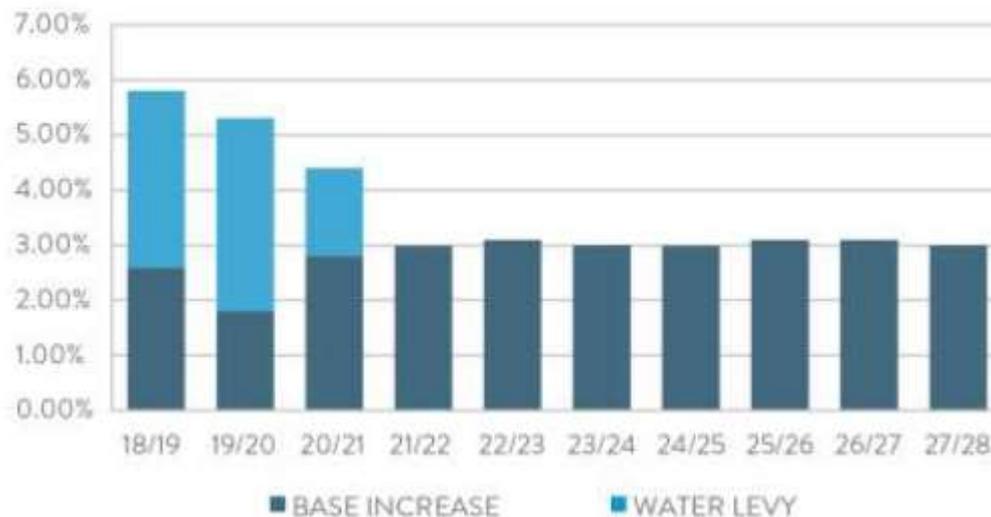
2.0 BACKGROUND

- 2.1 The 2019/20 Annual Plan budget is fundamentally year 2 of the 2018-28 Long Term Plan which was adopted in June 2018 with adjustments made based on changing circumstances and priorities.

3.0 CURRENT SITUATION

- 3.1 The 2019/20 Annual Plan has been prepared on the backdrop of the implementation of the water change programme and the \$47m investment in water supply enhancements and water treatment facilities. The 2018-28 Long Term Plan signalled larger rate increases in the first three years of the plan, largely driven by the infrastructure investment, and enhanced operating environment to deliver safe drinking water.
- 3.2 The graph below depicts the forecast rate increases over the life of the plan, with the additional water levy in the first three years.

Annual Rating Revenue Movement (including additional water levy)



Budget Process

3.3 Given the constrained fiscal environment detailed above, budget managers were given instructions for the preparation of the 2019/20 Annual Plan to deliver services within the Year Two funding envelope and to highlight any changes in context for consideration by the Budget Review Board (made up by the Chief Financial Officer and other senior managers). These instructions included:

- The removal of any inflation adjustment (the LTP contains mandatory inflation indices on budgets from Year 2) for expenses except for where contractual arrangements stipulated CPI type escalation requirements.
- Inflation adjustments were retained for all income budgets
- Year 2 of the 2018-28 LTP was to be the baseline for their 2019/20 budgets with changes only included where Chief Executive approval had been attained for new positions or a Council direction given for increased expenditure.
- Budget Managers were required to enter a budget bid for any new expenditure that had not been previously signalled in the Long Term Plan.

Outcome of Budget Process

3.4 The Budget Review Board met with all Group managers and senior staff to work through issues raised, with no significant new risks identified. Some minor reworking of the capital programme was required in the infrastructure area to advance some projects where further investigation had confirmed the need to commence these.

3.5 Some changes in context within operational budgets have had to be responded to and these can be summarised as follows:

- **Personnel** - Council's staffing compliment has been adjusted in recent years to reflect various Council decisions relating to service delivery. This year sees some additional capacity to drive initiatives within the adopted Waste Minimisation and Management Plan, succession planning in the building inspection function, an elevated focus on risk management, capacity to drive development projects, a parks contract position identified through the parks review and provision to address strategic water considerations coming from the TANK process.
 - **Water Supply Management** – The Committee will be aware that the approach to water supply management has changed dramatically, and Council has received regular updates on this programme of work. This comprehensive programme is fundamentally in line with that contained in the LTP with some further refinements to some operating costs.
 - **Kerbside Recycling** – some escalation in costs is having to be managed in the solid waste area, with the impact of changes in how plastics are managed globally being the key driver.
 - **Insurance** – escalations in material damage insurance, over that forecast in the LTP, have been provided for within the budget.
 - **Information Technology** – Further to a review undertaken (in conjunction with the development of Council's Information Technology Strategy) which recommended a small step up in investment in some areas, some additional licensing and software/hardware maintenance items have been budgeted reflecting Council's focus on service delivery to our community and the IT solutions assisting to deliver this.
- 3.6 The additional cost pressures outlined above have been largely accommodated through finding efficiencies, through rating base growth and by resetting some of the targeted rates which fund these activities. At the time of preparing this report the overall Annual Plan rate increase has been set at 5.6% compared to 5.3% forecast in the LTP.
- 3.7 **Debt Profile** - The forecast debt position as at 30 June 2019 is circa \$122 million depending on the timing of some projects, compared with the LTP forecast of \$125m. This shows that the substantive LTP capital development programme is on track, however this has allowed little headroom in terms of borrowing savings being able to be applied within the Council's budget. Note that the LTP assumed that there would be a reasonably consistent level of carry forwards for capital projects.

Compliance with Council's Financial Strategy

- 3.8 A key requirement of an Annual Plan is to report on compliance against Council's Financial Strategy contained within the Long Term Plan. The draft Annual Plan will outline Council compliance against the key fiscal parameters, all of which are well within policy limits.

- 3.9 A key parameter is the annual rates increase which is defined within the Financial Strategy as (LGCI + 4.0%), which translates to 6.3% for the 2019/20 financial year. The proposed Annual Plan rates increase is within this level, and provides some modest headroom for Council deliberation if required.
- 3.10 A further key parameter is the Balanced Budget Benchmark, which is a measure that annual operating revenue is set at a level to fund annual operating expenses. The Council budget complies with this fiscal measure in 2019/20.

4.0 RECOMMENDATIONS AND REASONS

- A) That the report of the Chief Financial Officer titled “2019/20 Budget update” dated 18/02/2019 be received.**

Attachments:

There are no attachments for this report.

REPORT TO: RISK AND AUDIT SUBCOMMITTEE

MEETING DATE: MONDAY 18 FEBRUARY 2019

**FROM: CHIEF FINANCIAL OFFICER
BRUCE ALLAN
PROCUREMENT MANAGER
SHARON O'TOOLE**

**SUBJECT: PROCUREMENT AND CONTRACT MANAGEMENT
PROJECT UPDATE**

1.0 SUMMARY

- 1.1 The purpose of this report is to inform the Subcommittee about the procurement and contract management project currently underway aimed at improving the consistency with which procurement is delivered across the organisation, including how contracts are managed.
- 1.2 This issue arises from a need identified by management that procurement including contract management can be delivered more consistently and strategically across the organisation. This has been reinforced by the recent Internal Audit undertaken by Crowe Horwath on Contract Management.
- 1.3 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.4 This report concludes by recommending that the report be received.

2.0 BACKGROUND

2.1 Crowe Horwath Contract Management Audit

In October 2018 Council engaged Crowe Horwath to undertake an internal audit of Council's contract management activities. The Crowe Horwath report separated findings into four sections:

- Policies and Procedures;
- Roles and Responsibilities;
- Contract Risk Management; and
- Contract Management Performance

- 2.2 A key part of the recommendations identified were a lack of council wide contract management policies, procedures, templates and manuals. While these exist in places, they had been developed for particular areas of Council or by specific staff to meet their own needs.

- 2.3 This review highlighted for Council that while work has been done to improve the robustness of council's contract management, it has often been done at a group or team level and not with the wider organisations needs in consideration. There is significant opportunity to improve these practices.
- 2.4 There were 14 recommendations made with the majority of those recommendations assessed as having moderate risk to the organisation. The full report was presented to the November 5 2018 Risk & Audit Subcommittee meeting,

Area Audited	Findings summary		
	High	Medium	Low
Policies and Procedures	-	2	-
Roles and Responsibilities	-	3	1
Contract Risk Management	1	1	-
Contract Performance	1	4	1
TOTAL	2	10	2

The two findings rated "High" were the following:

- 1) Contracts not assess for risk – while there are some risk assessment practices, these are not consistently applied.
- 2) Lack of reporting requirements – this is particularly relevant for reporting at a governance level and review of governance reporting is being considered.

Officers made a commitment to the Subcommittee in November 2018 that a plan to address the recommendations made in the Crowe Horwath report would be reported to the Subcommittee in February 2019.

3.0 CURRENT SITUATION

- 3.1 A review of the procurement activity highlighted an opportunity to make improvements to current documentation procedures and systems to meet current best practice. The review also highlighted that there were pockets of procurement improvement projects underway that would benefit from some centralised oversight to ensure that the various initiatives remain aligned. To address both issues, a programme of work has been established to create a Council Procurement and Contract Management Framework. The initial work streams for this programme of work include:
- Procurement policy, strategy(s) & plans
 - Templates Procedures & Guides
 - Training - Procurement & Contract Management
 - Communications (Staff & Supplier)
- 3.2 This programme will encompass the recommendations of the internal audit conducted on Contract Management. Furthermore there is a Procure-to-Pay (P2P) project in progress which will automate the financial controls and approval processes related with the transactional payments for procurement and contract payments. The new P2P solution was due to be implemented

prior to July 2019 however has been delayed as other related Technology One modules require updating to ensure there is compatibility across Council's ERP system.

3.3 The project objective is:

“To produce a procurement framework that covers everything HDC purchases and includes monitoring and delivery of benefits”



- 3.4 The project has taken an initial six month planning horizon and is scoping out a detailed plan for the short term (approx. six months) objectives and activities for the four workstreams highlighted. An outline plan is being drafted for the longer term activities. An example of the short term planning is the training workstream which identified priority areas of training that can be addressed quickly whilst at the same time creating a capability assessment of skills and a training programme that can be tailored and deployed in the longer term.
- 3.5 The overall goal of this project is to lift the awareness of staff across the organisation of what is good procurement and contract management. In doing so the capability of the organisation will be lifted and the culture of the organisation will be improved.
- 3.6 Officers are also very aware of the need to ensure that current procurement and contract management is managed well and continues to achieve positive outcomes while this work is being completed. The Communications workstream was been developed to ensure staff are aware of their responsibilities and the tools and support that is available to them as they undertake business as usual.
- 3.7 This initial scoping work for the workstreams has been completed and the intent is to work through this in more detail in February with senior

management to ensure that it represents Council's current priorities in terms of risk and opportunity.

- 3.8 The initial scoping highlighted other initiatives which have a direct dependency on this project. One of which is a HBLASS project to establish a Procurement Centre of Excellence (CoE). The CoE will include:
- Commonality across policies
 - Collaboration on procurement strategies
 - Consistency in templates used
 - Consistency in processes and procedures
 - Centre of advice and possible support in tendering HBLASS collaborative procurement initiatives (particularly corporate type arrangements).
- 3.9 The HBLASS Councils have advised that there is some HBLASS funding available for this project and there may be additional funding available from the respective Councils.
- 3.10 It was acknowledged internally that there is some overlap in the scope of the HBLASS project and the Procurement and Contract Management Framework. Therefore there has been some discussion on how we could utilise the HDC Procurement and Contract Management Framework project to help progress the HBLASS CoE project.
- 3.11 HBLASS are keen to assist HDC with funding on the proviso that they have some input into the end review of significant outputs and receive regular reports on project progress. The detail of this arrangement will be teased out once the detailed planning for the HDC project has been completed.

4.0 SIGNIFICANCE AND ENGAGEMENT

- 4.1 While Council's procurement as a whole and the development of the Procurement and Contract Management Framework is significant, when considered against Council's Significance and Engagement Policy the development of the framework is not considered significant and community engagement is not required. Engagement with the HBLASS Council's will however be essential if the HBLASS CoE project is to be successful.

5.0 RECOMMENDATIONS AND REASONS

- A) That the report of the Chief Financial Officer titled "Procurement and Contract Management Project update" dated 18/02/2019 be received.**

Attachments:

There are no attachments for this report.

REPORT TO: RISK AND AUDIT SUBCOMMITTEE

MEETING DATE: MONDAY 18 FEBRUARY 2019

**FROM: MANAGER STRATEGIC FINANCE
BRENT CHAMBERLAIN**

SUBJECT: TREASURY ACTIVITY AND FUNDING

1.0 SUMMARY

- 1.1 The purpose of this report is to update the Subcommittee on treasury activity and funding issues.
- 1.2 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost effective to households and businesses. Good quality infrastructure means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future requirements.
- 1.3 This report concludes by recommending that the report on treasury activity and funding is received.

2.0 BACKGROUND

- 2.1 The Hastings District Council has a Treasury Policy which forms part of the 2018-28 Long Term Plan and a Treasury Management Policy. Under these policy documents responsibility for monitoring treasury activity is delegated to the Risk and Audit Subcommittee.
- 2.2 Council is provided with independent treasury advice by Stuart Henderson of PricewaterhouseCoopers and receives weekly and monthly updates on market conditions.
- 2.3 Under the Treasury Policy, formal reporting to Council occurs quarterly and regular more in depth treasury reporting is provided for the Risk and Audit Subcommittee.

3.0 CURRENT SITUATION

- 3.1 Council's debt portfolio is managed within the macro limits set out in the Treasury Policy. It is recognised that from time to time Council may fall out of policy due to timing issues as debt moves closer to maturity and shifts from one time band to another. The treasury policy allows for officers to take the necessary steps to move Council's funding profile back within policy in the event that a timing issue causes a policy breach.
- 3.2 The following table sets out Council's overall compliance with Treasury Management Policy as at 31 January 2019:

Measure	Compliance	Actual	Min	Max
Liquidity (1)	✓	115%	110%	170%
Fixed Interest Debt	✓	56%	55%	95%
Funding Maturity profile:				
0 – 3 years	✓	39%	10%	50%
3 – 5 years	✓	24%	20%	60%
5 years +	✓	37%	10%	60%
Net Debt as % Equity	✓	6%	0%	20%
Net Debt as % Income	✓	93%	0%	150%
Net Interest as % Income	✓	3%	0%	15%
Net Interest as % Rates	✓	5%	0%	20%

(1) Liquidity Ratio = (Cash Reserves + Lines of Credit + Drawn Debt) / Drawn Debt

Council is currently compliant with Treasury Management Policy.

- 3.3 The current total core net external debt is \$104.2m as at 31 January 2019. This is supported by the Debt Status Report as at 31 January 2019 (**Attachment 1**). This report shows the gross debt at \$124.2m which includes the \$20m loan with a March 2019 maturity and its associated term deposit.
- 3.4 The additional \$9m of borrowing in December 2018 was required to fund the current capital spend program being undertaken. The terms of new debt were:

Bank	Amount	Start Date	Finish Date	Interest Rate
LGFA	\$4m	12- Dec-2018	15-Apr-2024	2.86% Fixed
LGFA	\$5m	12- Dec-2018	15-Apr-2028	BKBM + 0.7875%

The BKBM rate (or more commonly known as the 90 day Bank Bill rate) at 31st January 2019 was 1.93% making the current all in interest rate 2.7175% pa for the 2028 loan. This rate is reset daily, effectively meaning that this loan is a floating loan.

With the advice of Council's Treasury Advisors, officers have opted to use a fixed loan for the second tranche of borrowing. Historically Council has used interest rate swaps to achieve its fixing. By borrowing fixed directly from the LGFA the fixed rate is slightly cheaper than using interest rate swaps, but less flexible. Interest rate swaps don't have to match the value or term of the borrowing. That is you might only choose to fix \$3m of a \$4m loan, or might only choose to fix 4 years out of a 5 year loan. Given this loan only represents 4% of Council's total borrowing the low interest rates available outweighed the inflexibility.

- 3.5 Over the Christmas/New Year period there has been a series of economic bad news stories and heightened political uncertainty such as a slowdown in economic growth in Europe, China and New Zealand, Brexit agreements not being ratified, and US Government shutdowns. All this has the financial markets concerned, which has led to a fall in anticipated interest rates. The wholesale ten year swap rate has fallen to a 12 month low of 2.61% (see the graph below).

Daily swap rates

Select chart tabs »

10 years %

Swap rate

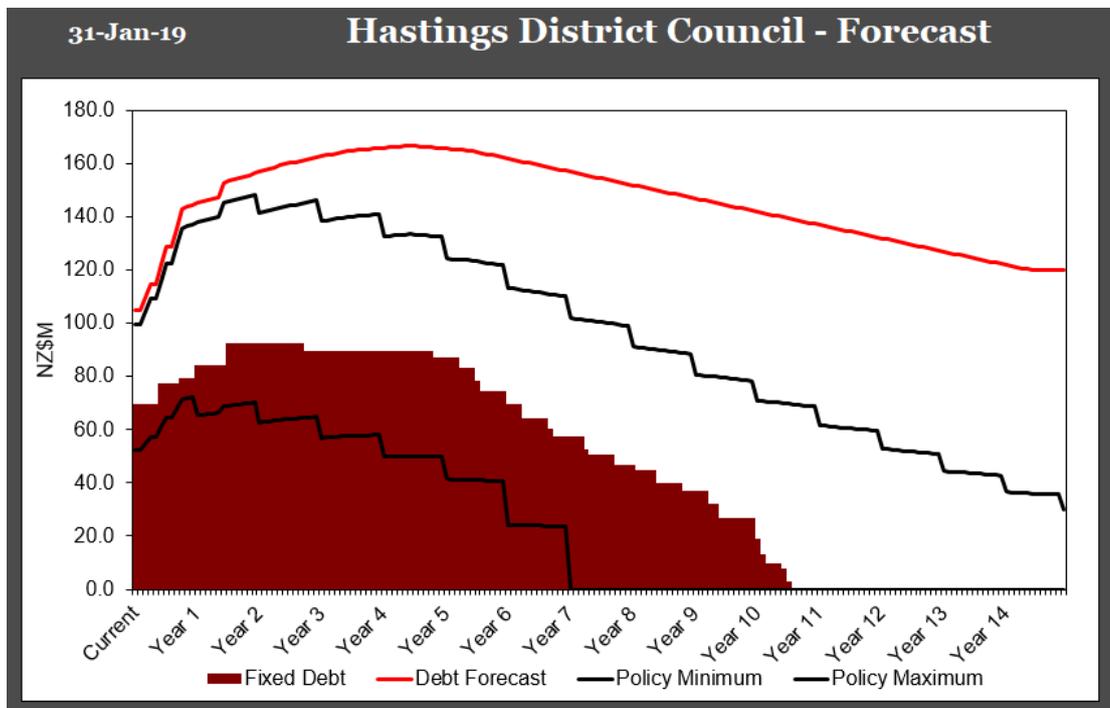
Opening daily rate



- 3.6 Officers have responded to this situation and have taken a new forward starting interest rate swap commencing July 2020:

Bank	Amount	Start Date	End Date	Interest Rate
Kiwibank	\$8m	15/07/2020	15/01/2029	2.745%

- 3.7 The following graph shows Council's fixed debt is within the policy minimum and policy maximum set out in Council's Treasury Management Policy. This graph also incorporates Council's forecast debt over the long term (based on the LTP adjusted to reflect the current level of activity). The projected external debt requirement for the next 12 months is forecast to increase, which coupled with the maturity of some existing LGFA debt, gives the Council the opportunity to take advantage of new longer term debt at historically low levels of interest. This is through replacing older "non-rated" debt with newer "rated" debt, and replacing older higher interest rate swaps with newer lower interest rate swaps.



3.8 The interest rate swap cover is near the Council's lower limit for the next 12 months (which aligns with the Reserves Bank's policy of keeping the OCR rate on hold till 2020), and then moves to policy midpoint as the levels of uncertainty increases further out into the future.

3.9 In fact ANZ is now forecasting interest rate cuts. On the 20th December they released a research paper that stated:

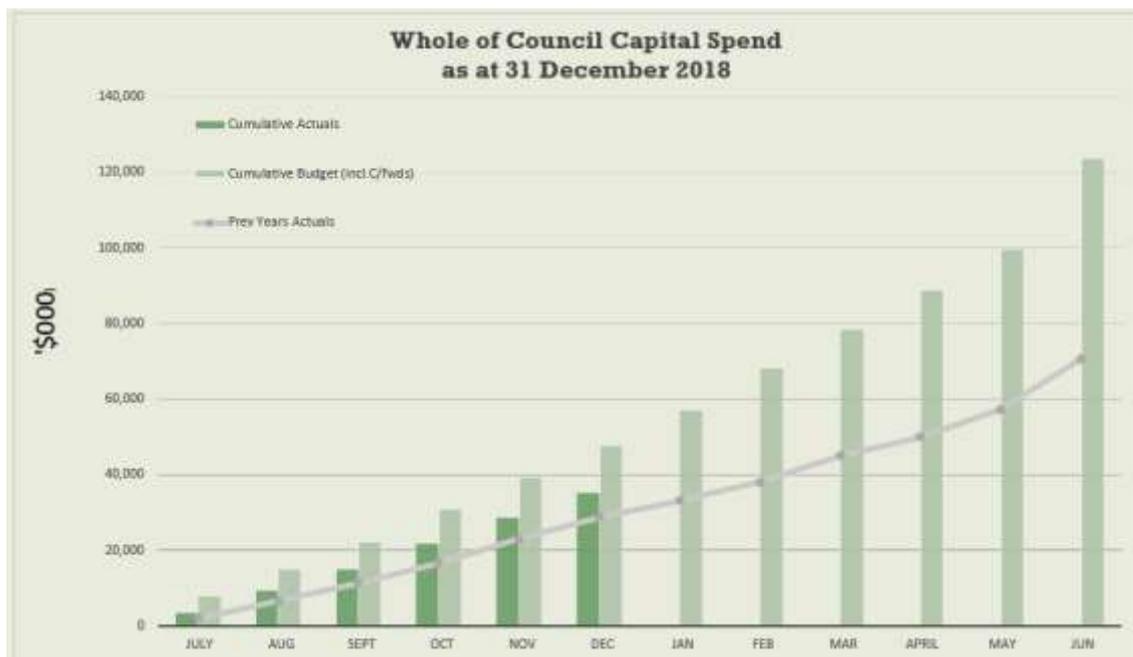
"We are now forecasting a 25bp cut in the Official Cash Rate in November 2019, with a further 50bps of cuts to come over 2020, taking the OCR to 1.0%.

There are multiple drivers of this changed call but in short they come down to a weaker outlook for medium-term inflation, risks around global growth and liquidity, and the proposed capital changes for banks. Our view of the New Zealand growth outlook has not materially changed."

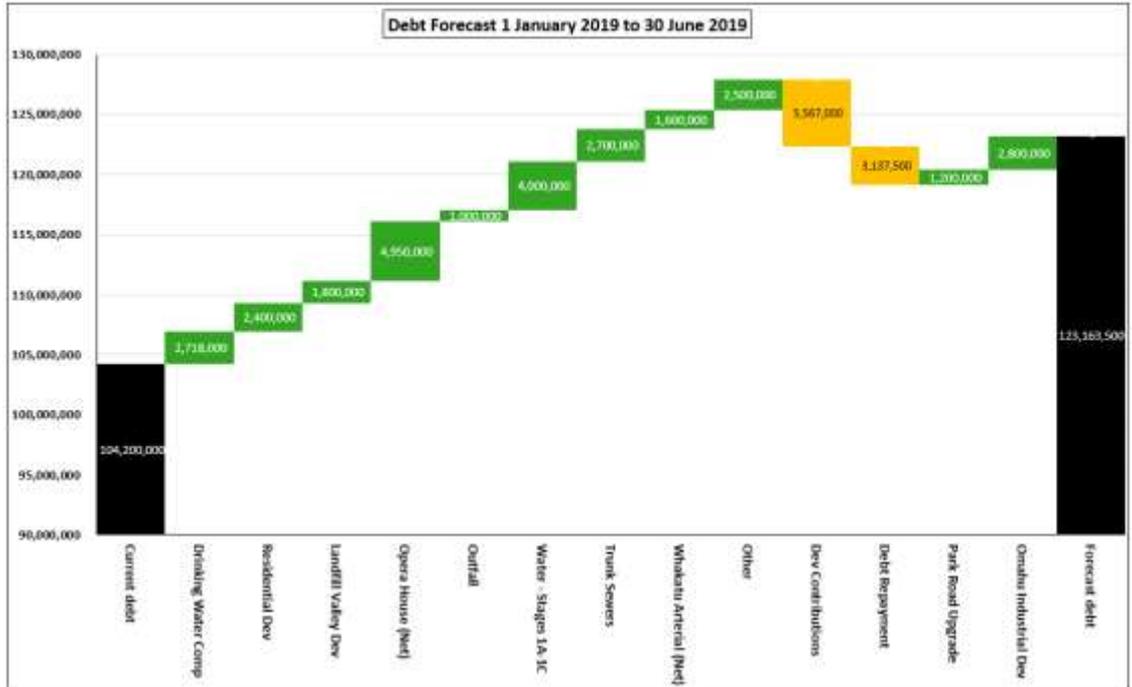
3.10 PWC's view of the world isn't as pessimistic, in their 29th January opinion piece they are saying:

"The weaker Q3 NZ real GDP growth data confirms neutral monetary policy outlook for 2019. We believe an RBNZ interest rate increase in 2019 is unlikely, and maintain a neutral bias for short term NZ swap rates over the first half of 2019. However, given the stronger than expected CPI release view an interest rate cut during 2019 as unlikely. Presently, financial markets are pricing roughly a 50% chance of an interest rate cut in Q4 2019, presenting an opportunity for short term swap rates to increase as the negativity is unwound. Domestic long term swap rates appear to have re-converged with global, particularly US, long term interest rate markets. We believe financial markets have underpriced the likelihood of further US monetary policy tightening, and therefore forecast long term US Treasury yields to gradually increase over the next six months. Accordingly, we forecast NZ long term swap rates to gradually increase alongside US long term Treasury yields."

- 3.11 The Council has a number of older historical interest rate swaps (many of which expire in the next 2-3 years). The average rate of the interest rate swaps that are currently live is 4.53% pa and is spread over \$69.5m interest rate cover. The Council also has a further \$93.5m of forward starting swaps which have an average interest rate of 3.71% pa.
- 3.12 Officers and PWC advisors are currently comfortable with the level of interest rate cover in place. We will continue to pick off dips in the wholesale interest rate markets, while benefiting from the low floating rates available at the moment.
- 3.13 The graph below shows the budgeted capital spend program for the 2018-19 year and what has been delivered to date:

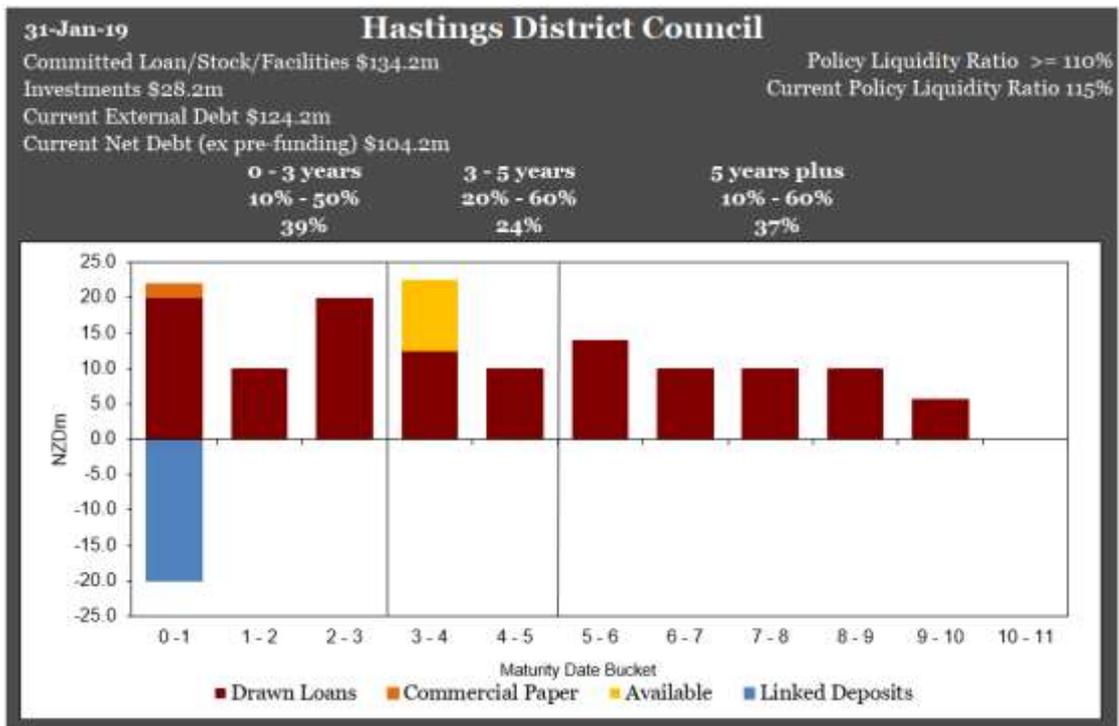


- 3.14 The chart below shows the key drivers of the expected movement in borrowings over the six months. This is based on projects that have started already, or are highly likely to commence before 30 June 2019 and indicates a forecast debt position of \$123m.



The chart identifies the major projects underway, however the smaller debt funded renewal projects have been aggregated into the “Other” heading.

3.15 Following the recent borrowing of \$9m in December the Council debt maturity has the following profile:



3.16 This shows a liquidity ratio of 115%. Now that Council’s net debt is in excess of \$100m, the \$10m line of credit in itself is no longer sufficient to meet the desired liquidity ratio of 110%. Funds held on call are currently supporting the liquidity benchmark. Officers are looking to add further lines of credit to bolster its liquidity position going forward. All debt maturity ratios are maintained within policy.

3.17 Any new debt will be considered along with Council's working capital requirements and liquidity ratios.

4.0 MARKET COMMENTARY

4.1 The Reserve Bank of New Zealand (RBNZ) has held the Official Cash Rate at 1.75% on 8 November 2018. The RBNZ stated;

"The Official Cash Rate (OCR) remains at 1.75 percent.

There are both upside and downside risks to our growth and inflation projections. As always, the timing and direction of any future OCR move remains data dependent.

We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation."

5.0 FUNDING FACILITIES

5.1 **Attachment 2** shows details of Council's current debt facilities together with details of expiry dates and margins.

5.2 Council's liquidity ratio of 115% at 31 January 2019 is within policy (refer to 3.16 for further commentary).

6.0 RECOMMENDATIONS

That the report of the Manager Strategic Finance titled Treasury Activity and Funding dated 18/02/2019 be received.

Attachments:

- | | | |
|---|---|------------------|
| 1 | Public Debt Status as at 31 December 2018 | FIN-15-03-19-184 |
| 2 | Funding & Interest Risk January 2019 | FIN-15-03-19-185 |

**Status Report on Council Debt
As at 31 December 2018**

1. Loan Funding Requirement 2018/19

	<u>Carry Forwards</u>	<u>Budget Annual Plan</u>	<u>Actual to 31-Dec-2018</u>
		₤	₤
Proposed New Loans		47,013,964	21,710,955
Less Debt repayment		-6,294,606	-4,488,752
Total Required	0	40,719,358	17,222,203

2. External Borrowing (Net Debt)

Bank Facilities	0
Term Funding	124,240,565
Total External Borrowing at 31 December 2018	124,240,565

3. Summary of Internal Borrowings

Balance 1 July 2018	42,838,798
Plus: Requirement to date	17,222,203
Less: Movement in bank facilities	-46,500,000
Internal Borrowings at 31 December 2018	13,561,001

Funding of internal borrowings

Total Internal Borrowings	13,561,001
Funded from Special Fund Reserves (interest bearing)	11,343,300
Funded from Special Fund Reserves (non interest)	15,680,369
General Funds used for internal borrowings	-13,462,668

4. Gross Council Debt allocated to activities

Actual External Debt on Issue	124,240,565
Plus: Internal Borrowings	13,561,001
Gross Debt at 31 December 2018	137,801,566

Interest Rate Profile

Year of Maturity	Profile at 1/07/2018	Percentage of Total	Profile at 30/06/2019	Percentage of Total	Ave Interest Rate
2018/19	10,000,000	17.47%	0	0.00%	3.10%
2019/20	15,000,000	26.21%	20,000,000	25.56%	4.37%
2020/21	12,000,000	20.96%	15,000,000	19.17%	5.27%
2021/22	12,500,000	21.84%	12,500,000	15.98%	4.97%
2022/23	0	0.00%	0	0.00%	0.00%
2023/24	2,000,000	3.49%	6,000,000	7.67%	4.91%
2024/25	5,000,000	8.74%	10,000,000	12.78%	3.99%
2025/26	0	0.00%	0	0.00%	0.00%
2026/27	0	0.00%	0	0.00%	0.00%
2027/28	740,565	1.29%	8,740,565	11.17%	3.08%
Beyond 2029	0	0.00%	6,000,000	7.67%	4.03%
Totals	57,240,565	100%	78,240,565	0	4.32%

Average Term (years)

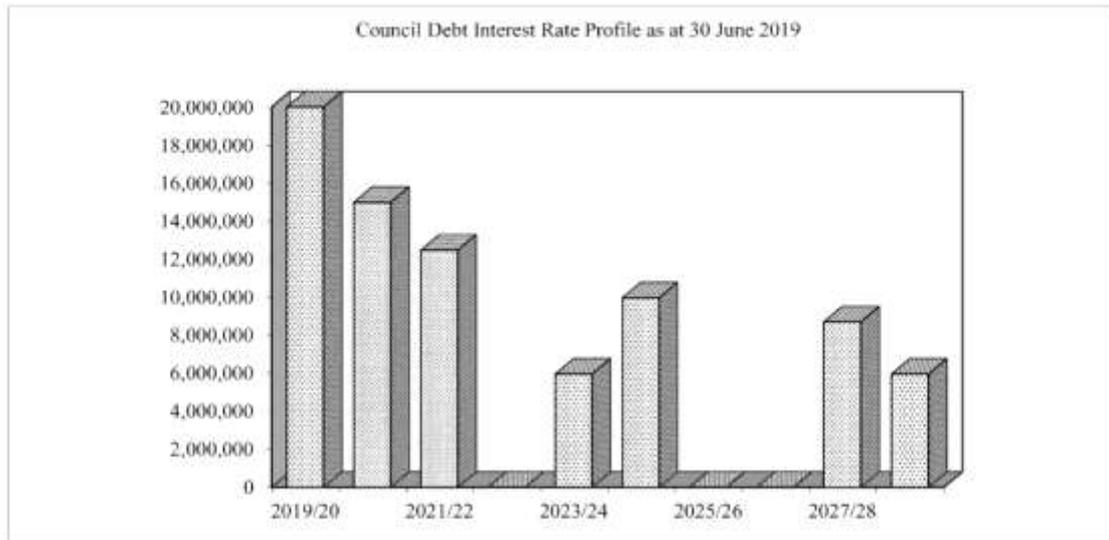
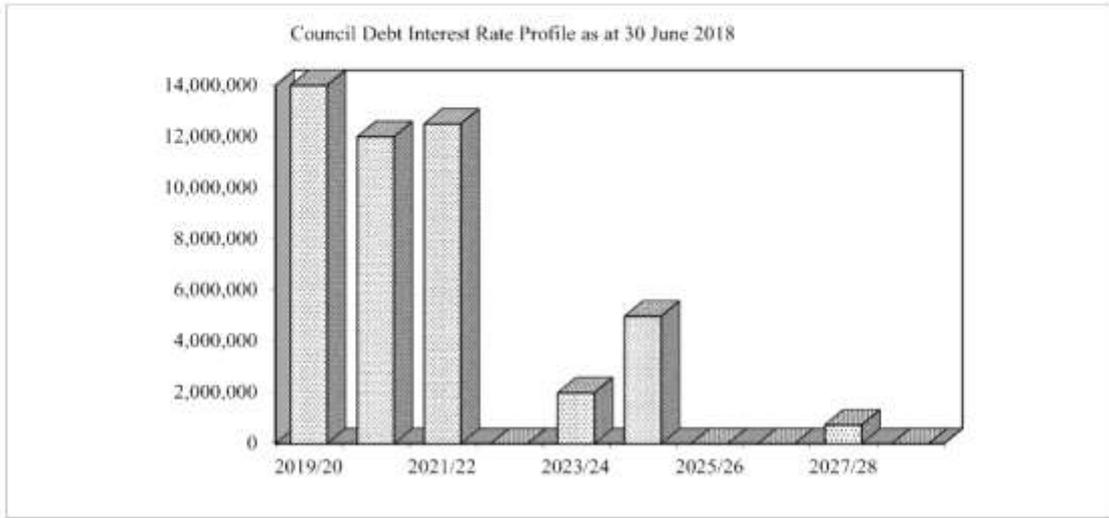
5.04

Average Interest Rate (excl margins)

4.3%

Swaps	0 **	0	**
Bank Facility		0	
External Debt	57,240,565	124,240,565	
Total	57,240,565	124,240,565	

** Represents swaps held where no external debt held to offset.
(excludes Swaptions)



Funding and Interest Rate Risk 31 January 2019

Type	Banking Institution	Facility Amount (\$M)	Facility Maturity	Margin %	Commitment Fee %	Total %
Floating Rate Notes	LGFA	15.00	15-Mar-2019	1.28%	0.00%	1.28%
	LGFA	5.00	15-Mar-2019	0.56%	0.00%	0.56%
	LGFA	10.00	15-Apr-2020	0.19%	0.00%	0.19%
	LGFA	15.00	17-May-2021	0.84%	0.00%	0.84%
	LGFA	5.00	15-May-2021	0.75%	0.00%	0.75%
	LGFA	5.00	14-Apr-2022	0.38%	0.00%	0.38%
	LGFA	7.50	15-Apr-2022	0.33%	0.00%	0.33%
	LGFA	5.00	15-Apr-2023	0.83%	0.00%	0.83%
	LGFA	5.00	15-Apr-2023	0.80%	0.00%	0.80%
	LGFA	10.00	15-Apr-2024	0.58%	0.00%	0.58%
	LGFA	4.00	15-Apr-2024	0.00%	0.00%	0.00%
	LGFA	5.00	15-Apr-2025	0.87%	0.00%	0.87%
	LGFA	5.00	15-Apr-2025	0.61%	0.00%	0.61%
	LGFA	5.00	15-Apr-2026	0.65%	0.00%	0.65%
	LGFA	5.00	15-Apr-2026	0.60%	0.00%	0.60%
	LGFA	5.00	15-Apr-2027	0.65%	0.00%	0.65%
LGFA	5.00	15-Apr-2027	0.67%	0.00%	0.67%	
LGFA	5.00	15-Apr-2028	0.79%	0.00%	0.79%	
Commerical Paper	LGFA	2.00	17-Jun-2019	0.140%	0.00%	0.14%
Debt Facilities	WBC	10.00	30-Jun-2022	1.25%	0.27%	1.52%
Local Government	Housing NZ	0.74	30-Jun-2028	0.00%	0.00%	0.00%

REPORT TO: RISK AND AUDIT SUBCOMMITTEE

MEETING DATE: MONDAY 18 FEBRUARY 2019

FROM: RISK AND CORPORATE SERVICES MANAGER
REGAN SMITH
RISK ASSURANCE ADVISOR
DEAN FERGUSON
DISTRICT CUSTOMER SERVICES MANAGER
GREG BRITTIN

SUBJECT: 10 STRATEGIC RESOURCE CONSENTS FOR COUNCIL

1.0 SUMMARY

- 1.1 The purpose of this report is to inform the Subcommittee of 10 Resource Consents relating to key services delivered by Council.
- 1.2 This issue arises from a request made at the Risk and Audit Subcommittee meeting on 5 November 2018 to report on Council's key resource consents.

The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.

- 1.3 This report concludes by recommending the report be received.

2.0 BACKGROUND

- 2.1 A Resource Consent (RC) is the authorisation given to certain activities or uses that might affect the environment that are not allowed 'as of right' in a district or regional plan. RC's aim to ensure the environmental effects of an activity or service meet acceptable environmental standards. Failure to comply with the conditions imposed on a RC can result in fines or prosecution under the Resource Management Act 1991
- 2.2 RC's can be issued for a one off activity or purpose, or to cover the on-going operation of a service or facility. Consents that apply to an on-going service usually have monitoring and reporting criteria that must be met to confirm continued compliance is being achieved.

3.0 CURRENT SITUATION

- 3.1 Council currently has 93 active RC many of which require on-going monitoring. These consents cover a range of council activities for example; water take and supply, waste water discharge, storm water discharge, detention dams for flood protection, bridge cleaning discharges and Cremator emissions.

- 3.2 95% of RC issued to HDC related to services delivered by the Asset Management Group, with the balance being split between Community facilities and Planning and Regulatory Group.
- 3.3 A summary of 10 RC that have strategic impact for Council are listed in **Appendix 1**. These consents have been chosen because they are essential to the delivery of a key Council service.
- 3.4 As can be seen from the attached list, while there have been some minor non-conformances, overall Council has a good level of compliance with these RCs.
- 3.5 In order to further increase confidence in RC compliance there is an internal project underway to broaden the use of Lutra's cloud hosted Infrastructure Data (ID) Consent Management Module (CMM), which is already in use by the Asset Management Water Services team. ID CMM provides tools to register consents and their conditions, and log evidence to prove on-going compliance. This enables near real time monitoring of RC status and simplifies reporting to the relevant consent authority.
- 3.6 The plan is to have all Council consents loaded in to ID CMM by the middle of 2019.
- 3.7 Once implemented the responsibility for maintaining and overseeing the use of the system will be allocated to a new position that has recently been established within the 3 Waters Team. Allocation of these responsibilities to this new role was considered appropriate considering that the majority of consents held by HDC relate to water management.

4.0 SIGNIFICANCE AND ENGAGEMENT

- 4.1 While RC management is a significant administrative practice, it is essentially an internal process and does not trigger Council's Significance and Engagement Policy, and therefore no consultation is required.

5.0 RECOMMENDATIONS AND REASONS

- A) **That the report of the Risk and Corporate Services Manager titled "10 Strategic Resource Consents for Council" dated 18/02/2019 be received.**

Attachments:

- 1 Policies, Procedures, Delgtns, Warrants & Manuals - PMD-03-81-19-170
Manuals - Risk Management - 10 Strategic HDC
Resource Consents January 2019 for Risk and
Audit18 February 2019

10 Strategic HDC Resource Consents as at January 2019

Consent Number	Property Address	Purpose	Expire Actual	Type Description	Consent Owner Assigned	HBRC Compliance Monitoring Results	Notes	Overall Assurance Rating
CD130214W	SWR - Outfall Pumping Station, 284 Richmond Road, East Clive	To discharge final combined wastewater (see Advice Note 1) into Hawke Bay at East Clive via the long offshore outfall	31-May-49	Discharge Permit	Process Engineer	Compliance obtained 15-Jan-18		
DP040122AA	329 Omarunui Road	To discharge the following contaminants into the air from Areas A & D of the Omarunui Landfill, odour and landfill gas derived from the decomposition of refuse, dust and products of controlled combustion of landfill gas	31-May-39	Discharge Permit	Solid Waste Engineer	Minor Non-Compliance 9-May-18	Letter evidencing compliance provided to HBRC on 19-Jun-18	
DP150289A	202 Orchard Road, Hastings	To discharge contaminants into the air from a natural gas fired cremator	31-May-36	Discharge Permit	Cemetery Manager	Minor Non-Compliance 1-Jun-18	Emission testing to be upgraded in Jan-19	
DP950103Lb	SWASTE - State Highway 50, Roy's Hill Closed Landfill	To discharge leachate derived from the decomposition of refuse within a closed landfill into water or into or onto land in circumstances where contaminants may enter water	31-May-37	Discharge Permit	Solid Waste Engineer	Compliant		
WP000084Ta	PWS - Waipatiki Road, Waipatiki	To take water from well no. 3516 (100 mm diameter) to provide a public water supply for Waipatiki	31-May-20	Water Permit	Drinking Water Manager	Minor Non-Compliance 25-Oct-17	Small spikes in Jan 17 testing - subsequently been resolved	
WP050192Ta	PWS - Ngaruroro Avenue, Whakatu	To take water from well no. 473 (150 mm diameter) to provide a public water supply to the Whakatu Township	31-May-25	Water Permit	Drinking Water Manager	Compliance obtained 6-Nov-17		
WP050194T	PWS - Napier Road, Havelock North	To take water from well no. 439 (200 mm diameter) to provide a public and industrial water supply	31-May-22	Water Permit	Drinking Water Manager	Compliance obtained 6-Nov-18		
WP110126T	PWS - State Highway 5, Eskdale	To take water from well no. 5033 (250 mm diameter) well no. 15707 (610 mm diameter) and well no. 4015 (200 mm diameter) to use for a municipal water supply (Esk-Whirinaki), and to take water for irrigation of a 7 hectares of viticulture	31-May-40	Water Permit	Drinking Water Manager	Compliance obtained 24-Oct-17		
WP110361T	PARK - Fantasyland / Splash Planet, Grove Road, Hastings	To take and use water from well no. 4219 (150 mm diameter) to provide water for recreational and ancillary uses in a fun park	31-May-23	Water Permit	Splash Planet Manager	Environment Grade - Compliant Technical Grade - Non-Compliant	Minor non-compliance around frequency of testing	
WP120036Tb	PWS - Portsmouth, Wilson & Lyndhurst Rds, & Eastbourne St, Hastings	To take water from 15 wells to provide a public water supply, well no's. 6152, 3253, 15589, 15590 & 15591 (150 mm diameters) well no's 766, 130, 897, 1765, 1302, 1171, 469, 16664 and 15588 (250 mm diameters) and well no. 16167 (300 mm diameter)	31-May-47	Water Permit	Drinking Water Manager	Environment Grade - Compliant Technical Grade - Non-Compliant	Exceeded for Wilson Road rate of take - to be assessed at next Compliance Monitoring date	

Ref: PMD-9-2-19-39

REPORT TO: RISK AND AUDIT SUBCOMMITTEE

MEETING DATE: MONDAY 18 FEBRUARY 2019

**FROM: MANAGER STRATEGIC FINANCE
BRENT CHAMBERLAIN**

SUBJECT: GENERAL UPDATE REPORT AND STATUS OF ACTIONS

1.0 SUMMARY

- 1.1 The purpose of this report is to update the Risk & Audit Subcommittee on various matters including actions raised at previous meetings.
- 1.2 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.3 This report concludes by recommending that the report titled “General Update Report and Status of Actions” from the Manager Strategic Finance be received.

2.0 BACKGROUND

- 2.1 The Risk & Audit Subcommittee members requested that officer’s report back at each meeting with progress that has been made on actions that have arisen from the Risk & Audit Subcommittee meetings. Attached as **Attachment 1** is the Risk & Audit Subcommittee Action Schedule as at 31 January 2019.

3.0 CURRENT SITUATION

Credit Rating

- 3.1 Standard & Poor’s visited on the 13 November 2018 to undertake their annual review of Council’s credit rating. The release of the formal credit rating is due early February, but Standard & Poor’s analysts have informally indicated they can’t see any reason for our existing rating (AA) to be changed.

Electronic Purchase Order Project (Procure to Pay (P2P))

- 3.2 The new P2P solution was due to be implemented prior to July 2019 however has been delayed as other related Technology One modules require updating to ensure there is compatibility across Council’s ERP system.

Transition of the Maintenance Group to Recreational Services Limited

- 3.3 The transition from the Maintenance Group to Recreational Services has gone well with Recreational Services commencing the contract delivery on 1 February 2019. Officers are continuing to actively monitor the transition process.

Health and Safety certification to ISO 45001 standard

- 3.4 Officers are progressing the procurement for professional services to identify the gap between Council's existing Health and Safety Standards and the newer ISO 45001 standard.

4.0 SIGNIFICANCE AND ENGAGEMENT

- 4.1 This report does not trigger Council's Significance and Engagement Policy and no consultation is required.

5.0 RECOMMENDATIONS AND REASONS

That the report of the Manager Strategic Finance titled "General Update Report and Status of Actions" dated 18/02/2019 be received.

Attachments:

1 Status of Actions 31 January 2019

FIN-09-01-19-167



**Hastings District Council
Risk and Audit Subcommittee
Status of Actions Sheet – 31 January 2019**

Item No.	Meeting Date	Action	Reporting Officer	Progress as at 31 January 2019
1	6/9/16	<u>Local Authority Protection Programme</u> <ul style="list-style-type: none"> Officers to keep a watching brief on the matter of the Local Government/Central Government split of LAPP premiums. 	CFO	Announcement by Treasury delayed No further announcements since change of Government
2	19/6/17	<u>Building Control Liability Issues</u> <ul style="list-style-type: none"> The Subcommittee would take a watching brief and Officers would report back regularly in order to update the Subcommittee. 	Building Control Manager	No further update available at this stage
3	28/11/17	<u>Treasury Management Advisory Service</u> <ul style="list-style-type: none"> Review the terms of the existing PWC treasury management advisory service contract 	MSF	Officers to report back at May-19 Meeting
4	01/05/18	<u>Asset Management Plan</u> <ul style="list-style-type: none"> Group Manager Assets Management to commission an independent review of 2018-2028 Management Plans 	GMAM	Complete
5	25/06/18	<u>Hastings Economic Update</u>	Bill Murdoch	Reported to Finance and Risk November 2018



		<ul style="list-style-type: none"> • Provide update/KPI's for how the Hastings Economy is doing against the rest of NZ 		
6	03/09/18	<u>Governance Risk</u> <ul style="list-style-type: none"> • Risk and Audit recommends to Council that a workshop on Governance Risk to be Held 	Risk & Corporate Services Manager	Complete
7	03/09/18	<u>Enterprise Risk Management Policy & Framework</u> <ul style="list-style-type: none"> • Risk and Audit recommends to Council that the Enterprise Risk Management Policy & Framework document be adopted 	Risk & Corporate Services Manager	Complete
8	15/11/18	<u>Performance of Contract Post Tender</u> <ul style="list-style-type: none"> • Need to develop a mechanism to monitor contract performance post implementation 	Chair/CFO	Chair to supply CFO an example of how this monitored in other industries
9	15/11/18	<u>Development Contributions</u> <ul style="list-style-type: none"> • Reporting of the collection of Development Contributions needs to be included with the quarterly major project update at Finance and Risk 	FC	To be included with next quarterly report
10	15/11/18	<u>Internal Audit</u> <ul style="list-style-type: none"> • A Internal Audit Program for 2019 to be tabled at the first Risk & Audit meeting of 2019 	FC	
11	15/11/18	<u>Funding of Depreciation</u> <ul style="list-style-type: none"> • A one page report to be tabled showing what depreciation was charged, budgeted for, and what asset replacement expenditure occurred for the 2017/18 year 	CFO	To be included in the May 2019 Agenda



12	15/11/18	<u>Consent Compliance</u> <ul style="list-style-type: none"> Once or twice a year a one page report to be tabled showing that Council is compliant with the consents it holds 	Risk & Corporate Services Manager	Report included on agenda
13	15/11/18	<u>Health and Safety certification to ISO 45001 standard</u> <ul style="list-style-type: none"> Keep the Risk and Audit Committee up to date on the progress to the new ISO 45001 standard 	Health & Safety Manager	Update included in general update