



AGENDA

Ordinary meeting of the

Audit, Risk and Finance Subcommittee

**Tuesday 10 March 2015
Commencing at 9.00am
Council Chamber
Civic House
110 Trafalgar Street, Nelson**

Membership: John Peters (Chairperson), Councillors Barker and McGurk, and John Murray

Guidelines for councillors attending the meeting, who are not members of the Committee, as set out in Standing Orders:

- All councillors, whether or not they are members of the Committee, may attend Committee meetings (SO 2.12.2)
- At the discretion of the Chair, councillors who are not Committee members may speak, or ask questions about a matter.
- Only Committee members may vote on any matter before the Committee (SO 3.14.1)
- It is good practice for both Committee members and non-Committee members to declare any interests in items on the agenda. They should withdraw from the table for discussion and voting on any of these items.

10 March 2015

A1322069

Page No.

Apologies**1. Confirmation of Order of Business****2. Interests**

- 2.1 Updates to the Interests Register
- 2.2 Identify any conflicts of interest in the agenda

3. Public Forum**4. Delegations and Terms of Reference****6**

Document number A1297307

This is the first meeting of the Audit, Risk and Finance Subcommittee. For your reference and record keeping purposes please find attached a copy of the delegations/terms of reference for this Subcommittee.

**5. Status Report – Audit, Risk and Finance
Subcommittee 10 March 2015****7**

Document number A1324298

Recommendation

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

6. Chairperson's Report

7. Corporate Report for the Period Ending 31 January 2015 8-26

Document number A1313350

Recommendation

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

Recommendation to Governance Committee and Council

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

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

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

8. Letter to the Council on the Audit for the Year Ending 30 June 2014 27-37

Document number A1304574

Recommendation

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

9. Procurement Policy and Debt Management Process 38-50

Document number A1312127

Recommendation

THAT the report Procurement Policy and Debt Management Process (A1312127) and its attachments (A1293789, A1316053 and A1324271) be received.

10. Liability Management and Investment Policies

51-79

Document number A1312122

Recommendation

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

Recommendation to Governance Committee and Council

THAT the Liability Management and Investment Policies be adopted.

11. Proposed Meeting Dates

The proposed Audit, Risk and Finance Subcommittee meeting dates for 2015 are:

Tuesday 5 May, 1pm

Thursday 18 June, 1pm

Thursday 30 July, 1pm

Thursday 10 September, 1pm

Wednesday 14 October, 9am

Thursday 12 November, 9am

Audit, Risk and Finance Subcommittee Delegations

(A Subcommittee of the Governance Committee)

Areas of Responsibility

To recommend to the Governance Committee on the following areas:

- Council's Treasury policies
- Audit of Council's Annual Report and annual accounts
- Oversight of audit process and management of financial risk
- Risk management and internal control
- Monitoring of Council's financial and service performance
- Monitoring of health and safety in the organisation
- Oversight of Council's Health and Safety obligations
- Business Continuity
- Statutory Compliance
- Internal audit

Powers to Decide

- This subcommittee has no delegated powers to decide

Powers to Recommend to the Governance Committee:

- Any matters within the areas of responsibility or such other matters referred to it by the Council or Governance Committee

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

Date of meeting/Item	Action Resolution	Officer	Status
4/12/14 (Governance Committee) Council Risk Register	<i>AND THAT a plan for the development of a full risk management framework incorporating this Risk Register be brought to this Committee by the end of this financial year.</i>	Nikki Harrison	10/3/15 To be reported to a future meeting. UNDERWAY

Corporate Report for the Period Ending 31 January 2015

1. Purpose of Report

- 1.1 To inform the members of the Audit Risk and Finance Committee on the financial results of activities for the 7 months ending 31 January 2015 compared to the first projection, completed as part of the draft Long-Term Plan 2015-2025 (LTP), and to highlight and explain any material variations.

2. Delegations

- 2.1 The Audit Risk and Finance Committee has oversight of the management of financial risk and makes recommendations to the Governance Committee and to Council.

3. Recommendation

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

Recommendation to Governance Committee and Council

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

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

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

4. Background

- 4.1 The report focuses on the 7 month performance compared with the year to date projection. Budgets/projections for operating income and expenditure are phased evenly through the year, whereas capital expenditure budgets/projections are phased to occur mainly in the second half of the year.
- 4.2 Projections (forecasts) were completed as part of the work informing the draft LTP, and will be updated later in the year to inform the final LTP.
- 4.3 Some definitions of terms used within this report:
- Operating income – all income other than rates including metered water, grants, fees, rentals, and recoveries;
 - Rates – includes the general rate, wastewater, stormwater and flood protection rates, and targeted rates for Solar Saver;
 - Staff costs – salaries plus overheads such as training, super, professional fees and office accommodation expenses;
 - Depreciation – includes all depreciation, and any losses on asset disposal/retirement;
 - Interest – includes debt interest, bank fees, interest rate swap margins, treasury and rating agency fees.

5. Discussion

- 5.1 The report focuses on performance to date compared with the year to date projections. More detailed financials by sub-activity are in Attachment 1.
- 5.2 For the 7 months ending 31 January 2015, the activity surplus/deficits are \$3.3 million favourable to projection.
- 5.3 Revenue and expenditure variances are discussed by activity.

NCC variance to projection to 31 January 2015

Activity	Year to Date Variance to Projection					
	Surplus (Better)/ Worse	Revenue (Better)/ Worse	Expenses - Staff	Expenses - other	Expenses - Interest	Expenses - Depr
Corporate	(774,768)	(149,112)	(178,673)	(305,562)	(108,082)	(33,339)
Parks & Active Recreation	(650,139)	71,124	(141,068)	(557,659)	(22,137)	(397)
Social	(67,655)	(103,781)	(11,738)	60,455	(22,835)	10,244
Economic	(249,806)	273,900	81,235	(604,941)	0	0
Transport	(123,787)	(27,350)	(4,794)	(208,819)	(26,768)	143,945
Environmental Management	(469,227)	579,285	(155,775)	(846,198)	1,360	(47,899)
Wastewater	22,681	8,258	(17,415)	(6,967)	(91,317)	130,122
Stormwater	59,489	0	(99,675)	74,688	(44,928)	129,404
Water Supply	(617,896)	114,732	(36,508)	(423,453)	(7,635)	(265,032)
Flood Protection	(408,840)	0	(6,243)	(292,313)	(109,133)	(1,152)
Total	(3,279,947)	767,054	(570,653)	(3,110,769)	(431,475)	65,896

Corporate

- 5.4 The Corporate activity is \$775,000 better than projection due to:
- 5.4.1 Revenue - \$149,000 better than projection. Unbudgeted interest income from Nelson Region Sewerage Business Unit (NRSBU) for the Nelson City Council (NCC) share of debt is \$233,000 year to date (transferred quarterly), offset by unbudgeted interest expenditure for the loans now held by NCC. Council has received a \$500,000 special dividend from Port Nelson which has been used to repay debt. This has been included in the projection, but timing differences generate a \$208,000 positive variance year to date. The Forestry insurance claim has been settled as projected at \$242,000, generating a \$101,000 positive timing difference. Income in the Disaster Recovery Fund is \$292,000 under projection due to timing of further insurance claims. Internal interest is \$359,000 under projection reflecting the timing of capital expenditure.
- 5.4.2 Expenses – staff \$179,000 better than projection. The distribution of staff time over the organisation differs from anticipated and the savings in this activity are mainly in the Policy subactivity.
- 5.4.3 Expenses – other \$306,000 better than projection as the contingency has not yet been called on (\$87,500) and Civic House expenditure is under projection (\$161,000) largely related to the budget sitting in this activity for property condition assessments which as yet has little expenditure recorded against it (timing). There is a saving in cleaning and maintenance in Civic House of \$41,000. The budget for post earthquake inspections (reactive budget), year to date \$26,000, currently has no expenditure recorded against it.

Parks and Active Recreation

- 5.5 The Parks and Active Recreation activity is \$650,000 better than projection due to:
- 5.5.1 Expenses – staff - \$141,000 better than projection. The distribution of staff time over the organisation differs from anticipated and there are savings across this activity but particularly in Community Programmes, Esplanade and Foreshore Reserves, Sports Parks and Recreation Liaison.
- 5.5.2 Expenses – other - \$558,000 better than projection. Regional Community Facilities is \$167,000 over projection as the second grant to the Brook Waimarama Sanctuary Fence has been paid in full (\$524,000 - timing). Offsetting this, the budgeted grant to Tasman District Council for the velodrome at Saxton Field has not yet been made, resulting in an underspend of \$482,000 year to date (timing). A timing variance of \$61,000 relates to the \$145,000 expenditure for recovery from the April 2014 emergency event (which is funded from the disaster recovery account). There is an underspend of \$184,000 year to date in other maintenance categories; in particular no expenditure has yet been made for the Marina maintenance dredging consent/plan (\$124,000) which is

scheduled for late in the financial year. A year to date overspend of \$122,000 in Sports Parks programmed maintenance is offset by underspends in other programmed maintenance budgets. Year to date there is a saving of \$79,000 in consultancy costs (timing) relating to facilities policies and \$35,000 saving as the Tahuna Erosion study has not yet been invoiced (timing).

Social

- 5.6 The Social activity is \$68,000 better than projection due to:
- 5.6.1 Revenue - \$104,000 better than projection. Income related to the Arts Festival is \$247,000 ahead of projection year to date (timing) and \$131,000 ahead of full year projection. The Founders Book Fair proceeds (year to date \$70,000 projection) will not come in until the end of the financial year (timing). Rental for the Tahuna Motor Camp is \$33,000 under projection year to date, pending invoicing of the 2013/14 residual rent wash-up.
- 5.6.2 Expenses – other - \$60,000 worse than projection. Arts Festival \$220,000 over projection year to date (timing), offset by income. The year to date projection of \$88,000 for the grant to the Nelson School of Music for earthquake strengthening and refurbishment (\$150,000 full year) has yet to be drawn down. Maintenance costs are \$109,000 underspent year to date across a large range of activities, including for the demolition of the Highland Pipe Band building which has not yet occurred but scheduled to take place by June 2015.

Economic

- 5.7 The Economic activity is \$250,000 better than projection due to:
- 5.7.1 Revenue - \$274,000 worse than projection. The Cricket World Cup (CWC) recovery of costs is due after the event generating a timing difference against projection.
- 5.7.2 Expenses – other - \$605,000 better than projection. The Economic Development expenditure is under projection by \$264,000. There is no spending to date in the EDA economic development fund, business incubator, facilities marketing and economic impact assessment. Expenses relating to the CWC are under projection by \$327,000 which is a timing difference.

Transport

- 5.8 The Transport activity is \$124,000 better than projection due to:
- 5.8.1 Revenue - \$27,000 better than projection. Car Parking revenue, New Zealand Transport Agency (NZTA) grants, and recoveries relating to corridor access requests and ultra fast broadband remediation are now roughly the same as projection year to date. Changes in the projection of

operating income in this activity have resulted in an increased charge to rates of \$344,000.

- 5.8.2 Expenses – other - \$209,000 better than projection, mainly in unsubsidised roading. The most significant underspends in that activity is:
- Street and sump cleaning (\$36,000);
 - \$110,000 underspent year to date relating to recovery works from the 2011 emergency event;
 - No expenditure year to date for the southern arterial corridor management plan (\$57,000 - this was work in connection with the Nelson Plan and has been delayed until the findings of the Southern Arterial Investigation – Annesbrook Drive roundabout to QEII Drive roundabout (run by NZTA) are known.
- 5.8.3 Depreciation - \$144,000 worse than projection. The 2013/14 revaluation of infrastructure assets at \$93 million was significantly more than expected when the 2014/15 annual plan was calculated. The increase in the asset base is generating increased depreciation charges.

Environmental Management

- 5.9 This activity includes Civil Defence and Rural Fire activities, Consents and Compliance, Environmental Programmes, and Solid Waste activities. The Environmental Management activity is \$469,000 better than projection due to:
- 5.9.1 Revenue - \$579,000 worse than projection. Landfill fees are \$421,000 less than projection and \$164,000 less than year to date January last year. Please see section 5.20 for further on landfill fees. Resource consents job sales are \$85,000 greater than projection, and building services job sales are \$57,000 less than projection. Food premises license fees are currently \$55,000 under projection with most of the income for that subactivity being invoiced in the last quarter of the financial year (timing).
- 5.9.2 Expenses – staff - \$156,000 better than projection. This is mainly in Building Services which is carrying two vacancies currently, and which has not been charged staff time from the Resource Consents team to the extent anticipated.
- 5.9.3 Expenses – other - \$846,000 better than projection. Weather Tight Homes Claims show \$136,000 less than projection year to date. Monitoring the Environment is \$187,000 under projection as this sub activity contains a large number of programmes (timing). Landfill expenditure is \$259,000 under projection reflecting no expenditure yet for Emissions Trading Scheme (ETS) levies and lower internal charges than anticipated for waste minimisation. There has been no expenditure year to date in pest management, resulting in an underspend of

\$102,000 (provider has not yet invoiced). Expenditure relating to the Nelson Plan is also under projection by \$102,000 but is expected to catch up by the end of the financial year.

Wastewater

5.10 The Wastewater activity is \$23,000 worse than projection due to:

5.10.1 Depreciation - \$130,000 more than projection – resulting from the 2013/14 revaluation of infrastructure assets, see 5.8.3.

Stormwater

5.11 The Stormwater activity is \$59,000 worse than projection due to:

5.11.1 Depreciation - \$129,000 more than projection – resulting from the 2013/14 revaluation of infrastructure assets, see 5.8.3.

Water

5.12 The Water activity is \$618,000 better than projection due to:

5.12.1 Revenue – \$115,000 worse than projection relates to water by meter charges. An accrual has been processed pending invoicing for the summer months.

5.12.2 Expenses – other - \$423,000 better than projection relates to year to date underspend against maintenance budgets, mainly in headworks maintenance where the activity is concentrated in the second half of the year, and in reactive budgets.

5.12.3 Depreciation - \$265,000 better than projection. The replacement valuation for the water membranes at the water treatment plant have halved and their expected useful lives increased, generating an expected depreciation saving against projection of \$438,000 in the current financial year. This saving has been reflected in the LTP.

Flood Protection

5.13 The Flood Protection activity is \$409,000 better than projection.

5.13.1 Expenses – other - \$292,000 better than projection. This is year to date underspend against maintenance budgets, including \$235,000 relating to emergency recovery works (timing). There has been only minor expenditure year to date for these works (identified from the December 2011 Rainfall Event) as the resource consent has yet to be granted. Works may extend into the next financial year. Reactive maintenance is also underspent.

Capital Expenditure

- 5.14 Capital expenditure to 31 January 2015 was \$15.4 million, \$3.5 million (19%) below projection. Details are included in Attachments 2 to 5.

6. Projects Update

- 6.1 Please see Attachments 4 and 5 for progress reports on Council's major projects.

Washington Valley Stormwater Project

- 6.2 The Washington Valley Stormwater project (Project ID 2054) involves a stormwater upgrade, staged over a 6 year period, to address stormwater issues in Washington Valley Road and adjoining streets. Following investigation of problem areas, the main trunk line in Washington Valley Road and the Arrow Street sub catchment have been identified as having the highest priority for upgrading, ahead of the other sub-catchments. Detailed design is underway for both of these sections. Council officers believe there is merit in advancing the construction of the Arrow Street upgrade ahead of the detailed design of other sub-catchments to help address land slippage at the head of Arrow Street. Officers request that council note the reallocation of \$151,000 from design to construction in the current financial year in order to undertake capital works in Arrow Street. This reallocation is within the approved capital expenditure budget for this project of \$292,775 in the current financial year.

Landfill Fees

- 6.3 The solid waste account is running at a significant deficit for the current financial year. This deficit is associated with income that is significantly lower than budget as a result of the decrease in income with the loss of Buller waste (3,000m³ per annum) as well as the delay in receiving sludge from the Nelson Wastewater Treatment Plant (approximately 3,500m³). This constitutes a decrease in tonnage of residual waste received at York Valley of 17% compared to budget.
- 6.3.1 Officers recommend increasing the solid waste charges to offset some of the expected deficit from \$114/tonne to \$121/tonne GST inclusive (the price from 1 July 2015) from 15 May 2015. Transfer station charges at Richmond are currently \$124.20/tonne.

Maitai Walkway Transfer

- 6.4 The Maitai Walkway project (ID 1313) is a multi-year project due to complete in the current financial year. Originally a Heart of Nelson initiative, it has been partly funded from within the Inner City Enhancement account. Given the location of the asset(s), there is a suggestion that the Inner City Enhancement account should fund the associated interest and depreciation costs. In order that these costs are therefore charged to the Unsubsidised Roding subactivity (includes

footpaths and certain walkways), officers seek approval to transfer debt and asset balances (projected to be \$657,000 at the end of the project) from Inner City Enhancement to Unsubsidised Roothing.

7. All of Government Contract for Vehicle Purchases

- 7.1 Council officers are looking to move to the all of government contract for vehicle purchases. Although offering a more limited range of vehicle brands, Council are guaranteed the lowest price (dealers are not allowed to go lower). By Council joining this contract it allows our subsidiaries, eg Nelmac to join which should lead to good cost savings across the group.

8. Assessment of Significance against the Council's Significance Policy

- 8.1 There are no significant decisions.

9. Alignment with relevant Council Policy

- 9.1 The finance report is prepared comparing current year performance against the first projection for the draft LTP.

10. Consultation

- 10.1 No consultation is required.

11. Inclusion of Māori in the decision making process

- 11.1 No consultation is required.

Nikki Harrison
Group Manager Corporate Services

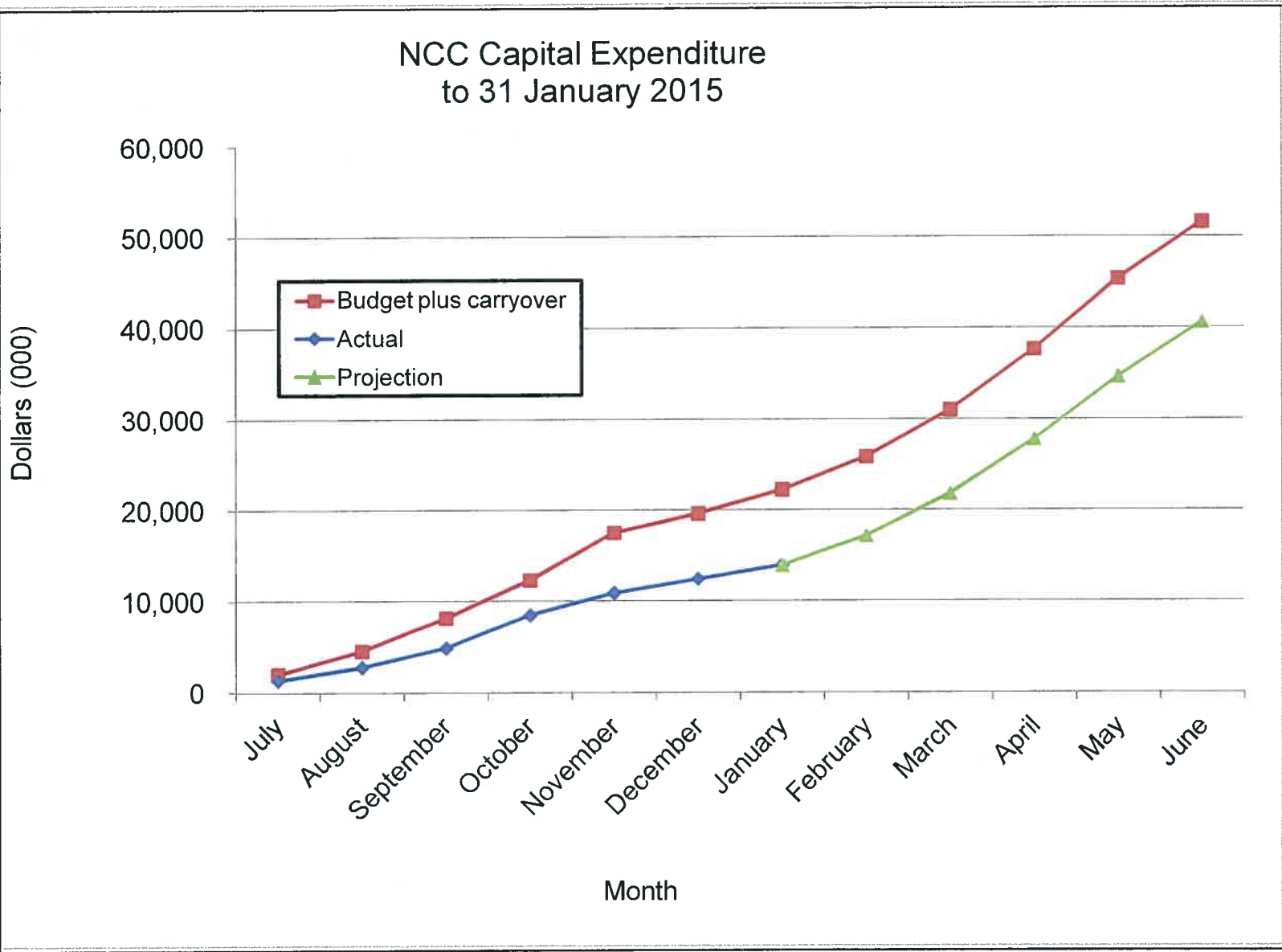
Attachments

- Attachment 1: NCC Summary Performance [A1313445](#)
Attachment 2: Capital expenditure graph [A1313445](#)
Attachment 3: Capital expenditure by activity [A1313445](#)
Attachment 4: Major projects status report – delivery at risk [A1314763](#)
Attachment 5: Major projects status report – on track [A1314760](#)
Attachment 6: Balance Sheet [A1313550](#)
Attachment 7: Interest Rate Position Report [A1313349](#)
Attachment 8: Debtors Report [A793514](#)

NCC variance to projection to 31 January 2015

Activity	Subactivity	Year to Date Variance to Projection					
		Surplus (Better)/ Worse	Revenue (Better)/ Worse	Expenses - Staff	Expenses - other	Expenses - Interest	Expenses - Depr
Corporate	Cost Of Democracy	12,242	16,006	(2)	3,239	0	(7,000)
	Admin & Meeting Support	(113,825)	977	(70,308)	(44,495)	0	0
	Council Publicity	74,094	0	79,763	(7,265)	51	1,545
	Members Expenses	(137)	(355)	(9,401)	9,417	0	202
	Election Expenses	(2,025)	0	(2,332)	306	0	0
	Civic Expenses	(23,562)	918	1,204	(25,684)	0	0
	Contingency	(87,497)	0	3	(87,500)	0	0
	Investment Management	(289,452)	(255,060)	3,028	(8,666)	(28,754)	0
	Civic House	(162,397)	(5,969)	2,182	(161,346)	(12,304)	15,039
	Rental Properties	(31,903)	(39,051)	37,951	(34,982)	2,116	2,064
	Forestry	(145,783)	(160,445)	(1,858)	25,029	(8,467)	(42)
	Subdivisions (W/Bluff & Ridgeway)	(52,670)	2,201	(1,814)	(2,881)	(50,176)	0
	Policy	(232,972)	0	(217,091)	(15,881)	0	0
	Administration	(3,749)	0	0	45,148	(3,749)	(45,148)
	Emergency Response Fund	284,869	291,667	2	0	(6,800)	0
Corporate Total		(774,768)	(149,112)	(178,673)	(305,562)	(108,082)	(33,339)
Parks & Active Recreation	Horticulture Parks	(41,070)	147	(11,001)	(27,605)	(388)	(2,222)
	Neighbourhood Parks	(26,178)	106	(1,398)	(18,722)	(3,464)	(2,699)
	Park Trees	(22,823)	(870)	880	(22,834)	0	0
	Conservation Reserves	41,792	9,480	2,394	31,116	(472)	(725)
	Landscape Reserves	55,435	(13,748)	(540)	72,049	(1,666)	(659)
	Esplanade & Foreshore Reserves	(185,463)	(50,282)	(26,745)	(92,324)	(12,257)	(3,855)
	Heritage,Landscape,Local Trees	8,546	0	(9,090)	17,636	0	0
	Walkways	9,622	(320)	5,301	6,432	0	(1,791)
	Sports Parks	87,911	13,276	(14,869)	91,024	(600)	(921)
	Recreation Planning	4,491	(365)	(4,837)	9,693	0	0
	Natureland	(28,954)	(10)	(2,333)	(26,250)	(361)	0
	Trafalgar Centre	30,346	0	374	34,566	(2,512)	(2,082)
	Saxton Field Stadium	25,730	23,591	(8,138)	(18,426)	8,016	20,688
	Saxton Oval Pavilion	(23,256)	(6,042)	(1,398)	(16,342)	(5)	531
	Golf Course	26,482	61,446	(1,920)	(31,636)	0	(1,407)
	Pools	(62,860)	16,173	(10,360)	(76,496)	(1,200)	9,021
	Community Programmes	1,728	(21)	(35,536)	37,285	0	0
	Recreation Liaison	(15,697)	0	(19,623)	3,925	0	0
	Play Facilities	(16,477)	0	(4,755)	(1,892)	(259)	(9,571)
	Marina	(187,761)	(11,164)	(9,368)	(164,732)	(2,497)	0
	Saxton Field Capital Works	(514,898)	29,727	3,963	(531,610)	(12,274)	(4,705)
	Regional Community Facilities	183,218	0	7,931	167,484	7,803	0
Parks & Active Recreation Total		(650,139)	71,124	(141,068)	(557,659)	(22,137)	(397)
Social	Managing Heritage And Arts	(44,193)	(2,000)	(8,206)	(31,171)	(1,001)	(1,814)
	Museum	8,606	0	0	11,549	(2,944)	0
	Suter Gallery	(30,987)	0	(17,785)	5,001	(18,203)	0
	Isel House	(8,104)	123	(5,160)	(3,082)	0	16
	Melrose House	(1,647)	(83)	704	(8,055)	1,399	4,389
	Broadgreen House	57,125	3,617	54,624	(1,262)	(244)	389
	Founders Park	52,496	42,402	(40,266)	47,784	1,613	963
	Historic Cemeteries	(21,480)	(8,110)	3,375	(11,145)	0	(5,601)
	Heritage Incentives	(28,649)	0	(3,889)	(24,760)	0	0
	Festivals	33,183	(247,531)	31,674	249,040	0	0
	Street Decorations	10,490	0	2,017	8,473	0	0
	School Of Music	(85,935)	0	67	(85,434)	(568)	0
	Theatre Royal	19,128	0	(4)	19,190	(59)	0
	Nelson Library	22,881	10,413	10,169	(13,094)	(1,482)	16,874
	Stoke Library	(61,788)	841	(55,081)	(6,914)	0	(634)
	Nightingale Memorial Library	(15,721)	(549)	(12,787)	(1,955)	0	(430)
	Marsden Valley Cemetery	(53,368)	(4,490)	(8,646)	(28,893)	(368)	(10,970)
	Crematorium	(5,490)	10,619	(9,363)	(6,685)	(74)	13
	Toilets (Free)	100	(230)	(1,653)	(2,551)	(481)	5,015
	Toilets (Charge)	(37,296)	(1,033)	1,796	(38,058)	0	(1)
	Stoke Hall	(34,053)	(2,453)	(5,400)	(26,200)	0	0
	Maitai Club	(17,149)	(1,902)	(3,871)	(11,358)	(18)	0
	Community Properties	(23,678)	4,202	12,660	(41,689)	(157)	1,306
	Wakapuaka Recreation Centre	(6,946)	149	(4,546)	(2,549)	0	()
	Trafalgar St Hall	(4,007)	(88)	1,638	(5,557)	()	0
	Motor Camp Tahuna	22,172	43,880	47	(17,363)	0	(4,392)

Activity	Subactivity	Year to Date Variance to Projection					
		Surplus (Better)/ Worse	Revenue (Better)/ Worse	Expenses - Staff	Expenses - other	Expenses - Interest	Expenses - Depr
	Maitai Camp	(5,450)	9,494	(7,371)	(7,043)	(267)	(262)
	Brook Camp	85,184	10,307	53,390	17,772	(84)	3,800
	Community Housing	27,657	28,260	6,047	(8,395)	0	1,745
	Employment Assistance	(4,191)	(4,167)	(6,419)	6,558	0	(163)
	Community Liaison: Development	(6,174)	4,548	(9,054)	(1,668)	0	0
	Community Liaison: Grants (Ca)	89,627	0	9,554	79,970	103	0
Social Total		(67,655)	(103,781)	(11,738)	60,455	(22,835)	10,244
Economic	Sister City Links	(2,906)	0	706	(3,612)	0	0
	Economic Development	(279,895)	0	3,120	(283,015)	0	0
	Tourism Nelson	3	0	3	0	0	0
	Cricket World Cup	32,993	273,900	77,406	(318,314)	0	0
Economic Total		(249,806)	273,900	81,235	(604,941)	0	0
Transport	Subsidised Roothing	(20,113)	(1,752)	(69,481)	51,399	(279)	0
	Unsubsidised Roothing	(30,929)	23,661	70,222	(265,243)	(14,239)	154,670
	Roothing Properties	(10,270)	(10,023)	(573)	508	(182)	(1)
	Parking Regulation	(20,048)	(16,065)	(6,642)	2,656	0	3
	Car Parking	(65,534)	(39,844)	(15,874)	(7,946)	4,566	(6,437)
	Millers Acre Centre	(27,994)	(29,815)	4,205	13,571	(16,112)	157
	Public Transport	68,402	48,968	7,894	16,082	(96)	(4,446)
	Total Mobility	(17,300)	(2,480)	5,455	(19,848)	(426)	0
Transport Total		(123,787)	(27,350)	(4,794)	(208,819)	(26,768)	143,945
Environmental Management	Civil Defence	(1,594)	0	(1,594)	0	0	(1)
	Rural Fire Control	23,698	(10,739)	675	35,135	19	(1,393)
	Monitoring The Environment	(122,830)	0	64,298	(186,879)	(32)	(217)
	Developing Resource Mgt Plan	(143,906)	(1,016)	(50,024)	(92,866)	0	0
	Environmental Advocacy/Advice	22,651	(5,307)	52,939	(24,981)	0	0
	Pest Management	(102,179)	0	(3)	(102,176)	0	0
	Clean Heat Warm Homes	68,473	70,975	(2)	(783)	(1,717)	0
	Solar Saver	3,601	0	(2)	513	3,090	0
	Dog Control	(10,845)	(2,660)	(2,981)	(5,206)	0	2
	Animal Control	(1,875)	627	(1)	(2,501)	0	0
	Liquor Licencing	(3,539)	(6,457)	1,655	1,264	0	0
	Food Premises	55,100	55,116	0	(16)	0	0
	Public Counter Land & General	(33,316)	(22,321)	(12,197)	1,202	0	0
	Building Services	(113,315)	65,866	(170,150)	(7,716)	0	(1,315)
	Harbour Safety	4,386	(1,073)	(2,097)	6,464	0	1,092
	Pollution Response	(1,566)	(3,301)	670	1,066	0	0
	Resource Consents	(86,181)	(93,862)	9,739	(2,058)	0	0
	Enforcing Bylaws	(3,893)	(1,529)	(2,335)	(29)	0	0
	Whrs Claims	(153,859)	0	(17,986)	(135,872)	0	0
	Waste Minimisation	1	79,229	(35,590)	(43,638)	0	0
	Transfer Station	3	16,398	7,800	(20,678)	0	(3,517)
	Landfill	131,554	421,286	4,450	(251,629)	0	(42,552)
	Joint Landfill	202	0	202	0	0	0
	Green Waste	1	6,019	(801)	(5,217)	0	0
	Recycling	(1)	12,035	(2,440)	(9,596)	0	0
Environmental Management							
Total		(469,227)	579,285	(155,775)	(846,198)	1,360	(47,899)
Wastewater	Wastewater	22,681	8,258	(17,415)	(6,967)	(91,317)	130,122
Wastewater Total		22,681	8,258	(17,415)	(6,967)	(91,317)	130,122
Stormwater	Stormwater	59,489	0	(99,675)	74,688	(44,928)	129,404
Stormwater Total		59,489	0	(99,675)	74,688	(44,928)	129,404
Water Supply	Water Supply	(617,896)	114,732	(36,508)	(423,453)	(7,635)	(265,032)
Water Supply Total		(617,896)	114,732	(36,508)	(423,453)	(7,635)	(265,032)
Flood Protection	Flood Protection	(408,840)	0	(6,243)	(292,313)	(109,133)	(1,152)
Flood Protection Total		(408,840)	0	(6,243)	(292,313)	(109,133)	(1,152)
Total		(3,279,947)	767,054	(570,653)	(3,110,769)	(431,475)	65,896



A1313445

Capital Expenditure

Total Council - by Activity

Activity	Actual YTD \$(000)	Projection YTD \$(000)	Variance YTD \$(000)	Full Year Projection \$(000)	Significant variances against budget
Corporate	539	863	-324	2,007	Civic house first floor and aircon upgrades not yet commenced. Some IT projects yet to be commenced.
Parks & Active Recreation	2,173	2,317	-145	5,389	Some land purchases made for general reserve, but no expenditure related to Daelyn land purchase. Esplanade and foreshore planting programme and accessways/carparks ahead of budget timing. Greenmeadows redevelopment project in initial stages.
Social	1,383	1,876	-493	4,362	Suter redevelopment in early stages. School of Music expenditure to be transferred to opex (capital grant).
Economic	0	0	0	0	
Transport	5,439	4,870	569	11,325	Friction Course Replacement and Cable Bay Road recovery works are ahead of budget timing. Timing of Railway Reserve/Princess Drive overbridge subject to developer. Brook walk/cycle improvements under consultation. Bishopdale to Ridgeway shared path construction scheduled March 2015. Footpath renewals behind budget timing. Tasman St (Nile to Bronte) physical works started. Stock effluent facility behind budget timing.
Environmental Management	696	654	43	1,521	Landfill road extension physical works on track. Finalising specification for weighbridge. Corder Park Pump Station upgrade physical works to started. NWWTP trickling filter cover ahead of budget timing. Ngawhatu valley trunk main construction scheduled to start March.
Wastewater	1,457	2,855	-1,398	6,640	Salt Water Creek/Haven Road culvert project commenced. Tasman St upgrade physical works commenced.
Stormwater	526	1,071	-546	2,492	Water Treatment Plant new membrane physical works commenced.
Water Supply	1,180	1,554	-374	3,615	Saxton Creek upgrade stage 1 resource consent lodged. Orphanage Stream upgrade resource consent being prepared. Flood mitigation works contract to be awarded February.
Flood Protection	592	1,416	-823	3,292	
	13,985	17,477	-3,491	40,643	
Vested Assets	1,290	1,290	0	3,000	
Nelson Regional Sewerage BU	111	154	-43	359	
	15,386	18,921	-3,535	44,002	

A1313445

Major Projects Status Report - Delivery at Risk
















- Green = on track against baseline, no major issues or risks. >90% confident in delivery against plan.
- Yellow = moderate issues &/or risks exist but are manageable. 50 to 90% confident in delivery against plan.
- Red = high or extreme issues &/or risks requiring corrective action(s). Less than 50% confident in delivery against plan.

Status vs current year plan










Project/ Programme Name	Project Definition	Next Milestone	Milestone expected completion	Time	Budget	Scope/ Benefits	Issues & Risks Reasons
Saxton Creek upgrade	Upgrade stream channel and associated culverts, walkways and planting	Detailed Design complete	May-15	●	●	●	There could be delays to the delivery of this project arising from ongoing landowner consultation and the outcomes of Plan Change 18.
Maitai shared path (Collingwood St to Nile St)	widening existing path to allow shared use	Construction start on-site	Mar-15	●	●	●	Scope and Design to be reviewed which could delay the project. There is NZTA funding that still has to be approved.
Bishopdale to the Ridgeway shared path	Procure and construct shared path-to tie in with sewer upgrade	Procurement complete	Feb-15	●	●	●	NZTA subsidy funding to complete agreed work has not been approved. Timing of the funding decision is unknown. Amount of funding provided could affect project deliverables.
Whakatu Drive / Beatson Road	Widen path at Roundabout pinch point	Procurement complete	Feb-15	●	●	●	NZTA subsidy funding to complete agreed work has not been approved. Timing of the funding decision is unknown. Amount of funding provided could affect project deliverables.
Beatson Road Sewer Renewal	Upgrade of sewer main in Beatson Road, to be combined with new cycleway construction.	Procurement complete	Feb-15	●	●	●	This project is linked with the Wakatu Drive / Beatson Road project for delivery efficiency; therefore the project has been delayed pending decision on funding for Wakatu Drive / Beatson Road.
Orphanage Stream upgrade	Investigate options for increasing capacity of bridges and culverts plus channel break out points from Ngawhatu Valley to Whakatu Drive	Construction finished on-site	Apr-15	●	●	●	The scope, timing and cost of this project could be affected by resource consent conditions and awaiting iwi response to this project.

Attachment 4

Major Projects Status Report - Delivery at Risk





Project/ Programme Name	Project Definition	Next Milestone	Milestone expected completion	Time	Budget	Scope/ Benefits	Issues & Risks Reasons
York Valley Landfill weighbridge	weighbridge for vehicles entering the landfill	Procurement complete	Feb-15				Initial procurement phase resulted in no tenders being received. Alternative procurement options being considered. This could lead to delays in project delivery.
The Brook Area Cycling and Walking Improvements	Upgrade cycle connections, link to Tasman st upgrade (nile-bronte)	Construction start on-site	Mar-15				NZTA subsidy funding to complete agreed work has not been approved. Timing of the funding decision is unknown and the amount of funding provided could affect project deliverables.
Stanley/Beachville stormwater	Upgrade stormwater discharge to Nelson end of Stanley Cresc.	Construction start on-site	Mar-15				Land easement issue could lead to changed route and thus change in scope, cost and timeframes.
Bridge St enhancement	Enhance urban environment through lighting, seating and landscape aesthetics. Work includes under veranda lighting along Bridge St and lighting along Alma and Fiddler Lane.	Procurement complete	Mar-15				Timing and scope could be at risk as possible additional enhancements will be required that have yet to be defined.
Railway Reserve to CBD cycleway via St Vincent (Stage II)	Two way separated cycle lanes St Vincent Street from Gloucester St to Haven Rd, east side (coordinated with reseal & SW). Copenhagen Style cycle lanes. Connects to shared path across Anzac Park and refuge on Halifax Street by Saltwater Bridge.	Detailed Design complete	Mar-15				The scope of work has been finalised, awaiting approval from landowner and then final issue of resource consent.

Major Projects Status Report - On Track

Project/ Programme Name	Project Definition	Next Milestone	Milestone expected completion	Project Health
Corder Park sewer pump station upgrade	Construction of new pump station at Corder Park including a section of Atawhai rising main replacement. Replaces existing PS and pushes out need to replace sections of Atawhai rising main.	Construction finished on-site	Mar-16	
Cable Bay Rd Recovery	Work required to reinstate road to required service level post Dec-2011 emergency event	Construction finished on-site	Feb-15	
Arapiki Trunk / Express Sewer (Stage 2&3)	Redirection of Arapiki sewer catchment flows to Songer St pump station to avoid issues with Quarantine Rd pump station. Nayland Road to Ridgeway link stages.	Construction finished on-site	Apr-15	
WTP membranes - New train	Adding new train (#5)	Construction finished on-site	May-15	
Tasman St upgrade(Nile to Bronte)	Road upgrade and Stormwater Upgrade, in conjunction with Manuka Street Intersection Upgrade and Brook walk/cycle connections (1222)	Construction finished on-site	Jun-15	
York Valley Road extension	Extension of access road	Construction finished on-site	Apr-15	
Salt Water Creek/Haven Rd Culvert	Design & build new concrete box culvert adjacent to Anzac Park.	Construction finished on-site	Apr-15	
Ngawhatu Valley Sewer Trunk Main	Upgrade existing reticulation between Ngawhatu and Main Road Stoke to allow for future development in the upper Ngawhatu Valley	Construction start on-site	Mar-15	
Maitai Walkway (Akerston St to Traf St)	upgrade of walkway along Maitai from Traf St to Akersten	Construction finished on-site	Feb-15	

Attachment 5

Major Projects Status Report - On Track

Project/ Programme Name	Project Definition	Next Milestone	Milestone expected completion	Project Health
Flood mitigation - Gravel Traps & Intake Structures	Construction of gravel traps and upgrading intake structures in Poormans and Orphanage Streams	Procurement complete	Feb-15	
Earthquake Prone Buildings Remediation	Physical work to bring buildings up to standard required. This is a funding line and budget will be allocated to projects once identified. Current project include Founders duncan House/ Granary and Melrose House	Construction finished on-site	Mar-15	
St. Vincent to CBD cycle connection	Existing footpath north side Gloucester Street, as shared path and Improved crossing facilities at roundabouts, including slowing speeds at St Vincent Street roundabout	Procurement complete	Feb-15	
Modellers Pond Solution	Improve Water quality and amenity of pond.	Investigation complete	Mar-15	

Additional Major Project - progress reported to Council through a separate mechanism

Trafalgar Centre Reopening	investigate options & implement measures to allow reopening & safe public use of the Centre
Suter upgrade	Upgrade of Gallery
NSOM upgrade	Strengthen auditorium, finalise and implement refurbishment brief
Rocks Rd cycling and walking project	Development of walking and cycling solution along Rocks Road
Greenmeadows Redevelopment	New sports and community facility in Stoke

Nelson City Council

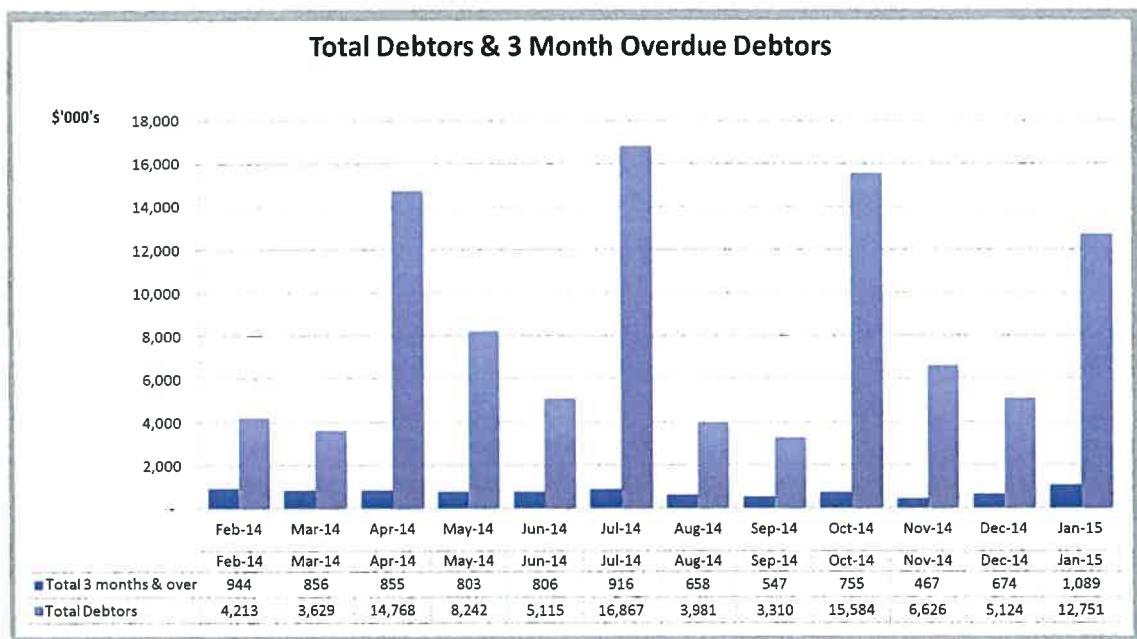
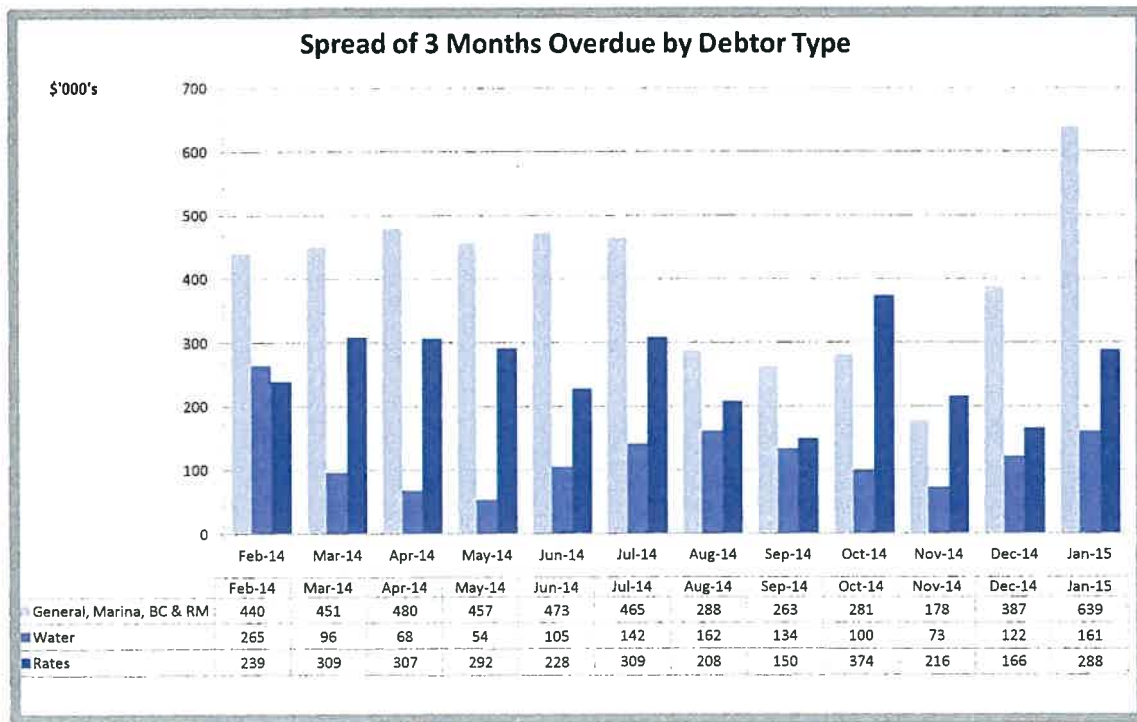
Abbreviated Balance Sheet

		31/01/2015	31/12/2014	30/06/2014
Current Assets				
	Cash and Bank	708,217	494,629	251,853
Bank Deposits	Investments	1,150,000	0	0
	Rates Debtors	9,562,052	(3,332,573)	242,652
Amounts due from customers.	Trade Debtors	7,419,916	9,248,811	11,065,794
	Debtors and Accruals	10,347,128	10,551,664	905,367
		<u>29,187,313</u>	<u>16,962,531</u>	<u>12,465,666</u>
Current Liabilities				
Cash Book Balance	Bank Overdraft	0	0	0
Amounts owed to suppliers.	Creditors	(9,301,680)	(9,762,168)	(15,062,273)
	Commercial paper	(9,904,926)	(9,904,926)	(29,730,802)
Term Loans to be paid in 12 months	Current Portion of Term Liabilities	0	0	0
		<u>(19,206,606)</u>	<u>(19,667,094)</u>	<u>(44,793,075)</u>
	Net Working Capital	9,980,707	(2,704,563)	(32,327,409)
Non Current Assets				
Shares in Subsidiaries etc	Investments	27,227,498	27,232,498	27,560,115
Total value, net of depreciation of all	Fixed Assets	1,316,661,065	1,318,086,016	1,317,869,256
		<u>1,343,888,563</u>	<u>1,345,318,514</u>	<u>1,345,429,371</u>
Non Current Liabilities				
	Term borrowings	(63,186,016)	(60,786,016)	(33,536,016)
Money borrowed that requires payment after 12 months	Other Term Liabilities	(1,625,021)	(1,615,208)	(1,557,261)
		<u>(64,811,037)</u>	<u>(62,401,224)</u>	<u>(35,093,277)</u>
		<u>1,289,058,233</u>	<u>1,280,212,727</u>	<u>1,278,008,684</u>
Shareholder Funds				
	Ratepayers Equity	362,663,498	354,533,526	352,654,845
	Reserves	926,394,735	925,679,201	925,353,839
		<u>1,289,058,233</u>	<u>1,280,212,727</u>	<u>1,278,008,684</u>

Nelson City Council Interest Rate Position			
12 Month Forecast Core Debt:	100.0	31-Jan-15	
Policy Limits	55% - 90%		
Overall Fixed: Floating Mix	80%		
Policy Compliance	Y		
Liquidity Ratio:	110%		
Actual	135%		
Policy Compliance	Y		
Fixed Rate Maturity Profile:			
Years	1 - 3 years	3 - 5 years	5 years plus
Policy Limits	15% - 60%	15% - 60%	15% - 60%
Actual Hedging	18%	28%	55%
Policy Compliance	Y	Y	Y
Funding Maturity Profile:			
Years	0 - 3 years	3 - 5 years	5 years plus
Policy Limits	15% - 60%	15% - 60%	10% - 40%
Actual Hedging	37%	32%	31%
Policy Compliance	Y	Y	Y
Weighted Average Duration:			
Funding	4.17 Years		
Fixed Rate Portfolio (swaps and fixed rate loans)	5.13 Years		
Weighted average fixed rate on current borrower swaps*:			
Swap Portfolio	4.43%	* Note: non-active forward starts are not included.	
Counterparty Credit Risk (Interest Rate Risk Mgmt Instruments and investments)			
Policy Credit Limit (NZ\$) per NZ Registered Bank (Interest rate risk management)		\$	10,000,000
Policy Credit Limit (NZ\$) per NZ Registered Bank (Investments)		\$	10,000,000
Policy Credit Limit (NZ\$) per NZ Registered Bank (Total maximum per counterparty)		\$	20,000,000
	Credit Exposure (Swaps) (\$m)	Credit Exposure (Investments) (\$m)	Compliance
WPC	6.56	0.00	Y
ANZ	7.21	0.00	Y
ASB	0.00	0.00	Y
BNZ	0.48	0.00	Y
Kiwibank	0.00	0.00	Y
CBA	0.00	0.00	Y

Specific borrowing limits		
Net interest expense on external debt as a percentage of total revenue to be less than 15%	2.56%	Y
Net interest expense on external debt (secured by rates) as a percentage of rates revenue to be less than 20%	4.09%	Y
Net external debt (secured by rates) as a percentage of total revenue to be less than 150%	70%	Y
Net external debt (secured by rates) as a percentage of equity to be less than 20%	5%	Y

A131 3349



A793514

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

1. Purpose of Report

- 1.1 To provide Council with the letter to the Council on the audit for the year ending 30 June 2014 from Audit NZ.

2. Delegations

- 2.1 The Audit, Risk and Finance Subcommittee have responsibility for the audit of Council's Annual Report and annual accounts.

3. Recommendation

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

4. Discussion

- 4.1 Audit New Zealand (Audit NZ) issued an unmodified audit opinion on 29 October 2014. This means that they were satisfied that the financial statements fairly reflected Council's activity for the year and its financial position at the end of the financial year.
- 4.2 In their management letter to Council issued on 17 January 2014 they raised a number of issues.
- 4.3 As in 2013, they raised a number of issues relating to the Rates Resolution as part of their audit of the 2014 Annual Report. As a result of discussions with Audit NZ in relation to the matters they raised it was agreed that a disclosure would be made in the 2014 Annual Report as a note to the accounts and Council approved the 2014 Annual Report on 30 October 2014.
- 4.4 Previous legal advice recommended that the rating resolution and the Funding Impact Statement wording be reviewed and amended as necessary to ensure complete clarity and consistency in wording for the 2014/15 year onwards.

- 4.5 Council had Simpson Grierson review both the rating resolution and the Funding Impact Statement for 2014/15 and will continue to do this on an annual basis.

5. Options

- 5.1 That the committee note the matters raised in the Letter to the Council on the audit of Nelson City Council for the year ending 30 June 2014.

6. Assessment of Significance against the Council's Significance Policy

- 6.1 This is not a significant decision.

7. Alignment with relevant Council Policy

- 7.1 This recommendation is not inconsistent with any previous Council decision.

8. Consultation

- 8.1 No consultation has occurred in preparation of this report.

9. Inclusion of Māori in the decision making process

- 9.1 No consultation with Maori has occurred in preparation of this report.

10. Conclusion

- 10.1 Audit NZ issued an unmodified audit opinion on 29 October 2014 for the Annual Report for the year ending 30 June 2014. This means that they were satisfied that the financial statements fairly reflected Council's activity for the year and its financial position at the end of the year.

Nikki Harrison
Group Manager Corporate Services

Attachments

Attachment 1: Letter to the Council on the Audit of Nelson City Council for the year ending 30 June 2014 [A1297813](#)

10 December 2014

Rachel Reese
Mayor
Nelson City Council
PO Box 645
Nelson 7040

cc Ian Barker, Chair of Governance Committee
Clare Hadley, Chief Executive
Nikki Harrison, Group Manager Corporate Services

Dear Rachel

Letter to the Council on the audit of Nelson City Council for the year ended 30 June 2014

1 Introduction

We have completed our audit of Nelson City Council (the City Council) and outline the work undertaken and the key findings from our audit below. We have also provided a separate letter to management, which sets out our detailed findings. This letter builds upon our findings included in our interim letter to the Council dated 30 April 2014.

Work undertaken

Our final audit was focused on the City Council's Annual Report for 2013/14. We issued an unmodified opinion (see section 2 of this letter). We also reviewed the key business risks and issues facing the City Council (see section 3 of this letter) and the sector-wide issues facing local authorities (see section 4 of this letter).

We have provided a listing of other key findings in sections 5 to 7 and provided an outline of the content of our supplementary letter to management in section 8 of this letter.

A1297813

2 Our audit opinion

2.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 30 October 2014. This means that we were satisfied that the financial statements and statement of service performance fairly reflected the City Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions.

3 Business risks/issues

3.1 Rates setting process

As reported previously, we identified several issues in the City Council's rate setting process in 2013. Because of the timing of our work and reporting our findings, the City Council had the same issues when setting its 2013/14 rates. In 2014, the City Council took legal advice and decided to take no further action in relation to the matters we reported.

In the 2014 annual report, the City Council disclosed its key legislative breach. This related to the setting of the Waste Water Charge targeted rate. We were satisfied the disclosure was appropriate and transparent.

The City Council engaged Simpson Grierson to review its 2014/15 rates setting process. Our own review of the 2014/15 rates setting process confirmed that all the deficiencies we had identified previously had been addressed.

We encourage the City Council to have a legal review of its rates setting process each year. We believe this is particularly important when the City Council introduces a new rate, or when changes occur to the underlying legislation (either the Local Government Act 2002 or the Local Government (Rating) Act 2002). This would provide a useful check that the City Council continues to comply with what are complex pieces of legislation.

3.2 Organisational restructuring

We commented on the impact of the 2013 restructuring on the City Council's operations in our interim management report. Consistent with our interim audit findings, we did not identify internal control breakdowns resulting from the restructuring during our final audit.

The City Council's staff levels have dropped significantly because of this restructuring. Staff numbers decreased in the year by 37 to 220. We will

continue to monitor the impact, if any, of this large staffing reduction on the control environment and also whether there is any significant impact on the City Council's operations, as reflected in the levels of service reported in the 2014/15 annual report.

We also reviewed at year end a sample of redundancy payments made to staff. We found that the redundancy payments we reviewed were appropriately authorised and correctly calculated. Additionally, where appropriate, these payments were disclosed in the financial statements.

3.3 Property, plant and equipment

Introduction

The City Council undertook a full revaluation of its land and infrastructural asset classes. Quotable Value Limited valued the land assets. The infrastructural asset valuations were performed in-house by the City Council and peer reviewed by Opus. The work we completed confirmed that the valuations were prepared in accordance with accounting and valuation standards, and were suitable for inclusion in the financial statements.

Revaluation of infrastructural assets

Historically, the City Council has taken a two-step approach to revaluing its infrastructural assets. In one year, the City Council completes what we term a 'full valuation'. This is based on updated asset data (quantity, condition, lives etc) and a detailed review of underlying contracts. The unit rates used in the valuation are updated appropriately, based on actual contract prices obtained. In the second year, management adjust the unit rates with reference to movements in inflation indices (usually the CPGI). No significant work was done around asset quantity and condition information, other than allowing for additions and disposals.

The second valuation approach does not comply with accounting and valuation standards. However, we previously accepted this approach on the basis of materiality. As a compliant valuation is done every second year, we assessed that the valuation was not materially misstated.

This year, the City Council's valuation resulted in a large upwards movement of \$92.6 million. This valuation was a compliant valuation. This increase shows that the approach taken in 2013 is not a good proxy for a proper valuation in the current environment.

It appears that the City Council's contract rates are being significantly impacted by work to repair Christchurch following the Canterbury earthquakes. These increases do not have as large an impact on a national index like the CPGI. Additionally, the City Council recognised assets for the first time (see below).

For 2015, we recommend that the City Council review its processes as to how it prepares the valuation. If a valuation is to be undertaken, we

recommend a full, compliant valuation be performed. If the City council believes it is not cost effective to undertake full revaluations every year we suggest that the City Council includes more specific cost information on unit rates and updates asset quantity information in the infrastructural asset revaluation.

Found assets

During our review of the infrastructural valuation, management advised us that it had identified and valued for the first time assets worth \$4.0 million. The 'found' assets represented assets that the City Council owned and maintained, but had not previously recognised or valued. These included for example, water laterals to ratepayer properties.

We assessed these 'found' assets and confirmed that they were appropriately recognised in the financial statements.

3.4 Building assessments

In 2014, the City Council is still working through detailed assessments of its buildings. The initial process in 2011/12 identified thirty-nine buildings that were assessed as being below code.

As at 30 June 2014, fourteen of these buildings have had detailed assessments completed. Ten have been provided with Section 124 notices; of these one is already demolished. The City Council plans to remediate:

- three to 34% NBS;
- two to 67% NBS;
- two will have temporary strengthening; and
- two are only used for storage.

The other two expected to receive Section 124 notices in 2014/15. Council will make a decision on these properties when the Section 124 notices are issued.

Since December 2013, the Trafalgar Centre has been closed due to there being a risk to the public in the event of a moderate earthquake. Under the accounting standards, an entity is required to assess an asset for impairment if there are indicators of impairment – closure of a building is an indicator of impairment.

Management engaged Telfer Young to revalue the Trafalgar Centre as if it was required work to open the centre was done. After making an allowance for the cost to remediate the centre, management concluded that no impairment was required. We reviewed the assessment and agreed with management's assessment.

The City Council is currently evaluating what it will do with the Trafalgar Centre. The Council has instructed management to determine the cost to upgrade the Centre to at least 67% of NBS. Once this information is available, Council will need to make a formal decision on the future of the Centre. We expect that this will be an issue covered in the City Council's long term plan.

Following our review, we concluded that the City Council's accounting for earthquake prone buildings, in the financial statements, was appropriate. We will continue to monitor the status and accounting for these buildings in our 2014/15 audit.

3.5 Risk management

The City Council is currently developing its risk management strategy and framework.

We will follow up progress in implementing the framework as part of our 2014/15 audit.

4 Sector-wide areas of audit focus

We completed reviews on our areas of interest across all local authorities. Our comments are as follows:

4.1 Changes to Local Authorities' legislative environment

There were two recent changes in Council's legislative environment, which had implications for the 2014 annual report. These were:

- The Local Government (Financial Reporting and Prudence) Regulations 2014. This required the City Council to separately include information about its core assets. Also, the regulations set financial prudence benchmarks for local authorities. This required the City Council to information related to seven benchmarks that were organised around three elements of financial prudence – affordability, sustainability and predictability.
- The Local Government Act 2002. This required the City Council to include information about its rating base and insurance of its assets.

We reviewed the City Council's compliance in meeting these new reporting obligations. No matters arose from our review.

4.2 Performance against forecast in plans

We audited the reported service performance information in the Annual Report.

We are satisfied that the service performance statements comply with generally accepted accounting practice and fairly reflect the actual achievements and performance of the City Council.

We reviewed the City Council's reported performance at the activity level. We found that both significant financial and non-financial variances were appropriately explained. These explanations provided sufficient information for a reader to assess Council's performance against its plan.

We also considered the overall performance story included within the activity statements. We believe that the City Council's performance story has improved, with more information included in certain activities to explain the overall performance. For example, the City Council included more information on the quality of the roads in the transport activity.

We encourage the City Council to continue including additional information in the activity statements. The City Council has relatively few performance measures and some of its activities are wide-ranging, cover several sub-activities. Therefore, additional information is important in providing the public with an understanding of aspects of the City Council's overall performance which are not covered by the performance measures.

4.3 Public sector concerns

In the course of our usual audit work, we remained alert for matters of effectiveness and efficiency, waste, and a lack of probity or financial prudence:

- We did not identify any conflicts of interest for either senior management or Council members.
- The City Council complied with the relevant Local Government Elected Members Determination and also disclosed the remuneration of each member appropriately in the annual report.
- We followed up our previous recommendations in relation to credit card expenditure and identified that tax receipts had not been retained in relation to several items of credit card expenditure. We discuss this matter further in our supplementary report to management.

4.4 Shared Services

This is an area that the City Council is looking to develop and is continuing to consider options in this area. These are mainly in relation to working with other Councils in the north of the South Island.

4.5 Possible LTP amendments

No LTP amendments were made during the course of 2013/14.

4.6 Annual Report Adoption and Public Release Dates Return

The City Council met the requirements to adopt the annual report and summary annual report in accordance with the timeline set out in the Local Government Act 2002 (LGA).

4.7 Local Authority exemptions for Council Controlled Organisations (CCOs)

The City Council renewed its exemption of the City of Nelson Civic Trust on the 30 January 2014, for another 3 years under section 7 (6) of the LGA.

4.8 Treaty settlements and co-management

The City Council is still working with affected iwi to determine the impact of the proposed treaty settlements on the City Council's asset base.

5 Mandatory disclosures

Our mandatory disclosures required in relation to our audit are set out in Appendix 1.

6 Changes to the accounting standards framework for public benefit entities (PBEs)

As highlighted in the audit arrangements letter, the City Council is required to move to the new PBE accounting standards framework in preparing its 30 June 2015 financial statements.

The transition to the new standards is imminent. The City Council is responsible for being ready to apply the new accounting standards and prepare compliant financial statements. We expect the City Council to be prepared for us to audit the transition as part of next year's audit to ensure that we can efficiently carry out our audit of financial statements prepared using the new accounting standards.

We will audit the updated statement of accounting policies, opening statement of financial position, and restated comparatives under the new standards as an integral part of auditing the first financial statements prepared under the new standards. We will discuss further with the City Council the timing of this transition audit and our expectations as we plan our 2015 audit.

7 Supplementary letter

We have provided management with a supplementary letter that outlines our other findings and recommendations about less significant and miscellaneous matters. The only new finding relates to incomplete documentation for credit card expenditure.

We also include a complete listing of recommendations made in the prior year and in our interim management report, and the updated position in relation to each is included within our supplementary report to management.

We wish to thank you and your staff for the assistance and cooperation extended during the course of the audit. If you have any questions, please contact me directly on 021 222 8464.

Yours sincerely

Bede Kearney
Director

Appendix 1: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit.	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our audit engagement letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carry out our audit in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We confirm that, for the audit of the City Council's financial statements for the year ended 30 June 2014, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.</p> <p>Other than the audit, we have not provided any engagements for the City Council during the year ended 30 June 2014. In addition, we have no relationships with, or interests in, the City Council.</p>
Other relationships	<p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the City Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the City Council during or since the end of the financial year.</p>
Unresolved disagreements	<p>We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.</p>

REPORT A1312127

Procurement Policy and Debt Management Process

1. Purpose of Report

- 1.1 To update the Committee on the Council's Procurement Policy and Debt Management process as requested at the Governance Committee meeting on 4 December 2014.

2. Delegations

- 2.1 The Audit, Risk and Finance Subcommittee has oversight of the management of financial risk.

3. Recommendation

THAT the report Procurement Policy and Debt Management Process (A1312127) and its attachments (A1293789, A1316053 and A1324271) be received.

4. Discussion**Procurement Policy**

- 4.1 Council officers documented the Nelson City Council Procurement Policy in 2013 and it is now appropriate to review. Officers propose some amendments to the policy to reflect legislative changes and to bring some efficiencies to the current policy.
- 4.1.1 The Local Government Act 2002, section 17(a), Delivery of Services, has a requirement that all contracts should be reviewed regularly to ensure best value for money – using criteria such as cost-effectiveness, suitability, fitness for purpose.
- 4.1.2 The lower limit for requiring an open tender is raised from \$50,000 to \$100,000. Procurements between \$50,000 and \$100,000 now require at least three written competitive quotes but don't need to follow the open tender process. This change will result in efficiencies at a time where Council wants more focus on business cases and project management disciplines.

Debt Management Process

- 4.2 New terms & conditions and an application form to create a new debtors account have recently been introduced. Terms and conditions for debtors

throughout Council have been inconsistent in the past. These new terms and conditions include standardised details to be provided by the applicant which gives greater ability to trace debtors, and the requirement for credit references. They include fundamental clauses such as the ability to cease offering services and refuse credit, and to cover any collection costs. There is the ability to refer any debt to a debt collection agency once a debt is more than 14 days overdue, with the cost being borne by the debtor. These changes are reflective of best practice.

- 4.3 The processes for managing debtors, requested at the 4 December 2014 Governance Committee meeting, are attached.

5. Options

- 5.1 The decision is to receive the report and the attachments.

6. Assessment of Significance against the Council's Significance Policy

- 6.1 This decision is not a significant decision.

7. Alignment with relevant Council Policy

- 7.1 The Procurement Policy is the Council policy.

8. Consultation

- 8.1 No specific consultation has been undertaken in preparation of this report.

9. Inclusion of Māori in the decision making process

- 9.1 No specific consultation with Maori has taken place in preparation of this report.

Nikki Harrison
Group Manager Corporate Services

Attachments

Attachment 1: NCC Procurement Policy January 2015 [A1293789](#)

Attachment 2: NCC Debt Management Process [A1316053](#) and [A1324271](#)

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Nikki Harrison
Group Manager Corporate Services

Attachments

Attachment 1: NCC Procurement Policy January 2015 [A1293789](#)

Attachment 2: NCC Debt Management Process [A1316053](#) and [A1316054](#)

Procurement Policy

Effective 2 December 2013

Review Date 31 January 2015

Contact: Lynn Anderson

1. Scope

- 1.1. This policy covers activities associated with the purchasing of all goods and services by, or on behalf of the (Council). It applies equally to the Council, the Senior Leadership Team, all groups and staff – permanent, temporary or contract.

2. Policy Objectives

- 2.1. The objectives of Council's procurement policy are to provide clear direction to management and staff in relation to the purchasing function and to establish a decision framework that:
- allows Council to be financially prudent through providing the best value for money (taking into account transaction costs) over the whole life of fit-for-purpose goods, service or asset;
 - minimises relationship costs, ongoing operational costs and consequential costs;
 - appropriately manages risk, including fraud;
 - ensures purchases are made with integrity and in an open and transparent manner with full and fair opportunity for all eligible suppliers;
 - contributes to Council's sustainability objectives outlined in Nelson 2060 and requires sustainably produced goods or services whenever possible, having regard to economic, environmental, and social impacts over their life cycle;
 - promotes efficient purchasing practices and their continuous improvement;
 - addresses health and safety considerations before, during and after the purchase of plant, equipment and chemicals;
 - ensures compliance with the requirements and guidelines of the NCC Procurement Manual; and
 - ensures Council's purchasing activities are managed in accordance with its statutory and legal responsibilities.

3. Policy Statements

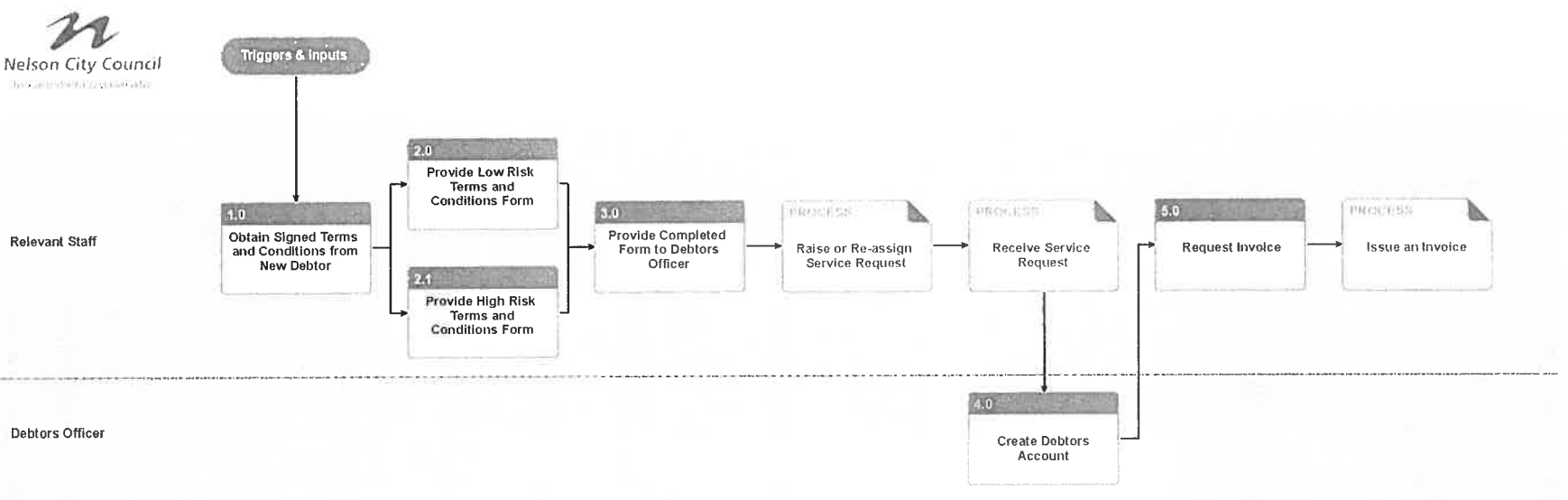
- 3.1. All purchasing activity within Council shall be undertaken in accordance with policy and principles and shall be in accordance with Council's Delegated Authorities:
- a Procurement Steering Committee, comprising of three Corporate Management Team members and two Leadership Team members, shall oversee procurement practice within the Council;
 - the Council will undertake its purchasing activities in the most effective and efficient manner taking into account the amount involved, the complexity and the risk to Council;

- The cost-effectiveness of current contractual arrangements in delivering services (including provision of infrastructure, public services and regulatory functions) must be reviewed within 2 years of the expiry of any such arrangement or if levels of service have changed significantly, taking into account other options for governance, funding and delivery of the service (Local Government Act 2002 Part 2 s 17A)
- Council has a commitment to sustainability and environmental protection and this will be reflected through purchasing practices;
- Council also has a commitment to health and safety and this will be reflected through purchasing practices (See Health & Safety Policy);
- The transactional cost of the evaluation of any procurement should reflect the value or level of risk of the procurement -
- procurements of less than \$10,000 where applicable, may be sourced from suppliers/service providers designated as 'preferred suppliers' where such preferred supply contracts have been established;
- for low risk procurements falling between \$2,000 and \$10,000, two to three written quotes with a specification are required. Where a supplier is of a specialist nature (ie either one or two who offer a service) then these can be approved individually without further quotes;
- A business case and at least three written competitive prices are required for purchases between \$10,000 and \$100,000, unless there are exceptional circumstances which should be approved by the Group Manager or CEO depending on the delegation level required;
- procurements for Capital Projects of low risk may also be sourced from an 'on-call' supplier where such arrangements have previously been established in the same way as for 'preferred suppliers'; if greater than \$50,000 discuss with the Group Manager;
- a Business Case or other evaluation methodology shall be required for all procurements of \$50,000 or more;
- all purchases over \$100,000 must be publicly advertised tenders unless there are exceptional circumstances and approved by the Chief Executive or Group Manager. Exceptional circumstances may include Council resolution to take an alternative approach; approved major relational purchases;
- CAPEX contracts and changes to contracts that are more than \$1million, and similarly any OPEX PO >\$1.5m, shall be presented to the Council for approval;
- from time to time an internal audit process shall be undertaken to ensure that the terms and conditions of the Council's Policy are being followed;
- where works are NZTA funded, NZTA procurement policies and procedures shall be followed.

4. Underlying Principles

- 4.1. The objective of the principles is to provide outcomes consistent with the Council's broader objectives to deliver best value for money through optimized whole-of-life costing and being fit for purpose, while being fair and reasonable, and legally robust.
- Council's broader objectives for procurement are that it should:
 - be value for money, taking into account the "whole of life" costs of goods or services;
 - meet our sustainability objectives;
 - meet a justifiable and approved business purpose;
 - be effective and efficient;
 - be made transparently, so the same information is available to all potential suppliers (subject to obligations of confidentiality);
 - be fair, so that all potential suppliers are treated the same and none is unfairly disadvantaged or advantaged;
 - consider local suppliers for physical construction contracts
 - be risk-based, and
 - be strategic.
 - All procurement must be in accordance with Council's financial delegations. A financial delegation is defined as "being the total amount that will be paid to a particular supplier under any one contract and is EXCLUSIVE OF GST (if any).
 - Valid purchase orders shall be raised and authorised prior to the procurement unless a declared Civil Defence emergency is in place providing the Controller with access to special powers (refer Civil Defence Emergency Management Act 2002 s. 85 and s. 94. See also Nelson Tasman Civil Defence Emergency Management Group Plan 2012)
 - Multiple purchase orders shall not be raised for the same procurement from the same supplier, in an attempt to reduce the level of delegated authority required.
 - Multiple purchase orders must not be raised for variation orders issued under an existing contract authorised by the Engineer-to-the-Contract.
 - When considering syndication Council should carefully consider the effects that joint procurement activity could have on the market.
 - Documentation for supply agreements should include a carefully defined negotiation strategy along with appropriate decision structures, objectives and "exit" strategies.
 - Where NZTA subsidy forms part of a project, prior approval from NZTA is required.

- Buy local is preferred - support for local organisations will be achieved through the weighting attribute system where used.
- A particular procurement method or process required by an external funding agency may take precedence over the NCC procurement policy and procedures in agreed circumstances.
- Legislative compliance is mandatory for all procurement.
- Contracts coming up for renewal must be assessed for cost-effectiveness, suitability and fitness for purpose. Further, all existing contracts must be reviewed within six year cycles (note, this does not mean that tenders can only be let for six years). Where a significant contract is reviewed, an email must be submitted to SLT showing the outcome of the review;
- Council requires its staff to declare any personal conflicts of interest which may affect, or could be perceived to affect, their impartiality (see Conflicts of Interest Register for Councillors and Group Managers). All other staff need to be mindful of their responsibilities and the need to disclose conflicts under the code of conduct [RAD n1519332](#)
- Staff must be aware of, and comply with, the [Gifts and Supplier Invitations Policy](#) and the [Fraud Policy](#).
- Particular care should be taken in the handling of commercially sensitive information and the risks associated with intellectual property during procurement.
- The staff member who signs the contract is responsible for all its terms and conditions and therefore should be aware of all risks and exclusions pertaining to it.
- A single point of contact in Council should be established for potential suppliers during a procurement process.
- If a consultant or agent is engaged the contract must require them to observe the same ethical standards, policies, principles, procedures and behaviour that apply to staff.
- A business case or other evaluation should be done for every purchase over \$50,000
- NCC model contracts have precedence over supplier proffered contract documents, although for best practice, continuity and consistency we do employ NZTA procurement processes on non-NZTA funded projects
- Sufficient records must be kept to show that due process was followed.
- The procurement selection must meet health and safety policy objectives.
- These principles do not cover recruitment and engagement of employees, nor for the purchase of real estate.



A1316053

Nelson City Council Policies and Procedures > Financial Management > Payments Received and Debtors > Create a New Debtors Account
Uncontrolled Copy Only : Version 4.0 : Last Edited Thursday, 19 February 2015 7:42 a.m. : Printed Thursday, 19 February 2015 7:43 a.m.

Summary

Objective

To set up a debtor in Nelson City Council financial systems.

Required Outcomes:

- Terms & Conditions signed before we agree to allow a person to have a credit account with Council

Owner Lynn Anderson

Expert Julie Reed

Procedure

1.0 Obtain Signed Terms and Conditions from New Debtor

Relevant Staff

- a Provide appropriate Terms and Conditions form to prospective new debtor:

2.0 Provide Low Risk Terms and Conditions Form

Relevant Staff

- a Provide simpler version for one-off lower risk debtors:
 - Nelson City Council application new customer account form with terms & conditions - lower level (A1313438)

2.1 Provide High Risk Terms and Conditions Form

Relevant Staff

- a Provide version for regular debtors or where we perceive a high amount of credit will be given:
 - Nelson City Council application new customer account form with terms & conditions - higher level (A1296722)

3.0 Provide Completed Form to Debtors Officer

Relevant Staff

- a Provide completed form to Debtors Officer (Julie Reed) attached to Service Request using type = Finance; sub-type = Request for new debtor:

PROCESS **Raise or Re-assign Service Request**
Relevant Staff

PROCESS **Receive Service Request**
Relevant Staff

4.0 Create Debtors Account

Debtors Officer

- a Check application and credit references and if approved, create a new debtors account
- b Link the completed Terms and Conditions to the debtor account
- c Advise the relevant staff member that the debtor has been created

5.0 Request Invoice

Relevant Staff

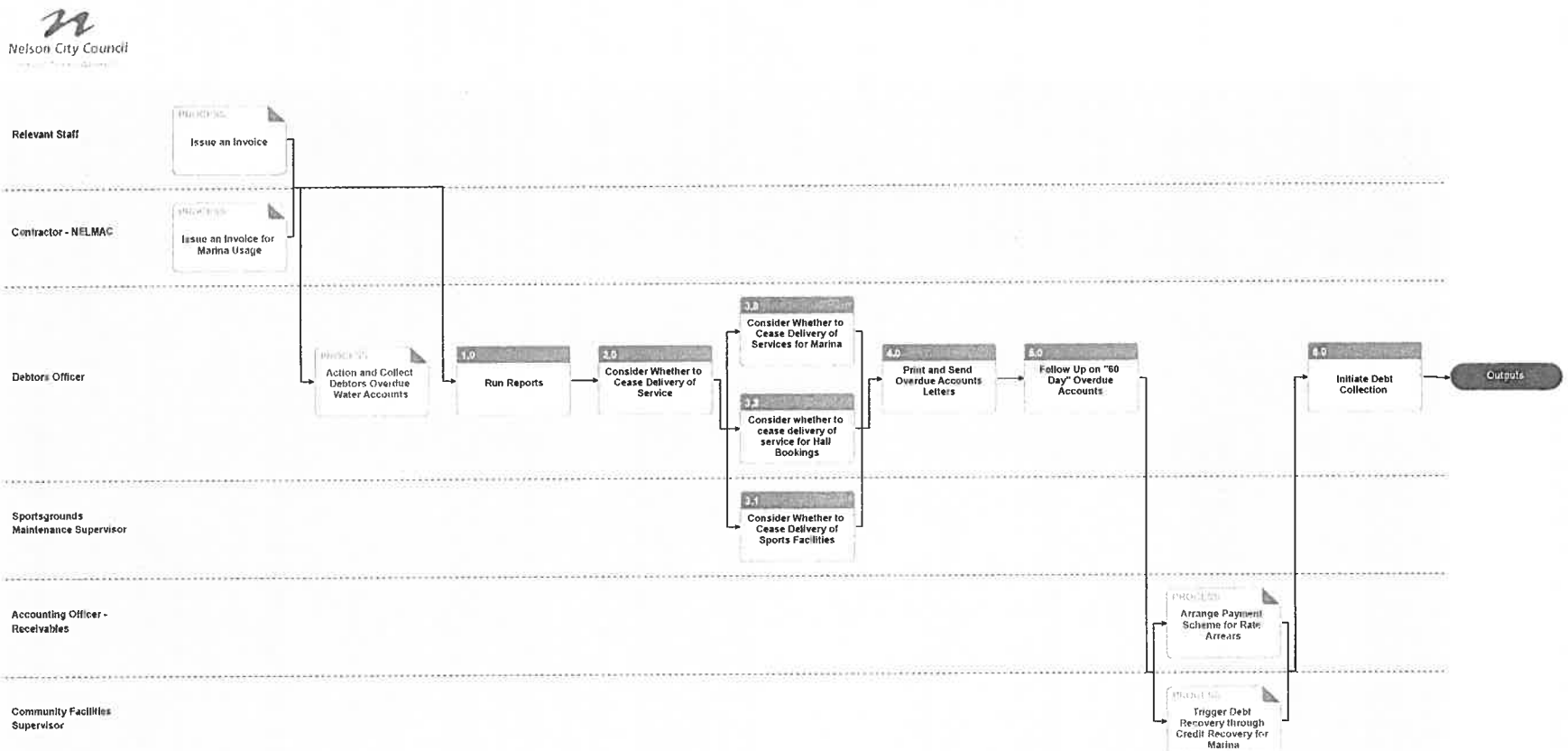
- a Request invoice for new debtor if and as required, following procedure:

PROCESS **Issue an Invoice**
Relevant Staff

Action and Collect Debtors Overdue Accounts

Attachment 2
v15.0

Nelson City Council
10 Richmond Road, Nelson, New Zealand



A132421

Summary

Objective

All outstanding accounts are identified and payment requested.

Required Outcomes:

- That all debt owing to Council is collected
- That debt recovery is undertaken correctly and consistently
- That debt collection is undertaken in the most efficient and effective manner

Owner Lynn Anderson

Expert Maria Michael

Procedure

PROCESS **Issue an Invoice**
Relevant Staff

PROCESS **Issue an Invoice for Marina Usage**
Contractor - NELMAC

CONDITIONAL **Action and Collect Debtors Overdue Water Accounts**
Debtors Officer

1.0 Run Reports Debtors Officer

- a Run statements at the beginning of every month to produce a statement for all accounts with a balance (this means more than, or less than \$0)
- b Run NCS report for 30 day letter - this brings up any accounts not paid by 20th of the month following the invoice

NOTE What does the 30 day letter tell the customer?

Debtors Letter 30 days (A645987)

- c Run NCS report for 60 day letter - this brings up any accounts not paid by 20th of the month following the invoice

NOTE If the debtor has any other debts, do not issue the 60 day letter but instead go straight to the next activity.

NOTE What is the 60 day letter?

Debtors Letter 60 days (A646243)

2.0 Consider Whether to Cease Delivery of Service Debtors Officer

- a Consider nature of service being delivered i.e. marina, parks and reserves booking, halls bookings
- b Consider whether the debtor regularly uses these facilities

3.0 Consider Whether to Cease Delivery of Services for Marina Debtors Officer

- a Consider whether to cease delivery of service for marina

NOTE Process to cease delivery of service for marina:

3.1 Consider Whether to Cease Delivery of Sports Facilities Sportsgrounds Maintenance Supervisor

- a Consider whether to cease delivery of service for Parks & Reserves bookings

NOTE Sports Maintenance Supervisor to check debtors accounts before approving renewal of new seasons bookings. If an amount outstanding 2 or more months then check with Debtors Officer. If appropriate, Debtors Officer will advise customer that no further service will be provided until account settled

3.2 Consider whether to cease delivery of service for Hall Bookings Debtors Officer

- a Consider whether to cease delivery of service for Hall bookings and Founders

NOTE Debtors Officer to review all 2 months outstanding balances for these and advises Parks and Recreation Officer then Spotless, Founders or Sport Tasman before sending letter to customer advising that services will be ceased until account settled

4.0 Print and Send Overdue Accounts Letters Debtors Officer

- a Print and send overdue accounts letters (30 day and 60 day letters) with the statements

NOTE 30 and 60 day letters should be sent by the 2nd working day of the month.

NOTE What if there is a query on the account?

5.0 Follow Up on "60 Day" Overdue Accounts Debtors Officer

- a Contact customer to request immediate payment, or set up a payment plan, if "60 day" overdue accounts are not paid by beginning of last week of month
- b Use "Arrange Payment Scheme for Rate Arrears" for late payment of rates, following procedure:

PROCESS **Arrange Payment Scheme for Rate Arrears**
Accounting Officer - Receivables

PROCESS **Trigger Debt Recovery through Credit Recovery for Marina**
Community Facilities Supervisor

6.0 Initiate Debt Collection Debtors Officer

- a Initiate debt collection activities as appropriate.

NOTE Debt recovery charges are only incurred when outstanding debt is received through the debt collection agency. Charges are a percentage of recoveries - currently 15% (Feb 2015). Consider net gains to Council from debt recovery before initiating

Liability Management and Investment Policies

1. Purpose of Report

- 1.1 To adopt the amended Liability Management and Investment Policies.

2. Delegations

- 2.1 The Audit Risk and Finance Subcommittee has powers to make recommendations to the Governance Committee in relation to Council's Treasury Policies.

3. Recommendation

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

Recommendation to Governance Committee and Council

THAT the Liability Management and Investment Policies be adopted.

4. Background

- 4.1 The current Liability Management and Investment Policies were adopted in June 2011 after consultation through the 2011/12 Annual Plan. They have been updated subsequently to allow Council to participate in the Local Government Funding Agency (LGFA) in 2012.
- 4.2 Legislative changes mean that amendments to the Liability Management and Investment Policies no longer need to be consulted on.

5. Discussion

Liability Management Policy

- 5.1 Key updates from the previous Policy are:
- Inclusion of a general policy section at the front of the Policy outlining overall policy and objectives;
 - Allowing forward start swaps and collars to start at a date greater than 24 months from deal date if the transaction starts on the

expiry date of an existing trade and the amount is no greater than the existing trade;

- Borrowing limits – deletion of the limit 'Net external debt (secured by rates) as a percentage of equity to be less than 20%';
- Inserting a section on internal borrowing clarifying Council's objectives and policies;
- Inserting a section on guarantees clarifying Council's objectives and policy;
- Inserting a section on foreign exchange requiring Council to hedge foreign exchange contracts if greater than \$100,000 once expenditure is approved and the currency amounts and timing are known, using spot and forward contracts;
- Inserting a section on the Emissions Trading Scheme. Council has previously approved the purchase of carbon credits but has not had a formal policy;
- Inserting a section on delegated authorities and limits requiring delegated authorities and signatories to be reviewed, at least annually, to ensure that they are still appropriate and current.

Investment Policy

5.2 Key updates from the previous Policy are:

Treasury Investments

- Clarification of wording that general reserves and restricted reserves are not held as cash but are used to offset Council borrowing;
- Inserting principles about how investment risk is managed;
- Deleting Commercial Paper/Bills/Bonds/Floating Rate Notes (FRNs) from approved financial instruments as these are not used by Council as investment products;
- Updating the counterparty matrix limiting LGFA investments and increasing the total maximum counterparty exposure allowed with a NZ Registered Bank from \$20m to \$25m;
- Amending wording on the Local Government Funding Agency (LGFA) investment.

Other Investments

- Amending wording to ensure that it is consistent with current practices and Statement of Intents (SOIs) and other changes since it was last reviewed in 2011;

- Although not amended in the Investment Policy, it is worth noting that Council should consider at some stage the use of dividends to offset rates and the risk that this may pose if the dividend stream decreases. It would be worth considering ring fencing the current level of dividends as being available to offset rates, and any increases above that amount, used to repay debt.

6. Options

Option 1

- 6.1 Adopt the proposed Liability Management and Investment Policies. The changes to the Policies are a result of a review by our external treasury advisor as well as incorporating changes that have occurred since the Policies were adopted in 2011.

Option 2

- 6.2 Not adopt the Proposed Liability Management and Investment Policies. This is not recommended as the changes in the Policies allow foreign exchange and Emissions Trading Scheme hedging.

7. Assessment of Significance against the Council's Significance Policy

- 7.1 This decision is not a significant decision in terms of the Council's Significance Policy.

8. Alignment with relevant Council Policy

- 8.1 The Liability Management and Investment Policies are required by section 102 of the Local Government Act and nothing in these Policies is inconsistent with any other previous Council decision or Council Policy.

9. Consultation

- 9.1 No specific consultation has been undertaken in preparation of this report.

10. Inclusion of Māori in the decision making process

- 10.1 No specific consultation with Maori has taken place in preparation of this report.

Nikki Harrison
Group Manager Corporate Services

Attachments

Attachment 1: Liability Management Policy [A1261456](#)

Attachment 2: Investment Policy [A1261457](#)

Liability Management Policy 2015

March 2015

Contact: Nikki Harrison

Introduction

General Policy

To provide appropriate parameters in which Council will manage its borrowing activities and external liabilities to ensure compliance with the provisions of the Local Government Act 2002.

Section 102 of the Local Government Act 2002 (the "Act") requires Council to adopt a Liability Management Policy (the "Policy"). Section 104 of the Act outlines the contents of Council's policies in respect of the management of both borrowing and other liabilities, including:

- interest rate exposure; and
- liquidity; and
- credit exposure; and
- debt repayment.

The Policy is to be consistent with the Long Term Plan (LTP) and Annual Plan. The formalisation of such policies and procedures will enable treasury risks within Council to be prudently managed.

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within Council continue to be well managed

Objectives:

Statutory Objectives

All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.

Council is governed by the following relevant legislation:

- Local Government Act 2002, in particular Part 6 including sections 101, 102, 104 and 105.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
- Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that 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.
- All projected external borrowings are to be approved by Council as part of the Annual Plan or the Long Term Planning (LTP) process.
- All master legal documentation in respect to external borrowing and financial instruments will be approved by Council's legal counsel prior to the transaction being executed.
- Council will not enter into any borrowings denominated in a foreign currency.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself.

A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:

- The period of indebtedness is less than 91 days (including rollovers); or

- The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of Council.

General Objectives

- Minimise Council's costs and risks in the management of its external borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Policy so as to protect Council's financial assets and manage costs.
- Arrange and structure external long term funding for Council at a favourable margin and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this Policy.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- Minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- To ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, LGFA, credit rating agencies, investors and investment counterparties

Liability Management Policy

Interest Rate Exposure

Interest rate exposure refers to the impact that changes in interest rates can have on the Council's cash flow. The Council's policy for interest rate risk management is to take a conservative, risk-averse approach by requiring a certain percentage of the Council's borrowing to be fixed rate or hedged borrowing. Both the long term nature of the Council's assets and the need for intergenerational equity mean it is important that the Council should:

- Have predictable interest costs;
- Avoid increases in annual rates caused by interest rate rises.

How Interest Rate Risk Is Managed: The Rules

The Council's external core net debt should be within the following fixed/floating interest rate risk control limits:

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 management and signed off by the Council Chief Executive. Net debt is the amount of total external debt net of cash or cash equivalent financial treasury investments. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate protection in place may have to be adjusted to ensure compliance with the policy minimums and maximums.

The fixed rate amount 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

Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.

A fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by Council.

Risk Management Instruments

The following instruments may be used for interest rate risk management activity.

Category	Instrument
Interest rate risk management	<p>Forward rate agreements ("FRAs") on:</p> <ul style="list-style-type: none"> Bank bills Government Bonds <p>Interest rate swaps including:</p> <ul style="list-style-type: none"> Forward start swaps (start date <24 months, unless linked to existing maturing swaps) Swap extensions and shortenings <p>Interest rate options on:</p>

Category	Instrument
	<ul style="list-style-type: none"> Bank bills (purchased caps and one for one collars) Government bonds Interest rate swaptions (purchased swaptions and one for one collars only)

- However, one for one 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';
- Interest rate options must not be sold outright;
- Purchased borrower swaptions mature within 12 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;
- Forward start period on swaps and collars to be no more than 24 months from deal date except where 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;
- Any interest rate swaps with a maturity beyond 10 years must be approved by Council.

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.

Liquidity and Funding Risk Management

Liquidity risk management refers to the practice of making sure funds are available when needed, without incurring penalties for breaking investments before time. The Council does not hold its reserves in cash and must anticipate and plan for drawings against reserves.

The Council's objective for funding risk management is to minimise the risk of large concentrations of debt being reissued at a time of adverse movements in borrowing margins beyond the Council's control.

Policy

The Council's policy for liquidity and funding risk management is:

- Ensure that the Council's committed debt facilities and term loans mature over a wide time period;
- External term debt plus committed debt facilities, plus available cash and cash equivalents must be maintained at an amount of at least 110% over existing external debt;
- Diversify borrowing over a range of bank and debt capital market lenders ensuring that bank borrowings are only sought from approved strongly rated New Zealand registered banks

- Matching expenditure closely to its revenue streams and managing cash flow timing differences
- Maintaining its financial investments in cash/cash equivalent investments
- Council has the ability to pre-fund up to 12 months of the forecast debt requirements including re-financings.

Rules

The Council's rules for managing liquidity and funding risk are that the maturity profile of the total committed funding in respect to all external term debt and committed debt facilities is to be controlled by the following system:

Period	Minimum %	Maximum %
1 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.

Credit Exposure

The Council does impose a minimum long term credit rating on its bank lenders of A+ or better and short term rating of A-1 or better, as determined by Standard and Poor's or equivalent international credit rating agency (Fitch or Moody's). Hedging facilities are only with banks that have a long term A+ or better credit rating.

Counterparty/Issuer	Minimum long term/short term credit rating	Risk management instrument maximum per counterparty
NZ Registered Bank (per bank)	A+ / A-1+	15.0

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

- Interest rate risk management (eg. swaps, FRAs) – Transaction Notional X Maturity (years) X 3%
- Foreign Exchange Risk (e.g. Forward Exchange Contract) – Transaction Face Value amount x ((square root of the maturity (years)) x 15%).

Debt Repayment

The Council repays borrowings from rates, debt raising, surplus funds, proceeds from the sale of investments and fixed assets.

Debt will be repaid as it falls due in accordance with the applicable borrowing arrangement. Subject to the appropriate approval and debt limits (per Council delegations register), a loan may be rolled over or re-negotiated as and when appropriate.

Note that the proceeds from sales of fixed assets and investments may also be used for the acquisition of other fixed assets.

Borrowing Mechanisms

The Council will borrow through a variety of market mechanisms including approved financial instruments as follows:

Category	Instrument
Cash management and borrowing	<p>Bank overdraft</p> <p>Committed cash advance and bank accepted bill facilities (short term and long term loan facilities)</p> <p>Uncommitted money market facilities</p> <p>Retail and Wholesale Fixed Rate Bond and Floating Rate Note (FRN) Issuance</p> <p>Commercial paper (CP)</p> <p>Promissory notes</p>

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.

Specific Borrowing Limits

The Council's policy for borrowing limits is to adhere to the following:

Item	Borrowing Limit
Net interest expense on external debt as a percentage of total revenue to be less than	15%
Net interest expense on external debt (secured by rates) as a percentage of rates revenue to be less than	20%
Net external debt (secured by rates) as a percentage of total revenue to be less than	150%
Liquidity (external term debt + committed debt facilities + available cash/cash equivalents) over existing external debt to be at least	110%

- 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, for example Development Contributions and vested assets;
- Net external debt is defined as total external debt less cash or cash equivalents;
- Liquidity is defined as external debt plus committed debt facilities plus available cash or cash equivalents divided by external debt;
- Net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period;
- Annual rates income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided and for which the other local authorities rate;

- Financial covenants are measured on Council only, not consolidated group.

Internal borrowing

The primary objective in funding internally is to use reserves and external borrowing effectively, by establishing a portfolio that provides funding to internal activity centres. This creates operational efficiencies, as savings are created by eliminating the margin that would be paid through Council separately investing and borrowing externally. In addition to external borrowing mechanisms all reserve accounts are used for internal borrowing purposes.

The interest cost will be set with reference to margins on external borrowing.

Actual rates of interest charged for internal borrowing will be approved as part of Long Term Plan process and charged annually in arrears at the weighted average cost of external borrowing (including credit margin and other related costs).

Guarantees

Council, from time to time, provides financial guarantees to local organisations, groups or bodies for recreational and community purposes. Council is prohibited from guaranteeing loans to Council Controlled Trading Organisations under Section 62 of the Local Government Act. In determining whether a guarantee is to be approved, the Council considers the social benefits provided to the community and the following:

- The potential for loss of capital;
- Where the Council assumes the asset in the case of default; the ongoing operating costs or completion costs of the asset;
- The nature of the organisation including its management, financial stability, cash flow forecasts and membership.

The total value of guarantees at any one time will not exceed 5% of the total annual rates, levied during that year. Total loan guarantees held at any time shall be taken into account when calculating the Council's maximum borrowing limit.

The Finance Department monitors the total value of guarantees provided, reporting annually to Council.

As a condition of the guarantee, the guarantor's annual financial statements are to be promptly given to Council after each year end and monthly reports can be requested at any time.

Security Policy

Council's external borrowings and interest-rate risk management instruments will generally be secured by a charge over rates and rates revenue offered through a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Act. The security offered by Council ranks equally or *pari passu* (on equal terms in all respects, at the same rate, or proportionately) with other lenders.

From time to time, with Council and Trustee approval, security may be offered by providing a charge over one or more of Council's assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds, for example an operating lease, or project finance;
- Council considers a charge over physical assets to be appropriate;

- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Trust Deed.

New Zealand Local Government Funding Agency

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

- contribute a portion of its borrowing back to LGFA subordinated debt, convertible to redeemable preference shares in LGFA if required by LGFA
- provide a guarantee of the indebtedness of LGFA;
- commit to contributing additional equity to 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.

Foreign Exchange

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated goods and services.

Generally, all significant individual amounts of NZD100,000 or greater commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved and the currency amount, and timing are known. Both spot and forward foreign exchange contracts can be used by Council.

By legislative restriction, Council cannot borrow or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency.

Approved financial instruments

Foreign exchange management	Spot foreign exchange
	Forward exchange contracts

Emissions Trading Scheme

The objective of the ETS carbon credit policy is to minimise the financial impact of movements in the carbon credit prices on Council. The objective requires balancing Council's need for price stability with the benefit of realising market opportunities to reduce costs as they arise.

ETS is risk managed under the following risk control limits. Given the uncertainty of the scheme, it is not considered appropriate to have minimum hedge percentages above 0% at this time (2014).

All Kyoto Protocol units (e.g. CERs, ERUs and RMUs) will be restricted from surrender in New Zealand from 1 June 2015. This means that NZETS participants are able to use Kyoto Protocol units for NZ surrender obligations up until 31 May 2015. NZUs and NZAAUs are the only units available to participants for surrender from 1 June 2015.

Period	Minimum %	Maximum %
Committed*	80%	100%
Forecast		

Period	Minimum %	Maximum %
0-1 years	0%	80%
1-2 years	0%	50%
2-3 years	0%	30%

*Exposures become committed Jan-Mar (quarter following emission period as Council must report emissions from previous calendar year).

Forward price transactions are limited to NZ registered banks per approved counterparties and approved legal documentation.

Formal performance to benchmarking is based at every 31 May, on the New Zealand Unit (NZU) of carbon. Prices of actual against the weighted Policy mid-point (40%) and spot (60%).

Approved financial instruments

Carbon price management	<p>New Zealand Units (NZUs) and Assigned Amount Units (NZAAUs)</p> <p>Emission Reduction Units (ERUs), Certified Emission Reduction Units (CERs), Removal Units (RMUs) – until such time as inadmissible on the NZ Emission Trading Scheme (ETS)</p>
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Delegated Authorities and Limits

Pursuant to Clause 32 (2), Schedule 7, of the Local Government Act 2002, Council may make delegations to officers of Council to allow for the efficient conduct of Council business. Clause 32 (3), Schedule 7 of this Act allows officers to delegate those powers to other officers.

Notwithstanding Clause 32 (1) (c), Schedule 7, the power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan remains the sole responsibility of the Council. This responsibility cannot be delegated.

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of "apparent authority". Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays). To prevent these types of situations, the following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind Council.

Whenever a person with delegated authority on any account or facility leaves Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons. Delegated responsibilities and authority limits are captured within Council's delegation register.

Operational Risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls. Operational risk is minimised through the adoption of all requirements of this Policy and detailed within Council's Treasury Procedures Manual.

Cash Management

From time to time, Council has daily cash flow surpluses and borrowing requirements, due to the mismatch of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the Finance Department. Council maintains a daily cash position report, and a yearly cashflow projection is prepared during the annual planning process. These reports determine Council's borrowing requirements and surpluses for investment for the year. Detail is captured within the Treasury Procedures Manual.

Internal Controls

Council's systems of internal controls over treasury activity include:

- Adequate segregation of duties among the core treasury functions of deal execution, confirmation, settling and accounting/reporting. There are a small number of people involved in treasury activity. Accordingly strict segregation of duties is not always achievable. The risk from this is minimised by the following processes:
- A documented discretionary approval process for treasury activity;
- Regular management reporting;
- Regular operational risk control reviews by an independent audit function; and
- Organisational, systems, procedural and reconciliation controls to ensure:
 - All treasury activity is bona fide and properly authorised; and
 - Checks are in place to ensure Council's accounts and records are updated promptly, accurately and completely.

Legal Risk

Legal and regulatory risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction, usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, Council may be exposed to such risks. If Council is unable to enforce its rights due to deficient or inaccurate documentation. Council will seek to minimise the risk by adopting policies regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, and contacts for disputed transactions) to be sent to counterparties;
- The matching of third party confirmations and the immediate follow-up of anomalies; and
- The use of expert advice for any non-standardised transactions.

Agreements

- Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council. All ISDA Master Agreements for financial instruments and carbon units must be signed by the Group Manager Corporate Services and the Chief Executive.
- Council's appointed legal counsel must sign off on all documentation for new loan borrowings, re-financings and investment structures.

Financial Covenants and Other Obligations

- Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.
- Council must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

Accounting Treatment of Financial Instruments

Council use financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense. Further detail of accounting treatment is contained within the appropriate operations and procedures manual.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship. Council's principal objective is to actively manage the Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's annual accounts.

The Group Manager Corporate Services is responsible for advising the Chief Executive of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least every six months for risk management purposes.

Treasury Performance

In order to determine the success of Council's treasury management function, the following benchmarks and performance measures have been prescribed.

- Operational performance; compliance to Policy and treasury deadlines.
- Management of debt and interest rate risk (borrowing costs); actual borrowing costs to budget rates and market benchmarks.
 - Actual wholesale interest costs must be benchmarked to market interest rates. The applicable market interest rate is determined by finding the mid-point policy benchmark rate. Council's policy mid-point represents an average maturity term of 5-years. The market benchmark rate will be calculated every month and represent the 5-year swap rate monthly rolling average over a 5-year period.
 - A margin representative of the actual weighted average term of Councils funding portfolio (for the reporting month) is used. The market benchmark margin (representing where an equivalent AA- credit rated Council funds at the equivalent funding maturity term) is added to the benchmark interest rate to provide a correct comparison to actual all-up borrowing costs.

- The appropriate market benchmark is the established local government credit curve (via. LGFA/relevant debt capital market placement).

Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) are to be reported to Council or an appropriate sub-committee of Council on a quarterly basis.

Policy Review

The Policy is to be formally reviewed on a triennial basis, and annually for internal purposes. The Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes.

Investment Policy 2015

March 2015

Contact: Nikki Harrison

Investment Policy

Purpose

Section 102(2)(c) of The Local Government Act 2002 requires Council to adopt an investment policy which, under Section 105, must state Council's policies for its investments, including:

- the mix of investments;
- the acquisition of new investments;
- an outline of the procedures by which investments are managed and reported on to Council;
- an outline on how risks associated with investments are assessed and managed.

This investment policy has been developed as a guide to control all Council investments and may be changed only by a formal resolution of Council.

Investment Principles

The Council makes investments when they offer strategic benefits or when they are necessary for the Council to effectively carry out its functions. The Council recognises that, as a responsible public authority, any investments it holds should be low risk. The overall investment approach of the Council is to balance risk against long-term returns, accepting that lower risk generally means lower returns.

Objectives and Strategies

The main aim of an investment policy is to ensure the portfolio is managed in a prudent and competent manner, in terms of the governing legislation. The Council's primary objectives for investments to effectively carry out Council functions are:

- To protect the Council's investments and ensure they are risk averse and secure;
- To ensure the investments benefit the Council's ratepayers.

To achieve these objectives, Council's primary strategies are:

- Protect investment capital value and minimise the risk of loss;
- Optimise the investment value and return;
- Ensure investments are of a type that provides Council with funds when required;
- Diversify the mix of financial instruments;
- Promote economic and business development in Nelson (while recognising other policy considerations);
- Achieve the goals and objectives set out in the Council's Long Term Plan and Annual Plan.

Policy

The Council's general policy on investments is that Council may hold property, forestry, and equity investments if there are strategic, economic or other valid reasons, such as when an investment is the most appropriate way to administer a Council function.

The Council will not be involved in investments for purely income earning purposes, except for short-term investment of surplus funds. In this case, it will aim for maximum return with minimum risk within the parameters of the Policy.

The Council will keep under review its approach to all major investments, the monitoring of equities and the credit rating of approved financial institutions.

Policy on Acquisition of New Investments

In deciding to acquire new investments, Council considers the following questions:

Legal Issues

- Is there a statutory requirement for this investment?
- Is there a statutory authority for this investment?
- Does the Council have any other binding legal commitments to it?

Effectiveness

- Does the investment contribute to the Council achieving community outcomes now and in the future?
- Is there enough community interest to justify the Council's involvement?
- Does the Council have the control and influence needed to ensure the desired outcome

Benefits

- What are the benefits – strategic, financial and others?
- Who benefits?

Risks

- What are the risks?
- Who bears them?
- How can they be managed?

Other Options

- What other options have been considered to achieve the same outcomes?

Treasury Investments

Background

The Council maintains treasury investments in order to invest:

- Surplus cash, and working capital funds;
- Funds allocated for the purpose of accumulating surplus;
- Funds allocated for approved future expenditure, implementing strategic initiatives, supporting intergenerational allocations and proceeds from the sale of assets.

Policy

The Council's policy for its treasury investments is to use only credit-worthy counterparties with a strong Standard and Poor's rating or equivalent credit rating agency as set out in the counterparty credit risk table later in this policy.

Rationale

The Council's primary objective is the protection of its investment. Council recognises that as a responsible public authority all investments held, should be low risk. Council also recognises that low risk investments generally mean lower returns.

Benefits

The main benefit of treasury investments is that they provide funds for operating and capital expenditure as needed.

Risk

The fixed rate investment is vulnerable to changes in interest rates and this can impact on both the returns available, and the capital value of the investment, if sold before maturity.

The amount invested and return is at risk from a counterparty default, where the party is unable to repay principal and interest amounts as they fall due. Accordingly, only approved credit worthy counterparties are acceptable.

The following principles capture the objectives outlined above and form the key assumptions of the operating parameters contained in the Counterparty Exposure Limits:

- Credit risk is minimised by placing maximum limits for each broad class of non-government issuer and by limiting investments to the LGFA and registered banks within prescribed limits.
- Liquidity risk is minimised by managing maturity terms to future expenditure requirements and ensuring that all securities are capable of being liquidated. Bank term deposits are restricted to a term of no more than three months.
- The Council's treasury investments are structured to provide sufficient funds to meet Council's cash flow and capital expenditure obligations as they fall due.

Investment Limits and Controls

Policy and Rules

The Council ensures it receives amounts owed to it in full and on due dates by undertaking investments only with institutions that have a strong Standard and Poor's credit rating, or equivalent international credit agency, and by applying the following rules for investment counterparty controls:

- Limit total exposure to prescribed amounts, as set out in the matrix below.

Rules on Investment Risk

Approved financial instruments are as follows:

Category	Instrument
Cash management investments (up to three months)	Call and short term bank deposits Bank registered 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.

Counterparty Credit Risk

Counterparty credit risk is the risk of losses, realised or unrealised, arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit

risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Council. Counterparties and limits can only be approved on the basis of long-term Standard and Poor's credit ratings, or equivalent international credit rating agency, being A+ and above or short term rating of A-1 or above. Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits:

Counterparty/Issuer	Minimum long term/short term credit rating	Investments maximum per counterpart (\$million)	Total maximum per counterparty (\$million)
NZ Government	N/A	Unlimited	Unlimited
NZ Local Government Funding Agency	AA/A-1	20.0	20.0
NZ Registered Bank	A+/A-1	10.0	25.0

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

- Investments (e.g. Bank Deposits) – Transaction Principal x Weighting 100% (unless a legal right of set-off exists);

New Zealand Local Government Funding Agency

Despite anything earlier in this Investment Policy, the Council may invest in shares and other financial instruments of the 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; and
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for Council.

Because of this dual objective, 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.

Managing and Reporting on Investments

Council makes policies for property investments owned by Council, including Civic House, Ridgeways Joint Venture and Council Controlled Trading Organisations.

The key reporting on investments is through the Council's Annual Report, covering the previous financial year. This is audited by Audit NZ. There are also a number of other reports to the Governance Committee or the Joint Shareholders Committee, including the six-monthly report from each Council Controlled Trading Organisation (CCTO) and the Council monthly abbreviated balance sheet and treasury compliance report. Return in relation to risk is also managed through the Statement of Intent (SOI) for CCTOs, the appointment of independent directors and the auditing of annual accounts. Further background and objectives for each type of investment are outlined in more detail below.

Port Nelson Limited

Background

Port Nelson Limited (PNL), which includes the wharves and much of the reclaimed land at the port, is one of Nelson's significant strategic assets. Nelson's relative isolation means the port's activities are critical to both the economy and recreation of the region. Local government was re-organised in 1989 and the Nelson Harbour Board was corporatised. Ownership passed to the two local authorities so that 50% shares are held by each of Nelson City Council and Tasman District Council.

These shares are carried in the Nelson City Council's books at the cost, which is the share value determined by dividing the net assets of a company by the number of shares issued.

Port Nelson has consistently paid a dividend to its shareholders.

Ten Year Goal

Retain community control of the regional port recognising its strategic importance.

Policy

Nelson City Council's policy for Port Nelson is to:

- Retain the Council's 50% ownership for the present;
- Review future options while still retaining community control of the port;
- Continue using Port Nelson dividends to ease the burden on ratepayers;
- Continue using any special dividends or capital proceeds to reduce external borrowings.

Rationale

The Council recognises that this investment is its largest in relation to total investments. The strategic importance of this gateway to the region as a natural monopoly, together with probable benefits from dividends, currently justifies the financial risk, which itself is acceptable.

Benefits

The benefits of Council's investment in Port Nelson are ongoing and long term, though not guaranteed. The key strategic benefit is public control over a critical gateway to the region with significant economic benefits.

Financial Benefits

Dividends are used to ease the burden on ratepayers by being credited to the general rate account. Special dividends are used to reduce Council's external borrowings. The Council owns 50% of a valuable strategic asset, which is anticipated to continue to provide financial benefits to the community.

Risk

The risks of this investment are:

- Dividends depend on Port Nelson's ability to generate profit;
- There is some potential for competition from other ports to affect Port Nelson's business.

How the Investment Is Managed

The Council actively manages this investment by:

- Jointly appointing external directors with appropriate expertise to the Board of Directors;

- Appointing an external director with appropriate expertise to the Board of Directors;
- Annually approving and/or amending Port Nelson's Statement of Intent;
- Requiring a six-monthly report on Port Nelson's results and future outlook;
- Regularly considering the investment management options summarised below.

Options

Other options that Council has considered to reduce its exposure to risk include:

- The two Councils could sell a portion of their shareholding, though not to the extent that they would lose joint control; or
- The two Councils could sell their entire shareholding and exit the business completely.

Nelson Airport Limited

Background

Nelson Airport is a significant strategic asset. Nelson's relative isolation means the airport's activities are critical to both the economy and recreation of the region. Shares are currently held 50% by Nelson City Council and 50% by Tasman District Council.

Ten Year Goal

Retain community control of the regional airport.

Policy

The Council's policy for Nelson Airport is to:

- Retain the Nelson City Council's 50% ownership for the present;
- Review future options while still retaining community control of the airport;
- Continue using Nelson Airport dividends to ease the burden on ratepayers;
- Continue using any special dividends or capital proceeds to reduce external borrowings.

Rationale

The Council considers that it is important to retain control over the strategic services provided by the airport.

Benefits

The benefits of the investment in Nelson Airport are ongoing and long-term, but not guaranteed. . The key strategic benefit is public control over a critical gateway to the region with significant economic benefits

Financial Benefits

Financial benefits include that any dividends will be used to ease the burden on ratepayers by being credited to the general rates account, and that Council owns 50% of a valuable asset.

Risks

The risk of investing in the airport is that dividends depend on Nelson Airport's ability to generate profit.

How the Investment Is Managed

The Council manages this investment by:

- Jointly appointing external directors with appropriate expertise to the Board of Directors;

- Appointing an external director with appropriate expertise to the Board of Directors;
- Annually approving and/or amending the company's Statement of Intent;
- Requiring a six-monthly report on the company's results and future outlook.

Nelmac Limited

Background

Nelmac Limited was formed in 1995 and is 100% owned by the Nelson City Council. The company has around 60% of its contracts with the Council to provide essential utility services including:

- Solid waste collection in the central city and from Council-owned parks and reserves;
- Maintenance of gardens, parks, and wilderness areas;
- Maintenance of the water supply, stormwater, and wastewater systems.

The balance of Nelmac Ltd work is from non Nelson City Council clients sourced on the open market. It currently owns its base in Bullen Street, and has modern maintenance plant, vehicles, and equipment.

Ten Year Goal

Retain community control of Nelmac Limited with a modest growth goal.

Policy

Nelson City Council's policy for Nelmac Ltd is to:

- Retain Nelson City Council ownership;
- Negotiate an ongoing partnership agreement with Nelmac Limited for the provision of specified strategic services to the Council;
- Maintain a focus on Nelson City Council work by undertaking work for other clients only where:
 - The additional scale of work improves the level of service available to the Nelson City Council;
 - The work is clearly profitable;
 - After giving due consideration to Nelmac Limited's place in the market and the capital requirement.

Rationale

The Council believes it is important to retain control over the critical services that Nelmac Limited provides for the City. In addition, the company is performing well and Council considers it is desirable for several reasons to keep the company's business, profits, and spending within the Nelson community.

Benefits

The benefits of the investment in Nelmac Limited are ongoing, although these are not guaranteed. The strategic benefits are that Council retains control over critical services provided by Nelmac Limited. It also provides true and complete costing information on contractor performance.

Financial Benefit

Any dividends are used to ease the burden on the ratepayer by being credited to the general rates account.

Risks

The risks of this investment are:

- Returns depend on Nelmac Limited's ability to generate revenue and profit;
- The investment relies on Nelmac Limited's ability to provide an effective and efficient service to Council.

How the Investment Is Managed

The Council manages this investment by:

- Appointing all directors on Nelmac Limited Board of Directors;
- Annually approving and/or amending Nelmac Limited Statement of Intent;
- Requiring a six monthly report on Nelmac Limited results and future outlook.

Options

Council regularly reviews its investment in Nelmac Limited.

Nelson Tasman Tourism (Tourism Nelson Tasman Ltd)

The Council owns 100% of Tourism Nelson Tasman Limited (NTT). The company undertakes destination marketing, destination management and the provision of visitor information services in Nelson. It co-ordinates the marketing and promotion of the Nelson Tasman region as a visitor destination, provides tourism education and product development and manages the visitor information centres throughout the region.

Ten Year Goal

Council's goal is to take a coordinated approach with the Tasman District Council to stimulating the regional economy through investment in the tourism sector.

Policy

The Council's policy for Tourism Nelson Tasman is to enter into a contract of service with Tourism Nelson Tasman Ltd, on a three-year rolling basis, to establish baseline funding for the promotion of tourism in the region. Council considers the funding requirements for Tourism Nelson Tasman each year as part of its Annual and Ten Year Planning processes, to consider whether the baseline funding needs increasing.

Rationale

Tourism Nelson Tasman is an effective mechanism for Council to achieve its objective of promoting tourism and economic development in Nelson¹.

Benefits

The financial benefits of tourism promotion accrue to the regional community rather than directly to the Council. The strategic benefit is that Tourism Nelson Tasman Ltd promotes tourism in the region, coordinates various tourism marketing initiatives and therefore assists the development of the local economy.

Risks

This is a community company with no shareholders' funds and so there is no investment at risk.

How the Investment Is Managed

The Council's procedure for managing the investment in Tourism Nelson Tasman includes:

- appointing directors with appropriate expertise to the Board of Directors;
- approving and/or amending, on an annual basis, the Statement of Intent; and
- receiving a six-monthly report from the company that details results and its outlook.

¹ Currently an external review of NTT/EDA is being undertaken.

Forestry

Background

The Council has invested in and been involved in managing forestry interests since the 1940s and these are held as long term investments. Council-owned forests are located in the Brook, Marsden, Maitai and Roding. The total net stocked area as at 30 June 2014 is estimated at 649.4 hectares.

Policy

The Council's current policy for commercial forestry is:

- To not purchase land for forestry purposes nor plant more commercial forests other than replanting;
- Endorse and observe the provisions of the New Zealand Forest Accord (August 1991);
- Contract out forestry management to an independent Forest manager;
- To manage its forest estate on a sustainable basis and to maximise net present value.

Rationale

In the last few years the forestry and land management environment has changed considerably with a much greater emphasis on sustainability and the introduction of the Emissions Trading Scheme. 78% of Council forestry occurs on steep to very steep slopes, making harvesting a more challenging and expensive operation. Some blocks are on their first rotation and therefore will require the establishment of roading and skid sites. The negative impacts of climate change and the likelihood of more extreme weather events causing windthrow issues is also a consideration for the future. Council is yet to review strategic decisions on its forestry portfolio².

Benefits

The Council's forests are a significant resource, a means of generating revenue from public reserve land and provide for recreational use.

Financial Benefits

As well as revenue generation, there are also environmental and social benefits in that forests provide areas with public access for walking, biking, hunting and other recreation. Forestry operations contribute to local business operations including contract forestry management, logging contractors, silvicultural contractors, transport contractors and Port Nelson.

Risks

Forestry has performed poorly in recent years although is still expected to be a low risk investment in the medium to long-term.

Financial Risks

Any forest is at risk from natural disasters, fire, and disease. Prices fluctuate and at any given time depend on world markets, particularly those in Asia. As development is funded from retained earnings, any shortfall in earnings requires the Council to make additional external borrowings to fund development.

Environmental Risk

Poor management of logging operations could pose environmental risks, especially to water supply.

How the Investment Is Managed

² External review currently underway

The Council actively manages its investment in forestry by:

- Contracting out forest management to reputable consultants;
- Carrying out silviculture to a defined forestry management plan, which is reviewed every three years;
- Revaluing forestry assets at 30 June each year and crediting any increase to the asset revaluation reserve;
- Minimising the impact of short-term decline in prices by delaying harvesting as appropriate;
- Maintaining insurance cover for fire and wind damage.

Property Investments

Background

The Council owns a large number of properties but the vast majority of these are not held for investment purposes. Most Council properties are occupied by the Council for community facilities, to enable the delivery of services; conservation reserves; reserves for recreation; utilities; or roads. In most of these cases there is no intention to dispose of these properties because of their ongoing benefits to the community. A small number of Council properties are owned for investment purposes that include a component of investment benefit. These are:

- Civic House and State Advances buildings, on the corner of Halifax and Trafalgar Streets;
- Land in Akerston St, adjacent to the marina;
- Land and buildings at the Plant and Food site, Wakefield Quay;
- The land under the fishmonger/café site on Wakefield Quay;
- BP site on Haven Road.

Other properties that are held in anticipation of future use by Council, on behalf of the community, that could be considered to have an income-generating or investment component, include:

- The building at 23 Halifax Street adjacent to the library;
- The Millers Acre Centre Taha o Te Awa, which accommodates the Visitor Information Centre, Nelson Tasman Tourism, the Economic Development Agency and other organisations;
- Four residential properties adjacent to the Railway Reserve in the St Vincent Street area;
- The site at 46 Rutherford Street between Bridge and Vanguard Streets;
- Betts and Bridge Street leased carparks;
- The Hunters and Hunting & Fishing building in Wakatu Square;
- Anchor, Customhouse/Reliance Engineering/Four Seasons on Haven Road.

Although the Council has taken part in subdivision developments in the past, it does not currently pursue further subdivision opportunities as an investment. The Ridgeways Joint Venture is discussed later in this policy and is nearing conclusion.

Policy

The Council's general policy on property investments is:

- The Council will not be involved in property investments purely for income earning purposes;
- There might be strategic, social, or other valid reasons for Council to be involved in property ownership or investment, for example when it is the most appropriate way to administer a Council function or achieve community outcomes
- The Council will not become involved in any further property development or major subdivisions unless there are Council objectives or social benefits arising from the investment that cannot be achieved by other means.

Subject to the first two policies above, the Council may take a facilitating role in subdivisions, whether or not it owns all the land to be subdivided.

Ridgeways Joint Venture

Background

The Council owned rural land in the hills behind Stoke for many years and leased it out for grazing. In 1993, the Council called for expressions of interest in the property. Having received no reasonable offers for an outright sale, a 50/50 joint venture was set up with Residential Land (Nelson) Limited since replaced by Homedale Holdings Limited to subdivide the property into 202 sections. Nine sections in the final stage are on the market and remain to be sold. Due to the slow property market, it is not known how long it will take to sell the last of the sections. With all initial costs covered each sale provides additional profit for Council.

Policy

The Council's policy for the Ridgeways Joint Venture is to complete the sale of remaining sections in the development.

Rationale

Council has inherited this venture and intends to complete the sales process for the remaining sections to realise its financial benefit for ratepayers.

Benefits

The initial proceeds from the development were used to fund later stages. Any profits are used to repay debt within Council.

Significant financial benefits were expected from this investment and these were realised, largely due to the timing of property market growth. The venture netted several million dollars in profits for Council, and these benefits are anticipated to continue until sales are complete. The strategic benefits include the development expanding the Council's rating base. It also provided a water reservoir that can be used to service future development.

Risk

The Council has already recovered its initial investment. The remaining risk is that it might not sell the remaining sections at the budgeted level, or it might take longer than anticipated to achieve these sales.

How the Investment Is Managed

Council manages this investment by:

- Sharing 50% of the risks with its joint venture partner;
- Funding future development of the subdivision from sales of earlier stages;
- Annual Statement of Intent and reporting requirements.

Loans and Advances to Community Groups and Ratepayers

Miscellaneous Loans and Advances

Background

The Council occasionally provides loans and advances to assist a community group or ratepayer to fund a capital work that is in the best interests of the Council and community. These loans and advances are provided only on rare occasions, and only with the prior agreement of the Council. As at 30 June 2014, the total balance of loans and advances outstanding was \$5.256m, compared with \$5.755m in 2013.

Policy

The Council's policy for miscellaneous loans and advances to community groups and ratepayers is to continue providing loans and advances but only as a means to achieve a particular objective consistent with the Council's strategic goals and policies and with the prior approval of the Council. Where loans relate to buildings on Council land, the Council will take security over the building and chattels.

Risks

Risks are specific to each loan and are mainly around the ability of the community group or ratepayers to repay the loan.

How These Investments Are Managed

Loans are monitored by Council management and recommendations are made to Council if action is considered to be required.

New Zealand Local Government Insurance Corporation Limited (Trading As Civic Assurance)

Background

Civic Insurance was set up as a national corporation to ensure local authorities have access to adequate insurance arrangements at a reasonable cost. Almost all local authorities became shareholders. The value of shares held by Nelson City Council, which was \$140,000 as at 30 June 2014, is not significant relative to the Council's total investment holdings. As shares are not readily transferable it is unlikely a reasonable offer for their purchase would be received by Council.

Rationale

Council invests in Civic Assurance to ensure that the insurance market is competitive and that the local government sector is in a strong position to manage its own risk³.

Risks

Risks associated with Civic Assurance are mitigated with the use of suitably qualified staff and directors of the company.

How the Investment Is Managed

The investment is managed through the Statement of Intent and Annual Reporting process as well as voting for directors.

³ Local Government New Zealand is currently reviewing the appropriate structure of local government insurance provision (currently referred to as the Local Government Risk Agency)