
**MINUTES OF THE AUDIT & RISK COMMITTEE MEETING OF THE
STRATFORD DISTRICT COUNCIL HELD IN THE COUNCIL
CHAMBERS, STRATFORD DISTRICT COUNCIL ON TUESDAY 6
OCTOBER 2020 AT 3.07 PM**

PRESENT

P Jones (the Chair), the District Mayor N C Volzke, the Deputy Mayor A L Jamieson, Councillors P S Dalziel and J M S Erwood.

IN ATTENDANCE

The Deputy Chief Executive – Ms K Whareaitu, the Director Corporate Services – Mrs T Radich, the Director Environmental Services – Mr B Sutherland, the Director Assets – Mrs V Araba, Councillors G W Boyde, G M Webby, W J Sandford, the Administration & Communication Support Officer – Ms R Vanstone, the Health & Safety and Emergency Management Advisor – Mr M Bestall (*part meeting*), the Communications Manager – Ms G Gibson, the Corporate Accountant – Mrs C Craig (*part meeting*) and two members of the media (the Stratford Press & the Daily News).

1. WELCOME

The District Mayor Volzke introduced and warmly welcomed the Audit and Risk Committee's new chair, Mr Philip Jones, well known throughout local government circles and an experienced audit and risk committee chairperson.

The Chair welcomed the District Mayor, Councillors and staff to the meeting.

2. APOLOGIES

An apology was noted from the Chief Executive – Mr S Hanne.

A motion for lateness was received for Councillor McKay who was attending the meeting via audio visual link due to illness.

RECOMMENDATION

THAT an apology be received from Councillor M McKay.

VOLZKE/JONES
Carried
A&R/20/34

It is noted that this recommendation was amended to an apology as Councillor McKay was unable to attend the meeting via audio visual link due to technical issues.

3. ANNOUNCEMENTS

The Chair thanked attendees for the welcome and noted that he has served on seven audit and risk committees and has acted in governance advisory roles to councils on many occasions. Mr Jones looked to encourage good participation from committee members.

4. DECLARATION OF MEMBERS INTEREST

The Chair requested councillors to declare any real or perceived conflicts of interest relating to items on this agenda.

There were no declarations of interest relating to items on this agenda.

5. ATTENDANCE SCHEDULE

The attendance schedule for Audit and Risk Committee meetings was attached.

6. PROGRAMME OF WORKS

D19/32844 (Page 8)

RECOMMENDATION

THAT the Audit and Risk Committee's programme of works for 2020 be received.

DALZIEL/ERWOOD
Carried
A&R/20/35

The Chair noted that he would review the programme of works in forthcoming meetings as he continues to assess the effectiveness of the committee. Mr Jones will work with the committee and staff to develop a robust work programme setting objectives for each meeting and for the remainder of the triennium.

7. CONFIRMATION OF MINUTES

7.1 Audit and Risk Committee Meeting Minutes – 21 July 2020
D20/20660 (Pages 9-17)

RECOMMENDATION

THAT the minutes of the Audit and Risk Committee Meeting held on Tuesday 21 July 2020 be confirmed, with any amendments, as a true and accurate record.

DALZIEL/JAMIESON
Carried
A&R/20/36

8. MATTERS OUTSTANDING

D18/27474 Page 18

RECOMMENDATION

THAT the matters outstanding be received.

ERWOOD/DALZIEL
Carried
A&R/20/37

It was noted that with the completion of the chair's appointment process, there were no further matters outstanding.

It was noted that item 9 would be deferred to give Councillor McKay, unable to attend the meeting via audio visual link due to technical issues, an opportunity to email feedback to the Deputy Mayor.

11. INFORMATION REPORT – RISK REVIEW

D20/25498 Pages 154-176

RECOMMENDATION

THAT this report be received.

RECOMMENDED REASON

To provide an update to the Audit and Risk Committee of any changes to the Council Risk Register and advise the Committee of any incidents in relation to the Top Ten Risk Register since the last Audit and Risk Committee meeting, held in May 2020.

JONES/DALZIEL
Carried
A&R/20/38

The Director – Corporate Services noted the following points:

- Since the agenda was distributed, there has been a water main burst on Broadway on 30 September resulting in discolouration to water. This was resolved in a few hours and did not affect the safety or availability of water.

The Health & Safety and Emergency Management Advisor joined the meeting at 3.17pm.

Questions/Points of clarification:

- Councillor Jamieson sought clarification with reference to the contractor breach (risk 58) at the library where a faulty water cylinder valve was installed. He asked whether the same contractor was brought in to rectify the issue given the workmanship was questionable. The Director – Assets confirmed that the initial plumber’s work was not overseen or signed off and consequently another plumber from the same company made the repair (at their cost).
- Councillor Dalziel noted that pre-qualification would not have mitigated the risk in this case.
- The Chair advised the committee that a number of councils use an external expert to complete tax reviews. Mr Jones sought clarification on whether this route could be part of the audit programme of this Council in the future? The Director – Corporate Services advised that this has been looked into in the past but it was a very expensive exercise and the costs outweighed the benefits as there are some internal controls in place. It was also thought that the Council had the capability to do so as both the Director and the Corporate Accountant were experienced in the area of tax from their previous work with the Inland Revenue. Mr Jones commented on the complexities of tax and the costly consequences of getting it wrong. He considered in the least a reference group to bounce ideas off as valuable. The Director – Corporate Services agreed to look into this again in the new year.
- The Chair discussed generally the difference between raw and residual risk and commented that Council could ask itself whether it was doing everything that could possibly be done with the available resources, was a useful situational scan. He also questioned whether the residual risk was reflective of the controls in place.
- The Chair noted the example of a council succumbing to ransomware when a backup had not functioned as expected. Mr Jones considered that backup testing would be useful and he would like to see such testing completed at some stage.

10. INFORMATION REPORT – HEALTH AND SAFETY REPORT

D20/25332

Pages 150-153

RECOMMENDATION

THAT the report be received.

ERWOOD/JAMIESON

Carried
A&R/20/39

The Health & Safety and Emergency Management Advisor noted the following:

- The vehicle policy review has been bought in line with the Taranaki Road Safety Charter. It was noted that the policy applies to everyone driving a council vehicle.

Questions/Points of clarification:

- The Chair noted the dramatic drop off in reported near misses for the period. The Health & Safety and Emergency Management Advisor responded that the figures were relatively difficult to decipher. He was unsure whether the COVID 'break' was a plausible cause. Education into near miss reporting would continue.

The Health & Safety and Emergency Management Advisor left the meeting at 3.35pm.

9. **DECISION REPORT – ON-LENDING \$7,180,000 FOR LAND ACQUISITION**

D20/26367

Pages 19-149

RECOMMENDATIONS

1. **THAT** the report be received.
2. **THAT** based on the risk assessment within this report, the Committee endorses the proposed decision by Council to borrow up to \$7,180,000 to on-lend to the Stratford Agricultural and Pastoral Association (A&P Association) to purchase land for an independent local economic venture, subject to receiving positive community consultation plus in addition that before Council makes a final decision that it receives and considers that the following four conditions are met:
 - 2.1 A detailed business case, including sensitivities completed to Council satisfaction
 - 2.2 A second valuation addressed to Council.
 - 2.3 A detailed assessment on the impact of Council's future borrowing capacity.
 - 2.4 An economic assessment report which supports the business case, to be critiqued by an independent third party.

Recommended Reason

The endorsement of this decision by the Audit and Risk Committee will give Council assurance that the risks associated with the loan have been considered and satisfactory mitigations are able to be implemented.

VOLZKE/JAMIESON

Carried

A&R/20/40

The Director – Corporate Services noted the following points:

- This report was being brought to this committee for endorsement to help inform the Council decision. There are plans to release the decision for public consultation tomorrow for a period of four weeks and to go to hearing on 23 November.

- The report noted the key risks with the project, most significantly the credit risk should the A&P Association not meet the interest or loan repayments. The conditions of any loan contract would need to cover the above scenario, to enable Council to call in security.
- The Chair sought clarification on whether because of the financial leverage that Council would have over the A&P Association, it could be deemed a Council Controlled Organisation (CCO) and therefore having to be bought under Council's reporting regime. It was noted that these additional responsibilities could be onerous on the entity. Mr Jones considered that advice from the Office of the Auditor-General would be useful here.
- The District Mayor clarified that Council is not looking to assume control or influence over the A&P Association in any way. However he considered this a question that should be asked alongside other conditions and questions which Council could get specific answers to for consideration at the next meeting and after submissions have closed. Mayor Volzke clarified that Council had already decided to release the decision to support the A&P Association's proposal and seek community feedback on it. That feedback will begin tomorrow and there will be a period for people to be informed and understand and make comment, including attending a public meeting. When feedback closes off Council will consider what the community has said before final approval is given to a loan. What is decided today in this committee could be fed into the Council's final decision.
- Councillor Dalziel was concerned at the lack of information being made available to the public and the lack of financial viability analysis being provided to Council.
- Mayor Volzke noted that the time constraints put upon Council by the A&P Association were in line with the conditional purchase of land. This committee is interested in the risk component and identifying the information gaps and to have the information to make the final informed decision. There is time to achieve this.
- The Chair noted that this committee's role is to clearly articulate the risks that the Council must consider with this project, such as, what is the clear process should there be a default. There should be no surprises to the A&P Association or ratepayers that an agreed action is taken in such a situation. Mr Jones added that the recommendation from this committee be that the report is endorsed (or not) subject to specified risks being clearly investigated and mitigated as part of the final decision making process by Council.
- Councillor Boyde sought clarification on a series of questions including:
 - Who pays the rates (or is a remission applicable)?
 - Who funds the \$50,000 needed for a credit rating (to access the loan) and would this be written up in the loan contract?
 - What is the financial impact to 3-waters reforms?
 - Are the current valuations available?
- Mrs Radich confirmed that rates had not been factored into the financial statements prepared by Baker Tilley however the A&P Association currently receives rates remissions and it is expected that any newly acquired land would receive relief if it was used for the community benefit and as per the conditions of the rates remission policy. This committee could consider the credit rating fee question. No analysis has yet been done on the cost of water reforms and their effect as the reforms will not be finalised until at least 12 months time. Valuation estimates have been provided.
- The Chair noted that it would be useful to seek alternative valuations, which was supported by Councillor Dalziel who requested that separate valuations be addressed to the Council rather than the A&P Association.

- Mayor Volzke noted also that the A&P Association's stage 2 feasibility study, currently in draft, should be completed and provided to the Council as well as the ability of the A&P Association to make repayments of the loan principal.
- Mayor Volzke read an emailed comment from Councillor McKay which acknowledged *"the large risk to the Council in approving the lending scenario – mostly mitigated by the land on the south side which is very valuable for future development. Ultimately, there is also significant risk in Council not being involved in the project. All going well the Stratford Park will bring many levels of economic growth potential to our district. Without something like this what else would we do? I support the approval of the lending. Obviously final approval will be made after we see the next stage of feasibility and community feedback"*.
- The Chair noted the Council's ability to access future borrowing as a further risk and asked whether this would require a change to the long term plan (LTP).
- The Deputy Chief Executive responded that the consultation being undertaken met the guidance that Council had received from Simpson Grierson and met Council's own Significance and Engagement Policy. The ability to borrow had been addressed and was explicit in the consultation document.
- Mrs Radich added that a change in conditions must be significantly different from the LTP to require an amendment and advice from Simpson Grierson was that this statutory requirement had not been triggered.
- The Chair noted that a business case with some analysis around whether this project would be good for the Stratford district must also be presented by the A&P Association.
- The following conditions were presented for consideration:
 1. A detailed business case completed to Council satisfaction which should indicate the A&P Association's ability to make principal repayments and development costs including revenue opportunities over a time period. It would be expected that some sensitivities are noted as well as the impact on the A&P Association to perform and the source of development funding.
 2. A second valuation (paid for by the A&P Association) and addressed to Council.
 3. A detailed assessment on the impact of Council's future borrowing capacity.
 4. An economic assessment report which supports the business case to be critiqued by an independent third party.
- Mayor Volzke speaking in favour of the recommendation, noted sufficient mitigation should the A&P Association be unable to repay the loan, would involve the ownership of the land reverting to Council to be sold, redeveloped or used for other purposes.
- Councillor Dalziel added that this is a very conditional endorsement. This was supported by the Chair who noted that the A&P Association should receive the clear message that they should not accept this as a done deal. Councillor Boyde also noted his support for the conditional endorsement.
- Deputy Mayor Jamieson clarified that this report would be bought back to Council.

The Corporate Accountant left the meeting at 4.10pm.

12. INFORMATION REPORT – FINANCIAL RISK MANAGEMENT REPORT

D20/25782

Pages 177-183

RECOMMENDATION

THAT the report be received.

ERWOOD/DALZIEL
Carried
A&R/20/41

The Director – Corporate Services noted the following points:

- There is some variation between the actual and budgets given that we are only two months into the financial year.
- Council currently has \$6 million with one bank invested in surplus cash.

Questions/Points of clarification:

- Councillor Boyde sought clarification on the outstanding debts which remain uncollectable. Mrs Radich responded that these debts are held by a person that Council could not collect from and the other is older than six years and therefore the debt collection service could not take any action. The total of both debts is under \$5,000.
- Mr Jones sought clarification on the risk of not spending capital expenditure this year and the consequences of that - a standard question he poses to councils. He added, specifically now that there is a significant capital works programme with new money added by central government. Is there enough capacity in the organisation to deliver the capital works programme in a timely manner? The Director – Assets confirmed her confidence in being able to spend the money - the pool development, bike park and second trunk main were all projects which were on track.
- Mayor Volzke noted that he had received notification from the TSB Community Trust that they would not fund any applications from councils in this financial year unless there was a strong alignment with Māori or youth funding streams. He asked how much Council had budgeted for and what impact this cut in funding would have on the community. The Acting Chief Executive, Ms Kate Whareaitu clarified that Council had applied for \$1.5 million for the pool development and a number of other community based projects. Council would endeavour to continue to provide events to the community, albeit 'watered down' versions. She was unsure of the effect on the Percy Thomson Gallery programme. There was also a likelihood that some projects could not be delivered on. Funding was also being sought from the Taranaki Electricity Trust (TET).
- Councillor Dalziel clarified that the TSB Community Trust intended to engage with the Chief Executives of each council early next year to work through their requirements for the following financial year. The decision to limit funds to councils was for this financial year only as trust income had been severely impacted by Reserve Bank decisions and a significant decrease in Fisher Funds projected revenue - some of which had been recovered. The Councillor suggested that Council go back to the trust to discuss the capital requirements on the pool development.

**13. INFORMATION REPORT – ANNUAL REPORT 2018/19 –
PROGRESS ON AUDIT ISSUES**

D20/25487

Pages 184-190

RECOMMENDATION

1. THAT the report be received.
2. THAT the Audit & Risk Committee recommends that the reconciliation between general ledger and asset management system be undertaken on a quarterly basis.

Recommended Reason

This report informs the Committee of the issues identified in the final Audit New Zealand Management Report for the 2018/19 Annual Report, summarising the actions that have or intend to be taken by Council officers to respond to audit recommendation with respect to each issue raised.

JONES/DALZIEL
Carried
A&R/20/42

The Director – Corporate Services noted the following points:

- The Annual Report was ready to present to Council on 13 October and that there were no major issues.
- Outstanding issues are either being worked on or are a low priority.

Questions/Points of clarification:

- Mr Jones clarified that he would be satisfied with achieving a quarterly reconciliation (by June 2021) of asset values between AssetFinda and Authority, rather than a monthly one. He considered that a quarterly reconciliation to a higher standard was more efficient and effective for councils of this size.
- A recommendation was drafted with this outcome in mind. Speaking to this, Mr Jones said that a monthly reconciliation cycle meant that officers were in effect 'chasing their own tails'.
- Mrs Araba added that this outcome would ease pressure amongst Council officers.

14. INFORMATION REPORT – LONG TERM PLAN 2021-31 RISK MANAGEMENT/MINIMISATION

D20/25848

Pages 191-199

RECOMMENDATION

THAT the report be received.

Recommended Reason

To demonstrate fulfilment of the Committee's responsibility to proactively assess, monitor, and provide governance oversight of risks – in this case, with regard to the risks directly associated with the preparation of the Long Term Plan 2021-31 (LTP).

DALZIEL/JONES

Carried
A&R/20/43

Questions/Points of clarification:

- Councillor Jamieson was satisfied to see that decision making was rated a number 1 with higher risk.
- Mayor Volzke noted that Council is fulfilling the requirement that the LTP be visionary, achieve community outcomes and not merely a compliance exercise.
- Mr Jones sought clarification on the risks and mitigation of Council's Infrastructure Strategy and looked forward to this being brought back to the committee's next meeting. Mrs Araba confirmed that this was covered, would be reviewed by elected members in workshop and brought back to the next meeting.
- Mr Jones clarified the risk of councils going beyond the statutory compliance date is that rates cannot be set until the LTP has been adopted.
- In referring to strategic alignment, Mr Jones noted that there was no relationship between change of land use and the district plan (referring to paragraph 6.3 on page 199) which can have a significant financial impact on councils.

Councillor Sandford left the meeting at 4.54pm.

15. AUDIT NEW ZEALAND CORRESPONDENCE

- Audit NZ – Interim Audit for year ended 30 June 2020
D20/25530 pages 200-218

RECOMMENDATION

THAT the correspondence be received.

JONES/ERWOOD

Carried
A&R/20/44

The Chair noted that this council should have a Sensitive Expenditure Policy, which would be discussed in due course.

16. GENERAL BUSINESS

No general business was discussed.

The meeting closed at 4.56pm.

P Jones
CHAIRMAN

Confirmed this 1st day of December 2020.

N Volzke
DISTRICT MAYOR