

HUTT CITY COUNCILFINANCE AND AUDIT COMMITTEE

Report of a meeting held in the Hutt City Council Chambers,
2nd Floor, 30 Laings Road, Lower Hutt on
Wednesday 13 July 2016 commencing at 5.30pm

PRESENT:

Cr M Shierlaw (Chair)	Cr C Milne
Cr C Barry	Deputy Mayor D Bassett
Cr L Bridson	Cr M Cousins
Cr M Lulich (from 5.40pm)	Mayor WR Wallace

APOLOGIES: An apology for lateness was received from Cr Lulich.

IN ATTENDANCE:

Mr T Stallinger, Chief Executive
Mrs J Raffills, General Manager, Governance and Regulatory
Mr M Reid, General Manager, Community Services
Mr B Kibblewhite, Chief Financial Officer
Mr B Cato, Solicitor (part meeting)
Mrs E Davids, Risk and Assurance Manager (part meeting)
Mr A Yip, Manager Strategic Projects (part meeting)
Mr C Walton, Chief Executive, UrbanPlus Ltd (part meeting)
Mr D Moriarty, Property Portfolio Manager, UrbanPlus Ltd (part meeting)
Ms M Laban, Community Projects and Relationships Manager (part meeting)
Mr S Keatley, Community Facilities Manager
Mrs D Hunter, Community Advisor Funding and Community Contracts (part meeting)
Mr J Ballantyne, City Safety Manager (part meeting)
Ms J Araithi, Community Facilitator (part meeting)
Ms L Knowles, Community Facilitator (part meeting)
Ms J Farris, Youth Council Facilitator (part meeting)
Mrs A Doornebosch, Committee Advisor

PUBLIC BUSINESS1. APOLOGIESRESOLVED:

Minute No. FandA 16301

"That the apology received from Cr Lulich for lateness be accepted."

2. PUBLIC COMMENT

Comments are recorded under the item to which they relate.

3. CONFLICT OF INTEREST DECLARATIONS

Deputy Mayor Bassett declared a conflict of interest in relation to item 4 Delegation of Authority for Creation of Subsidiary Companies for UrbanPlus Limited and took no part in discussions or voting on this matter.

4. RECOMMENDATION TO COUNCIL - 2 August 2016

Delegation of Authority for Creation of Subsidiary Companies for UrbanPlus Limited (16/612)

Deputy Mayor Bassett declared a conflict of interest and took no part in discussions or voting on this matter.

The Chief Executive, UrbanPlus Limited (UPL) elaborated on the report. He noted this request would allow UPL to create subsidiary companies in order to respond as projects arose as part of UPL's business as usual activities.

The Solicitor highlighted the modified recommendations which included a requirement for Council's Chief Executive to be satisfied that the consultation requirements in the Local Government Act 2002 were met and an option to include any additional conditions when granting his approval to the formation of UPL subsidiary companies.

In response to questions from members, the Chief Executive of UPL said he expected two to three subsidiary companies may be established by UPL per year. He said these would be included in UPL's Annual Report and the group's accounts.

In response to questions from members, the Solicitor noted any subsidiary company established by UPL would still be considered part of the UPL group. He noted Council's Chief Executive's delegation allowed him to question any subsidiary company requests and refer them to Council if necessary. He did not consider any increased risk for UPL Directors from the creation of subsidiary companies.

RESOLVED:**Minute No. FandA 16302***"That the Committee notes the contents of this report."*RECOMMENDED:**Minute No. FandA 16303***"That the Committee recommends that Council approves delegated authority to Council's Chief Executive (CE) to authorise the formation of subsidiary companies under UrbanPlus Limited (UPL), subject to the CE being satisfied of the following:*

- a. the purpose of the subsidiary is consistent with UPL's Statement of Intent and its formation is for standard business and/or project reasons (as outlined in page 8);*
- b. the consultation requirements in section 82 of the Local Government Act 2002 have been met; and*
- c. all other relevant matters raised by the CEO have been suitably addressed."*

5. REPORT BACK ON THE IMPLEMENTATION OF THE KPMG PROJECT DELIVERY REVIEW (16/266)

Report No. FandA2016/3/148 by the Risk and Assurance Manager

The Risk and Assurance Manager elaborated on the report. She noted KPMG had completed a Project Delivery Review in 2015 which found Council projects were being delivered on time and budget, with some recommendations for enhancements. She highlighted the current report focussed on follow up to those actions.

In response to questions from members, Ms Harriet Dempsey, Associate Director from KPMG advised nine recommendations were made in the report in June 2015 and six of these had closed. She noted three remained, with two in development as noted in the report. She advised the Strategic Leadership Team had set a programme level view in place. She said the review highlighted an opportunity to better forecast project resourcing requirements and phasing for each project. She considered if these objectives were achieved, then this would be sufficient programme oversight. She noted this only related to projects which were part of the original KPMG review in June 2015. She highlighted the life cycle of a project included initiation, design, execution, occupancy, and post occupancy phases.

RESOLVED:**Minute No. FandA 16304***"That the Committee receives the report."*

6. **RISK AND ASSURANCE UPDATE AND OPERATIONAL RISK REGISTER** (16/639)

Report No. FandA2016/3/149 by the Risk and Assurance Manager

The Risk and Assurance Manager elaborated on the report.

RESOLVED:

Minute No. FandA 16305

"That the Committee:

- (i) notes the information in this report; and*
- (ii) notes the Operational Risk Profile 2016 as approved by the Strategic Leadership Team, attached as Appendix 1 to the report."*

7. **ACTIVITY REVIEW - COMMUNITY PROJECTS AND RELATIONSHIPS INCLUDING CITY SAFETY AND COMMUNITY FUNDING** (16/757)

Report No. FandA2016/3/3 by the Community Projects and Relationship Manager

Speaking under public comment, **Mr Ian Hastie, Principal of Avalon Intermediate School** requested an opportunity to highlight the work Council was providing in the North East of the city. He said he was the principal representative for the Te Kairangi Access Trust, which had been set up by five schools in the Taita area to engage the community through digital literacy and learning.

In response to questions from members, Mr Hastie said ultrafast broadband was available in the area. He considered there was a place for digital technology in schools but this should not be the sole focus. He noted the Te Kairangi Access Trust was considering a two year sustainable funding model for iPads in schools. He said the unused swimming pool at Avalon Intermediate School could be restored if funding was made available. He considered the development of the Stokes Valley Hub would be beneficial to the wider community.

Cr Lulich joined the meeting at 5.40pm

The Community Projects and Relationship Manager elaborated on the report.

In response to questions from members, the Community Projects and Relationship Manager said she would ask the Community Facilities Manager to follow up the possible restoration of the swimming pool at Avalon Intermediate School. She noted the key performance indicators in the report were focussed on what would make the greatest difference in the community. She said there may be scope to extend initiatives such as the Magic Card to the wider community, with support from local schools and organisations.

In response to questions from members, the City Safety Manager advised the Safe City Ambassadors were often the first point of contact for the community and were highly valued by the Police. He noted the Community Patrols also provided a valued service with the reduction of antisocial behaviour in areas of the city.

In response to a question from a member, the General Manager Community Services considered the new Activity Review process met all the requirements of a Section 17a of the Local Government Act 2002.

RESOLVED:

Minute No. FandA 16306

"That the Committee:

- (i) notes the information contained in this report;*
- (ii) notes that this review meets the intent of section 17A of the Local Government Act 2002; and*
- (iii) agrees that a full section 17A review should not be undertaken at present for the reasons outlined in the report."*

8. **AUDIT NEW ZEALAND INTERIM MANAGEMENT REPORT FOR THE YEAR ENDING 30 JUNE 2016** (16/797)

Report No. FandA2016/3/150 by the Chief Financial Officer

The Chief Financial Officer elaborated on the report. He noted the overall assessment and control framework was deemed appropriate by Audit New Zealand. He said an update to this report would be provided to the Finance and Audit Committee to be held on 29 September 2016.

In response to questions from members, the Chief Financial Officer noted a number of financial reports were still processed through manual journals. He said the software used by Council's Leisure Active Division was being monitored, and a new system had been identified which may be more appropriate for the future. He said that the holding costs for the assets previously owned by the UrbanPlus Limited subsidiary companies that have since been transferred to Council, were now included as part of the overall Council debt portfolio.

RESOLVED:

Minute No. FandA 16307

"That the Committee note this report."

9. **FINANCE UPDATE** (16/789)

Report No. FandA2016/3/151 by the Chief Financial Officer

The Chief Financial Officer elaborated on the report.

In response to questions from members, Cr Cousins noted the District Plan Programme had been delayed due to legal challenges.

In response to questions from members, the Chief Financial Officer believed there were two remaining leaky homes claims. He said he would report back the required period when such claims were to be notified by. He advised he would report back on what initiatives were removed or delayed to make savings in Council's Parks and Reserves budget. He noted Council was adequately budgeted into the future for the provision of free wifi. He advised Council's Annual Report inclusive of audited financial statements and notes, would be reported to the Finance and Audit Committee meeting to be held on 29 September 2016.

Members requested a report be submitted to the City Development Committee on the stimulus package underspend, and what improvements could be made to encourage interest in this initiative.

RESOLVED:

Minute No. FandA 16308

"That the Committee notes the financial performance results and full year forecast projections."

10. **INFORMATION ITEM**

2016 Finance and Audit Committee Work Programme (16/613)

Report No. FandA2016/3/122 by the Committee Advisor

The Committee Advisor elaborated on the report.

RESOLVED:

Minute No. FandA 16309

"That the report be noted."

11. **QUESTIONS**

There were no questions.

There being no further business the Chair declared the meeting closed at 7.00 pm.

Cr M Shierlaw
CHAIR

CONFIRMED as a true and correct record
Dated this 2nd day of August 2016

Finance and Audit Committee Minutes of 13 July 2016

Reasons for creating subsidiary companies under UrbanPlus Limited (UPL) ownership:

1. **Tax implications** - efficient management of separate accounts for all UPL projects of significance will enable timely and factual tax reporting 'upwards'. Some planned UPL projects in the immediate short term (2016-17 financial year) will require strict adherence to GST treatment regarding the split of assets to be held, and assets to be sold post-completion.
2. **Project-specific cash-flows and transaction management** - prudent project and financial budget management is essential to all UPL projects. Development projects, whether residential or commercial, require prudent control of expenditure via a UPL Board-approved Business Case. Tracking expenditure, revenues obtained from sales and project specific funding arrangements is crucial to project reporting and overall project success.
3. **Risk isolation for development projects** - creating related subsidiary companies under UPL for individual projects will allow commercial and legal risk to be isolated per project appropriately. This reduces the company's overall exposure markedly.
4. **Clarity for auditing purposes** - separate sets of accounts for each individual project to be provided to Council or Audit NZ for review if required.
5. **Scale** - Projects of significance and scale such as the proposed Shaftesbury Grove Development ('The Heights') and development of the former nursery site at Summit Road are of such financial magnitude, it is deemed essential to have separate companies (still under the management of UPL, and operating under the same SOI objectives and reporting processes as UPL) to control these developments.
6. The option to exercise a wider consultation process still remains available should UPL, Hutt City Council or its Chief Executive consider it necessary. However, the purpose and operations of the proposed companies align with UPL's business-as-usual operational structures and core Statement of Intent objectives.