



A G E N D A

Finance, Audit and Risk Committee

**Council Chambers
36 Weld Street
Hokitika**

**Thursday 27 July 2017
Commencing at 9.00 am**

Deputy Mayor L.J. Martin – Chairperson
His Worship the Mayor R.B. Smith
Deputy Mayor Cr H.M. Lash
Crs D.L. Carruthers, R.W.(G) Eatwell, D.M.J. Havill ONZM,
J.A. Neale, G.L. Olson, D.C. Routhan.



FINANCE, AUDIT AND RISK COMMITTEE

AGENDA FOR A MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE OF WESTLAND DISTRICT COUNCIL, TO BE HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON THURSDAY 27 JULY 2017 COMMENCING AT 9.00 AM

21 July 2017

COUNCIL VISION

Westland District Council will facilitate the development of communities within its district through delivery of sound infrastructure, policy and regulation.

This will be achieved by:

- Involving the community and stakeholders.
- Delivering core services that meet community expectations and demonstrate value and quality.
- Proudly promoting, protecting and leveraging our historic, environmental, cultural and natural resource base to enhance lifestyle and opportunity for future generations.

Purpose:

The Council is required to give effect to the purpose of local government as prescribed by section 10 of the Local Government Act 2002. That purpose is:

- (a) To enable democratic local decision-making and action, by and on behalf of, communities; and
- (b) To meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

1. MEMBERS PRESENT, APOLOGIES AND INTEREST REGISTER:

1.1 Apologies & Leave of Absence

1.2 Interest Register

2. CONFIRMATION OF MINUTES:

2.1 Finance, Audit and Risk Committee Meeting – 22 June 2017 Page 5-9

3. ACTION LIST

The Action List is attached Page 10

4. ITEMS FOR DISCUSSION:

4.1 Reserves Contribution Fund

5. ITEMS FOR DECISION:

5.1 Civic Assurance – Potential Sale of Civic Assurance House Pages 11-13

6. MATTERS TO BE CONSIDERED IN THE 'PUBLIC EXCLUDED SECTION'

Resolutions to exclude the public: Section 48, Local Government Official Information and Meetings Act 1987.

Council is required to move that the public be excluded from the following parts of the proceedings of this meeting, namely:

6.1 Confidential Minutes

6.2 Risk Register

The general subject of the matters to be considered while the public are excluded, the reason for passing this resolution in relation to each matter and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of the resolution are as follows:

Item No.	Minutes/ Report of	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
6.1	Minutes	Confidential Minutes – Finance, Audit and Risk Committee	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)
6.2	Risk Register	Confidential Update	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)



Finance, Audit and Risk Committee Minutes

MINUTES OF A MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE OF WESTLAND DISTRICT COUNCIL, HELD IN THE COUNCIL CHAMBERS, 36 WELD STREET, HOKITIKA ON THURSDAY 22 JUNE 2017 COMMENCING AT 9.00 AM

1 MEMBERS PRESENT, APOLOGIES AND INTEREST REGISTER:

1.3 Members Present

Deputy Mayor Cr L.J. Martin (Chair), His Worship the Mayor R.B. Smith, Deputy Mayor Cr H.M. Lash
Crs D.L. Carruthers, R.W. (G) Eatwell, D.M.J. Havill (ONZM), J.A. Neale, G.L. Olson, Cr D.C. Routhan.

Apologies

Nil

Staff in Attendance:

R.F. Reeves, Chief Executive; J.D. Ebenhoh, Group Manager: Planning, Community and Environment; D. Inwood, Group Manager: District Assets; L.A. Crichton, Group Manager: Corporate Services; V.M. Watson, Business Support Officer/Committee Secretary.

Visitor Mr Bede Kearney Audit Director Audit New Zealand attended the Finance Audit and Risk Committee meeting on invite to address letters received.

1.2 Interest Register

Deputy Mayor Martin (Chair) circulated the Interest Register and no amendments were made.

2. CONFIRMATION OF MINUTES:

2.1 Finance, Audit and Risk Committee Meeting –29 May 2017

Moved Deputy Mayor Lash, seconded Cr Neale and **Resolved** that the Minutes of the Finance, Audit and Risk Committee Meeting held on the 29 May 2017 be confirmed as a true and correct record of the meeting.

3. ACTION LIST

Group Manager: Corporate Services spoke to the items on the action list

Moved Deputy Mayor Lash, seconded Cr Havill and **Resolved** that the action list be accepted

4. ITEMS FOR DISCUSSION:

4.1 Financial Performance Report May 2017

The Group Manager: Corporate Services spoke to this report and provided an indication of Council's financial performance for one month to 31 May 2017

Key Items noted:

- Deficit \$247,000 currently against a projected forecast of \$100,000 deficit
- Negative Revenue line due to the WHL dividend payment, difference to budget
- Unbudgeted spending
- Final debt figure in line with projection as reported
- Rates debtors – Debt Recovery Management Programme is progressing to achieve results.
- Projects that will carry over to the yearend are significant

Moved Deputy Mayor Lash seconded Cr Eatwell and **Resolved** that the Finance Audit and Risk Committee Receives the Financial Performance Report to 31 May 2017.

4.2 Audit Visit – Bede Kearney

Mr Bede Kearney, Audit Director from Audit New Zealand in attendance addressed the Council to speak to the 3 Audit letters attached to the agenda.

Key Items noted:

- Usually only 2 letters would have been received the 3rd letter is the 3 year costing details for the Audit process arrangement.
- Audit Evidence is required to support the documents that are being provided which is the purpose of the process.
- Audit arrangements are confirmed in place for the visit commencing 26 June.
- It is intentional to identify and work proactively to recommend improvements to the Council during the process if it is identified.
- Mr Kearney explained the cost structure of the Audit as documented in the letter received.
- Long Term Audit Plan; Additional Audit is proposed for the future to expect a proposal.
- Feedback is positive about the proposal documentation and comprehensive work that GM:CS has prepared for the Audit.

Moved Cr Routhan and seconded Cr Neale and **Resolved** that the three letters from Audit New Zealand are received.

4.3 Rates Write Offs and Remissions 2016-2017

The Group Manager: Corporate Services spoke to this report. The purpose of this report is to request Council approval to write off rates debts deemed uncollectable, and to apply remissions, for the financial year ended 30 June 2017.

Key Items noted:

- Lower rates write off this year \$318,000 – remissions are \$144,000 arrears penalty's and rates
- Reconciling the data base and taking out exceptional items
- Disputes that Raters have are still encouraged to pay rates
- Payment plans are offered to individuals in financial difficulty as a process to make arrears payments and proactive payment planning is being offered.

Moved Cr Havill seconded Deputy Mayor Lash and **Resolved** that the Finance Audit and Risk Committee Receives the Rates Write Offs and Remissions 2016-17 Report and give Council approval to write off rates debts deemed uncollectable, and to apply remissions, for the financial year ended 30 June 2017.

4.4 Departure from Investment Policy 2017

The Group Manager: Corporate Services spoke to this report. The purpose of this report is to seek Council's approval and acknowledgement of existing

and continuing financial circumstances that contravene its stated policy objectives.

Key Items noted:

- We hold one bond that has a credit rating of “B,B,B”
- Which is due to mature in October and we have a small positive interest over revenue.

Moved Deputy Mayor Lash, seconded Cr Havill and **Resolved** that the Finance Audit and Risk Committee Receives the Departure from Investment Policy Report. Council acknowledges that the Annual Report 2016-17 will disclose the retention of the bond described.

5. MATTERS TO BE CONSIDERED IN THE ‘PUBLIC EXCLUDED SECTION’

Moved His Worship the Mayor, seconded Deputy Mayor Lash and **Resolved** that Council exclude the public in accordance with Section 48, Local Government Official Information and Meetings Act 1987 at 09.38am.

Bede Kearney Audit Director Audit New Zealand remained during the public-excluded section of the meeting.

Council is required to move that the public be excluded from the following parts of the proceedings of this meeting, namely:

5.1 Confidential Minutes – Finance, Audit and Risk Committee – 29 May 2017

5.2 Risk Register

The general subject of the matters to be considered while the public are excluded, the reason for passing this resolution in relation to each matter and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of the resolution are as follows:

Item No.	Minutes/ Report of	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
5.1	Minutes	Confidential Minutes – Finance, Audit and Risk Committee	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)
5.2	Risk Register	Confidential Update	Good reasons to withhold exist under Section 7	Section 48(1(a) & (d)

This resolution is made in reliance on Section 48(1)(a) and 48(2)(a)(i) and (ii) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

No.	Item	Section
5.1, 5.2	Protection of privacy of natural persons/organisations.	Section 7(2)(a)

Moved His Worship the Mayor, seconded Deputy Mayor Lash and **Resolved** that the business conducted in the “Public Excluded Section” be confirmed and accordingly the meeting went back to the open part of the meeting at 10.14am

Confirmed by:

Deputy Mayor Latham Martin
Chair – Finance, Audit and Risk Committee

Date

Action List

Date of Meeting	Meeting	Item	Action	Who Responsible	Timeframe	Status
29.05.17	Finance, Audit and Risk Committee	Audit Management Report for the year ended 30 June 2016.	Advise Bede Kearney, Audit Director of future meetings of the Committee.	GMCS		Information confirmed it has been sent to Bede Kearney
26.01.17	Finance, Audit and Risk Committee	CCOs Financial Reporting	Write to the CCOs requesting the provision of earlier financial reporting and also agree on an appropriate timeframe going forward; and release of the Audit Management Report for the year ended 30 June 2016.	GMCS		In progress
26.01.17	Finance, Audit and Risk Committee	Committee Workplan	View the previous Executive Committee Workplan and circulate to the Finance, Audit and Risk Committee and also look at using the Audit Management Report to inform the workplan going forward	Deputy Mayor Martin and GMCS		In Progress
22.06.17	Finance, Audit and Risk Committee	Rates write off and Remissions	Approval to write off rates debts deemed uncollectable and apply remissions for the financial year ended 30.06.2016	GMCS		

Robin Reeves
Acting Chief Executive
Westland District Council
Private Bag 704
HOKITIKA 7842

28 June 2017

Dear Robin

INFORMAL NOTICE OF MEETING

Information for Potential Sale of Civic Assurance House

In my letter of 20 March 2017 accompanying the Statement of Intent and Annual Report for Civic Financial Services Limited I mentioned that Civic was intending to hold a Special General Meeting in September for shareholders to vote on whether the Company should sell Civic Assurance House.

This meeting has now been scheduled to be held in the Company's Boardroom, Level 3, Civic Assurance House, 116 Lambton Quay, Wellington on Thursday 5th October 2017 commencing at 11:30 am. Formal notification and voting papers will be sent to you before the end of August.

This informal notice is to provide you with relevant information that will allow you sufficient time to assess the proposal and make an informed decision. The attached explanatory note provides you with relevant details on the building and the impact and process of the potential sale.

You are a valued shareholder of the Company; as such I encourage you to read through this information and cast your vote once you have received your voting papers.

Yours sincerely


Ian Brown
Chief Executive
DDI: 04-978-1263
Email: ian.brown@civicfs.co.nz

POTENTIAL SALE OF CIVIC ASSURANCE HOUSE

Your Board is putting forward a proposal to all shareholders of Civic Financial Services Limited ("Civic") to consider whether Civic should sell or retain ownership of Civic Assurance House at 114-118 Lambton Quay, Wellington.

You will be invited to vote on this at a Special General Meeting ("SGM") to be held in Wellington at 11:30am on Thursday 5 October 2017.

BACKGROUND

Building

In 1963 the directors of Municipalities Cooperative Insurance Company Limited, one of the companies that merged in 1989 to form Civic, agreed to erect a building in Lambton Quay. The Local Government Building, which was renamed Civic Assurance House in 2007, was completed in 1967. The building cost just over \$1 million to construct and today is valued at just under \$8 million.

Until recently Civic and a number of local government entities occupied the building but at present only two, being Civic and SOLGM, remain as tenants. The remainder of the current tenants include consultants, legal service providers, retail outlets, eateries and charitable organisations.

Operations

Your Board decided at the end of 2016 to withdraw Civic's application for a full insurance licence and not offer property insurance. This decision was not taken lightly, but in the current market Civic cannot write insurance profitably. However, Civic will be able to provide property insurance through Civic Property Pool (CPP) in the future if this is what the sector wants and market conditions favour doing so.

Civic continues to administer the local government SuperEasy KiwiSaver Scheme and the SuperEasy scheme and the four local government mutual pools: LAPP, Riskpool, CLP and CPP.

PROPOSAL

As at 31 December 2016 the net equity of Civic was \$17.2 million which includes a \$3.2 million net deferred tax asset.

As it will not be offering insurance, Civic is able to return some of its capital to shareholders. Your Board signalled in the 2017 Statement of Intent that it would ask shareholders whether they wished to retain ownership of Civic Assurance House or whether they wished to sell the building.

If shareholders supported a sale and a satisfactory price can be obtained, then the building will be sold and the sale price of the building net of selling costs will be distributed to shareholders.

Current Valuation

Civic Assurance House was valued at \$7.9 million on 31 December 2016. Two subsequent independent valuations have valued the building between \$7.8 - \$8.1 million and \$7.5 - \$8.0 million. These valuations take into account the age, state and earthquake rating (50% of NBS) of the building. The building currently has 85% occupancy with a weighted average lease term of two years. Obviously if the building had a greater occupancy it would be valued higher. We are however, with the current earthquake rating, having difficulty letting the vacant space.

Impact of Sale

Over the last five years Civic assurance House has generated an average net income of \$0.368 million per annum. In December 2011 the building was valued at \$6.9 million. In December 2016 the building was valued at \$7.9 million. The five year capital growth has therefore been 2.73% per annum. The five year return (income and capital) to 31 December 2016 for the building has been 7.96% per annum.

On the assumption Civic Assurance House was able to be sold for a value of \$7.8 million – \$8.0 million and allowing for estimated transaction costs of \$0.4 million the sale price could return a special fully imputed cash dividend of around 68 cents per share. Resident withholding tax will not be deducted from the dividend payment.

For Westland District Council's holding of 28,356 shares that approximates to \$19,282.08 plus \$7,498.59 imputation credits. These imputation credits fully offset the amount of tax that the shareholders would otherwise be liable to pay on those dividends.

If shareholders support the sale and a special dividend is paid obviously both Civic's profit and possible future dividends to shareholders would reduce. The 2017 Statement of Intent projects that Civic will continue to produce a surplus if Civic Assurance House is sold and the net proceeds from the sale are distributed to shareholders.

If the property sale is supported by shareholders a two month tender process will be initiated. If a satisfactory price is obtained through this process there is expected to be a one month settlement period. Distribution of the net proceeds of the sale via a special dividend would be completed within two months of the settlement date.

Impact of Retention of Civic Assurance House

If Shareholders vote against the sale of Civic Assurance House, Civic would retain the property income stream (both operating and capital).

Civic would also investigate using a portion of Civic's capital to carry out earthquake strengthening of Civic Assurance House. This would only be undertaken if it was considered the cost would lead to greater occupancy, rental returns and capital growth.