

Komiti o te Ōtita me te Mōrearea | Audit & Risk Committee



Mēneti Wātea | Open Minutes



Minutes of a meeting of Audit & Risk Committee held in the Te Aroha Council Chambers, 35 Kenrick Street, Te Aroha, TE AROHA on Tuesday 9 June 2020 at 1pm.

Ngā Mema | Membership

Chairperson	John Luxton
External Member	Joanne Aoake
Elected Members	Mayor Ash Tanner
	Cr Donna Arnold
	Cr Bruce Dewhurst
	Cr Kevin Tappin
	Cr James Thomas
	Cr Adrienne Wilcock



Ngā whakapāha | Apologies

Mayor Ash Tanner

Kaimahi i reira | Staff Present

Name	Title	Item No.
Don McLeod	Chief Executive Officer	
Tamara Kingi	Committee Secretary and Corporate Administration Officer	
Stephanie Glasgow	Committee Secretary and Corporate Administration Officer	
Michelle Staines-Hawthorne	Corporate Strategy Manager	6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.7, 6.8, C1
Larnia Rushbrooke	Deputy Finance Manager	6.1, 6.2, 6.5, 6.6, 6.7, 6.8
Manaia Te Wiata	Group Manager Business Support	6.1, 6.2, 6.5, 6.6, 6.7
Amy Pollock	Procurement Officer	6.3, 6.4
Fiona Vessey	Group Manager Service Delivery	6.3, 6.4, C1, C2
Karl Pavlovich		6.1, 6.2, 6.3, 6.4, 6.5
Ann-Jorun Hunter	Policy Planner	6.5, 6.6, 6.7, 6.8
Sandra Harris	Senior Policy Planner	6.5, 6.6, 6.7
Dennis Bellamy	Group Manager Community Development	C1
Kelly Reith	Human Resources Manager	C2

I reira | In Attendance

	Time In	Time Out
Kataraina Macown – Audit NZ via Zoom	1.00pm	3.24pm
Lauren Clark – Audit NZ	1.00pm	3.24pm
Brett Johanson – PWC via Zoom	1.00pm	1.30pm

1 Whakatūwheratanga o te hui | Meeting Opening

Chairperson, Hon. John Luxton declared the meeting open at 1.04pm.

2 Present

3 Ngā whakapāha | Apologies

That the apology from Mayor Ash Tanner be accepted and leave of absence from the meeting be granted.

Moved by Cr D Arnold

Seconded by Cr K Tappin

Carried

4 Pānui take ohorere | Notification of Urgent Business

Section 46A(7) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“An item that is not on the agenda for a meeting may be dealt with at that meeting if-

- (a) The local authority by resolution so decides; and
- (b) The presiding member explains at the meeting, at a time when it is open to the public,-
 - (i) The reason why the item is not on the agenda; and
 - (ii) The reason why the discussion of the item cannot be delayed until a subsequent meeting.”

Section 46A(7A) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

“Where an item is not on the agenda for a meeting,-

- (a) That item may be discussed at that meeting if-
 - (i) That item is a minor matter relating to the general business of the local authority; and
 - (ii) the presiding member explains at the beginning of the meeting, at a time when it is open to the public, that the item will be discussed at the meeting; but
 - (iii) no resolution, decision or recommendation may be made in respect of that item except to refer that item to a subsequent meeting of the local authority for further discussion.”

5 Whakaaetanga mēneti | Confirmation of minutes

COMMITTEE RESOLUTION

That the minutes of the meeting of the Ordinary Meeting of Audit & Risk Committee held on Tuesday, 10 March 2020, be confirmed as a true and correct record of the meeting.

Moved by: Cr J Thomas

Seconded by: Cr A Wilcock

CARRIED

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6 Decision Reports

Treasury Policies Review

RM No.: 2293780

Rāpopotonga Matua | Executive Summary

Council's Liability Management policy was last reviewed and amended in March 2018, and the Investment policy in February 2017. The effectiveness of the current policies has been reviewed by staff. Council's Treasury Advisors, PWC, have recommended amendments to existing policies in line with changes occurring in the market and sector. These draft policies are now presented to the Audit and Risk Committee for their review.

COMMITTEE RESOLUTION

That:

1. **The Committee review the draft Liability Management Policy and Investment Policy and consider if the suggested amendments should be recommended to Council for adoption.**

Moved by: Cr A Wilcock

Seconded by: Cr J Thomas

CARRIED

Horopaki | Background

The Audit and Risk Committee have recommended that the Liability Management and Investment (Treasury) Policies of Council should be subject to at least an annual review to ensure that these policies remain relevant and effective.

Liability Management Policy

Liability Management Policy – Review of policy compliance and effectiveness

Council staff responsible for the operation of this policy meet on a monthly basis with Council's external treasury advisor to discuss policy compliance, market conditions and future borrowing and strategy. The advisors also met with Council or Committee of Council on a bi-annual basis, providing further explanation of the market conditions and the adopted strategy. Monthly reporting to Council on compliance with the policy is undertaken.

At 30 April 2020 our external debt is \$26.5 million, and depending on the outcome of the 4th rates instalment for 2020, we may raise a further \$3-5 million before the end of the financial year, bringing our total to \$29.5-\$31.5 million. The budget set out in the 2019/20 Annual Plan was \$42.6 million. The budget was overly optimistic about the level of capital and carry-forward capital work from previous financial years that would be completed to date.

There have been no breaches or one-off approvals outside the policy since the current policies' adoption. Council's external auditors annually review compliance with key policy requirements, our internal controls and accounting treatment and reporting as part of their annual audit function and have not raised any concerns or made recommendations in recent years.

The Liability Management policy includes a number of statutory and general objectives, including minimising costs and risk and compliance with legislation and borrowing covenants. We believe that all of these objectives are being met. We have maintained our debt well within the limits set out in the policy, and well within financial covenants.

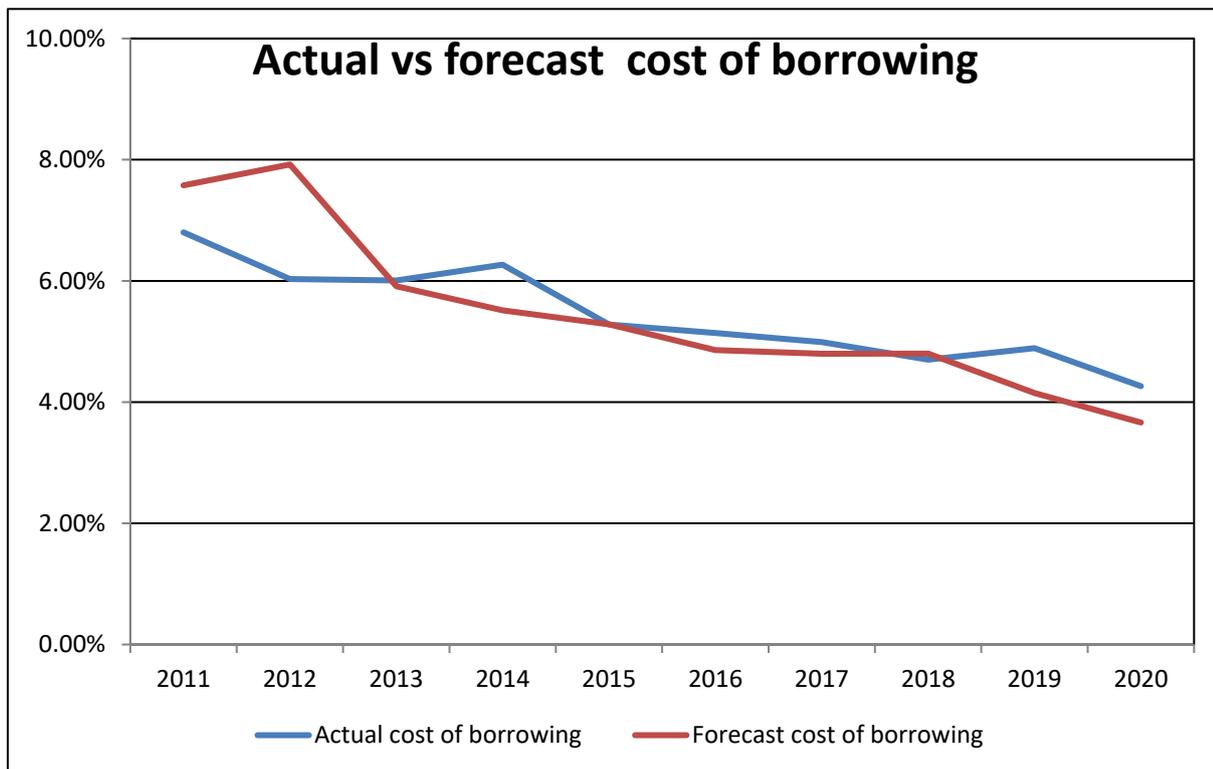
Council's multi-option credit facility with Westpac has given us the opportunity to effectively manage our variable cashflows, maintain the required level of liquidity and minimise our net interest costs. Internal borrowing has been utilised where possible to minimise net interest costs.

We have been very pleased with the continued low margins achieved through Council's participation in the Local Government Funding Agency. Council's exposure to potentially adverse interest rate movements has been minimised through the use of interest rate swaps. Further assessment of the effectiveness of these swaps is provided below.

Review of the effectiveness of Council's interest rate swaps

As provided for in the policy, and on the advice of PWC, Council started using interest rate swap instruments from 2011. This was at a time when our external debt was rising significantly, largely as a result of the Morrinsville Wastewater Treatment Plant upgrade. The key objective for Council's use of interest rate swaps is to minimise exposure to adverse interest rate movements (smoothing), so as to provide certainty over interest costs into future years.

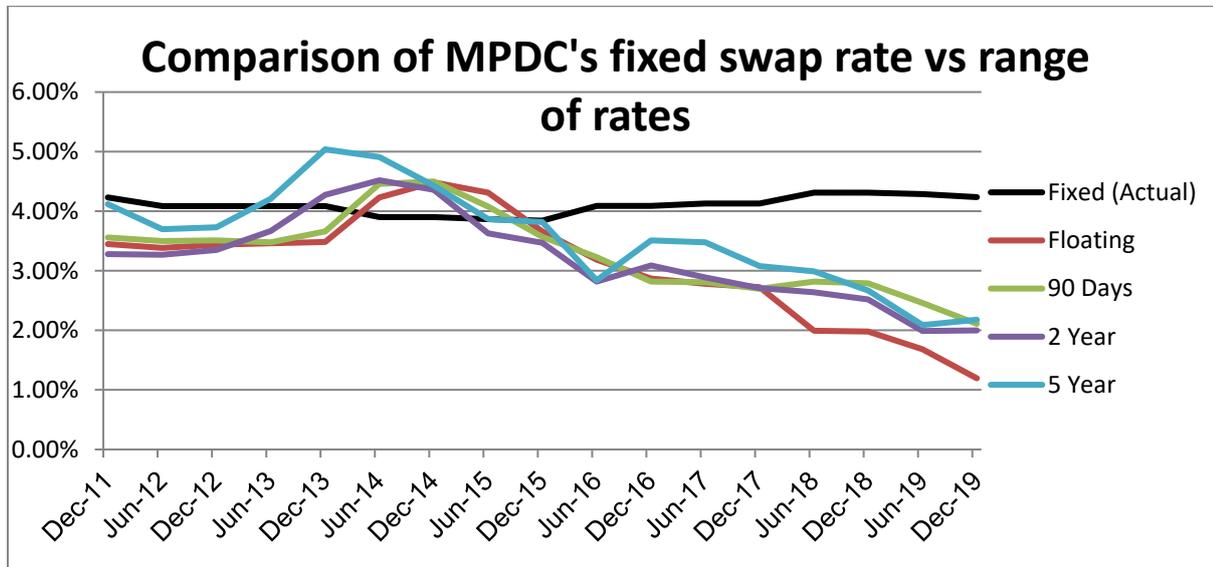
In assessing the effectiveness of Council's interest rate swaps, we firstly compare Council's actual cost of borrowing with the forecasted cost of borrowing.



Since 2011 when Council first took up swaps, and particularly after 2014 when the bulk of the swaps became effective, Council's ability to forecast the cost of borrowing has improved as we have more certainty over our interest rates. An identified and on-going area for improvement is in the forecasting of the completion of capital works and its associated impact on overall borrowing costs.

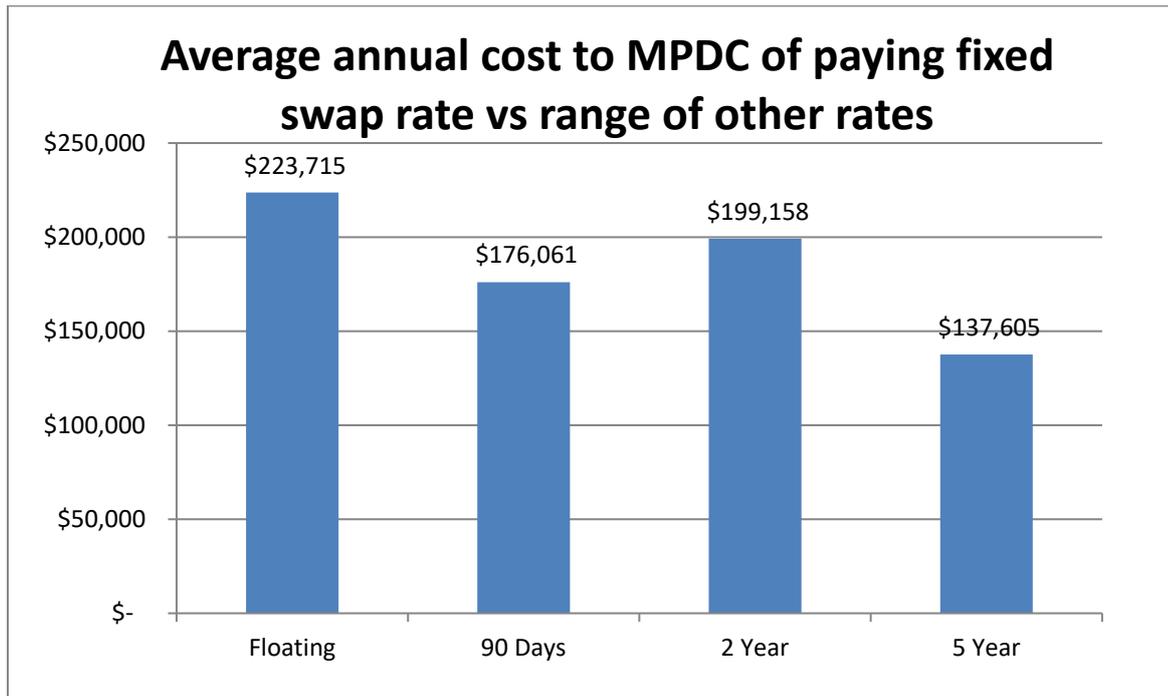
The second step in assessing the effectiveness of Council's interest rate swaps was to compare Council's actual fixed swap rates with a range of maturities to determine if the objective has been

met, and at what cost to MPDC¹ This exercise is comparable to reviewing in hindsight what costs or savings you may have made if you had fixed your home mortgage at a different fixed or floating rate of interest, keeping in mind that usually your objective for fixing is to secure rates that you predict will increase in the future, and/or to give you a level of certainty with which you can plan ahead.



The graph shows that the use of swaps has been effective for Council in terms of the objective of minimising exposure to interest rate movements. The fixed rates achieved have provided a relatively smooth cost over time. This has however come at a cost, particularly over the last few years as wholesale rates have decreased dramatically.

¹ In this exercise we have used the Council's 6 monthly weighted average fixed swap rate vs 6 monthly wholesale rates (sourced from Reserve Bank NZ) + average LGFA margin of 0.81863%.



The second graph shows in hindsight, what the annual cost of minimising our exposure to interest rate risk was against a range of other available rates. In terms of our total interest costs, this added between 7.85% and 11.35% on average to our overall interest costs per annum. Since Council started using swaps in 2011, the cumulative cost to Council is between \$1.1 million and \$1.59 million. Conversely, had interest rates increased over recent years, Council would have achieved interest savings against these other rates.

Overall, we are satisfied that the interest rates swaps have been effective in the key objective of minimising our exposure to movements in interest rates. With hindsight, and in an environment with record low interest rates, this has come at an increasing cost. We will continue to work with our Treasury Advisors to identify opportunities where we can obtain some beneficial savings across our portfolio.

Liability Management Policy – Proposed amendments

Following a review, PWC have recommended some changes to the policy to better align with the changes by the Local Government Funding Agency (LGFA) as well as the changes to the local government credit rating methodology by Standard & Poor's (S&P). Despite Council not having a formal credit rating, these impacts are flowing through the sector particularly in the area of liquidity management.

PWC have also recommended a revised interest rate risk management framework which will provide greater flexibility in the medium term management of interest rates whilst continuing to meet prudent risk management requirements.

The key changes include:

1. Borrowing mechanisms of Council Controlled Organisations and Council Controlled Trading Organisations

PWC recommend a new policy section reflecting recent changes made that allow the LGFA to lend directly to CCO/CCTOs. This would provide a framework to apply if/when

considering financial support in the form of debt funding directly or indirectly to CCO/CCTOs. The framework considers various factors briefly outlined below:

- Credit risk profile of the borrowing entity and the ability to timely meet repayments.
- Impact on Council's credit profile, borrowing cap amount (if any), borrowing covenants with the LGFA and bank lenders as well as Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate and terms.
- Lending arrangements must be documented in an approved term sheet.

2. Funding risk control limits

PWC recommend an adjustment to the maturity bands within the framework to allow for a 3 - 7 year and 7 year + time frame. With the development of the longer term debt funding market (through the LGFA), PWC have observed constraints around the current policy bands. Having a wider time-band creates flexibility but continues to enforce a spreading and smoothing approach to debt management.

It is recommend the Council extends the period within which we can pre-fund both new and refinanced debt from 12 months to 18 months. This change supports the increased focus on contracted liquidity management and enables existing debt amounts to be refinanced before becoming classified as current (remaining term being less than 12-months).

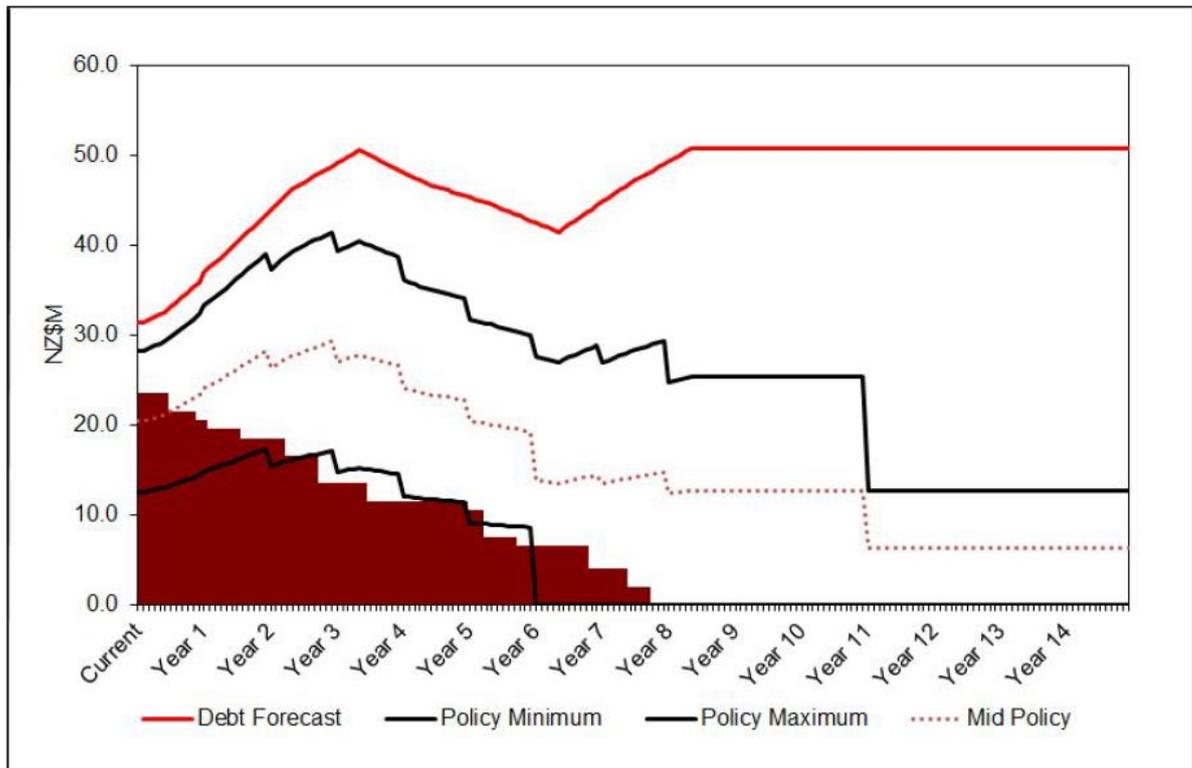
3. 'Corridor Policy' approach to replace the current interest rate risk management section of the policy

A consistent theme across the local government sector, and certainly true for our Council, is that forecast debt levels have generally overstated actual debt levels as capital projects are delayed in their delivery. This leads to councils having a greater amount of interest rate fixing which is not immediately required. The 'Corridor Policy' approach adapts to these uncertainties by having a declining stepped hedge profile beyond 12 months.

PWC recommend Council consider the corridor approach to interest rate management. The corridor style of policy proposes a minimum and maximum hedge percentage for each 12-month period based on the long term debt forecast. This differs from the maturity sub-limit approach (current policy), which bases the hedging decision on the 12 month debt forecast amount. Adopting this new Policy aligns the interest rate risk management framework with the LTP and projected longer term debt path.

The 'Corridor Policy' continues to achieve interest cost certainty and a spreading of interest rate repricing maturities whilst allowing for flexibility to manage the uncertainty that comes with long-term debt forecasting. The 'Corridor Policy' broadly aligns with the previous structure of minimum and maximum fixed rate hedging limits and weighted average maturity term.

An example of Council's interest rate profile under the new risk framework is shown below:



The approved maximum swap tenor has been aligned with the new policy framework and LGFA debt terms. This provides consistency with the management of long-dated floating rate LGFA bond maturities.

4. Liquidity management

Statements within the policy have been clarified to refer to Liquid investments and Treasury investments. Liquid investments pertain to those approved investment instruments that are appropriate for the Liquidity Ratio measure only, whilst all other investments are Treasury investments. Treasury investments would typically refer to for example, the \$5.4 million fund (ex Power New Zealand fund), which would therefore not be included in our liquidity ratio calculation as we do not use these funds for day to day operations.

5. Approved financial instruments

The LGFA now offers stand-by facilities and forward starting committed debt placements. The policy description of allowable instruments is widened to encompass these new instruments but we raise these here to highlight these developments and Council’s ability to access them.

6. Counterparty limits

The counterparty limits table within the Liability Management Policy has been consolidated to best manage and monitor Council’s total exposure to a counterparty. The counterparty limit amount remains unchanged. For instance, no more than \$20 million of Liquid and Treasury Investments can be placed with any one bank counterparty.

Investment Policy

Investment Policy – Review of policy compliance and effectiveness

The current policy includes a number of general objectives, and states the range of investments Council can hold. Each of these types of investments have varying specific objectives, management controls and levels of reporting outlined in the current policy. We believe that all of these policy objectives are being met. Other than cash investments to manage cashflow requirements, we have not made any further investments this year to date.

We have complied with our policy requirements for cash investments throughout the period. On average we've held a monthly average of \$7.7 million on term deposit (including the \$5.4 million investment fund). Investment rates have been low, with the weighted average for this year to date sitting at 2.62%. The Financial Strategy in our 2018-28 LTP earmarked an expected rate of return over the next 10 years of 3.85% specifically on the \$5.4 million cash investment held. With the downturn in rates, this has not been achieved for the current or previous financial years.

Council's external auditors annually review compliance with key policy requirements, our internal controls and accounting treatment and reporting as part of their annual audit function and have not raised any concerns or made recommendations in recent years.

Investment Policy – Proposed amendments

Following a review, PWC have recommended some minor changes to the policy, mostly to align with the changes recommended to the Liability Management Policy.

The key changes include:

1. Liquidity management

Statements within the policy have been clarified to refer to Liquid investments and Treasury investments. Liquid investments pertain to those approved investment instruments that are appropriate for the Liquidity Ratio measure only, whilst all other investments are Treasury investments. Treasury investments would typically refer to for example, the \$5.4 million fund (ex Power New Zealand fund), which would therefore not be included in our liquidity ratio calculation as we do not use these funds for day to day operations.

2. Counterparty Limits

For Treasury investments the risk category "Local Authority" has been removed given the reduced issuance of debt securities by named councils. The ability to invest in debt securities issued by the LGFA remains unchanged.

Ngā Take | Issues / Kōrerorero | Discussion

Legal and statutory requirements

Sections 102 (2) (b) & (c) of the Local Government Act 2002 require Council to adopt a liability management policy and an investment policy.

Section 104 requires that the liability management policy adopted must state the local authority's policies in respect of the management of both borrowing and other liabilities, including—

(a) Interest rate exposure; and

- (b) Liquidity; and
- (c) Credit exposure; and
- (d) Debt repayment.

Section 105 requires that the investment policy adopted must state the local authority's policies in respect of investments, including—

- (a) *[Repealed]*
- (b) The mix of investments; and
- (c) The acquisition of new investments; and
- (d) An outline of the procedures by which investments are managed and reported on to the local authority; and
- (e) An outline of how risks associated with investments are assessed and managed.

Impact on policy and bylaws

Proposed amendment to policies as outlined above considered minor

Impact on Significance and Engagement Policy

None

Communication, consultation and decision making processes

Section 102(5) allows for the adoption of the investment and liability management policies without the requirement to use a special consultative procedure.

Ngā waitohu | Signatories

Author(s)	Larnia Rushbrooke Deputy Finance Manager	
Approved by	Manaia Te Wiata Group Manager Business Support	
	Danny Anglesey Finance & Business Services Manager	

PWC - Treasury Advisor's Presentation

RM No.: 2248032

Rāpopotonga Matua | Executive Summary

Treasury Advisor Representatives from PwC in attendance to present to the Audit and Risk Committee to cover general discussion on finance management and the amendments to Matamata-Piako District Council's Liability Management Policy.

COMMITTEE RESOLUTION

That:

1. The information be received.

Moved by: Cr A Wilcock

Seconded by: Cr D Arnold

CARRIED

Ngā waitohu | Signatories

Author(s)	Danny Anglesey Finance & Business Services Manager	
Approved by	Manaia Te Wiata Group Manager Business Support	

9 Procedural motion to exclude the public

That the public be excluded from the following part(s) of the proceedings of this meeting.

The general subject of each matter to be considered while the public is 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 this resolution follows.

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 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, as follows:

C1 Report of Fraud to the Audit and Risk Committee

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of a deceased person. . s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). .	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

C2 Weathertight Buildings Update

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(g) - The withholding of the information is necessary to maintain legal professional privilege. . s7(2)(i) - The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations). .	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

Committee Resolution

That:

- 1. The meeting be moved to public excluded.**

Moved by Cr D Arnold

Seconded by Cr James Thomas

1.31pm The public was excluded.

The text of these resolutions is made available to the public who are present at the meeting and form part of the minutes of the meeting.

1.50pm The meeting was moved out of Public Excluded

Moved by Cr D Arnold

Seconded by Cr K Tappin

Carried

Local Procurement Review

RM No.: 2293298

Rāpopotonga Matua | Executive Summary

Council has an established Procurement Policy and Manual. The release of the Governments Broader Outcomes, a review of local procurement and best practice has led to looking at options to better support local procurement. Procurement processes allow Council to not only ensure we are getting value for money, but also to take into consideration the impact of spending on local suppliers and communities. Procuring local goods or services enables to support the local economy.

This report outlines the changes made to the Procurement Manual to better support the local economy. These changes ensure Council is encouraging a competitive market. It does this in two ways. One, by ensuring we remove any barriers to engaging with Council, for example removing the need to complete a quoting template for low value procurements. Two, that when procuring we consider the broader outcomes of that procurement such as the percentage of the contract value being spent locally.

As with all factors taken into regard when procuring, broader outcomes such as local procurement, must be considered in a fair and transparent manner. Having a clear procedure around how to navigate these changes will ensure all procurements consider local procurement in a consistent and measured approach across Council.

COMMITTEE RESOLUTION

That:

1. The report be received.

Moved by: J Aoake

Seconded by: Cr J Thomas

CARRIED

Horopaki | Background

Council has an established Procurement Policy and Manual, which outlines the way Council conducts its procurement activity. Broader outcomes relating to procurement have been a hot topic within both Local and Central Government. The new frame of thinking is that procurement “can and should be used to support wider, social, economic, cultural and environmental outcomes that go beyond the immediate purchase of goods and services.” Price will always be a relevant procurement consideration but broader outcomes also contributing to growth and prosperity in local communities.

Over the last six months, procurement data has been collected and monitored to develop a better understanding of local procurement. In addition, a review of best practice procurement for Local and Central Government was completed. This information was discussed with the Recovery Working Party to determine what changes could be made to Councils procurement processes to recognise the benefit local suppliers have on the local economy. The changes that have been

made consider price, broader outcomes and what can be done to support the recovery of the local economy from a procurement perspective.

Ngā Take | Issues / Kōrerorero | Discussion

The data below shows Councils spend via purchase order (PO) for the second quarter of 2019/2020. The data has been displayed by both value of transactions and geographical distribution of spend.

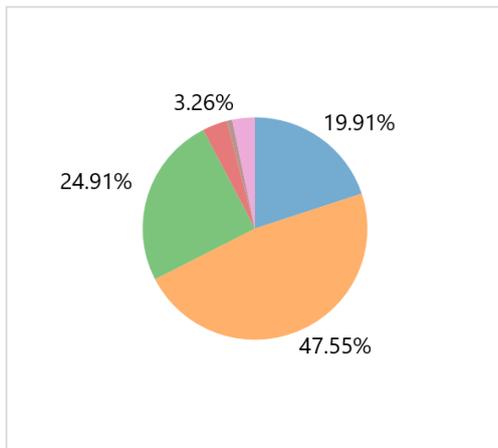
As shown in graph 1, \$2 million was spent with suppliers within the district in the second quarter, equating to almost 20% of spend. With a further \$4.86 million spend in the rest of the Waikato region.

Graph 1: Geographical spend

	Amount 	No of suppliers	Average per supplier	No of transactions	Average per transaction	No of POs
Rest of Waikato	\$4,860,959	114	\$42,640	686	\$7,086	607
Rest of North Island	\$2,546,603	219	\$11,628	937	\$2,718	685
Matamata-Piako	\$2,035,380	175	\$11,631	995	\$2,046	869
South Island	\$362,929	21	\$17,282	52	\$6,979	39
Unknown address	\$333,055	30	\$11,102	261	\$1,276	176
Outside New Zealand	\$82,900	8	\$10,362	106	\$782	5
Grand Total	\$10,221,826	567	\$18,028	3,037	\$3,366	2,381

Please note: differences in the values from graph 1 to graph 3 below is because graph 1 includes contract payments and PO's. Graph 3 is just PO's.

Graph 2: Geographical spend - percentage

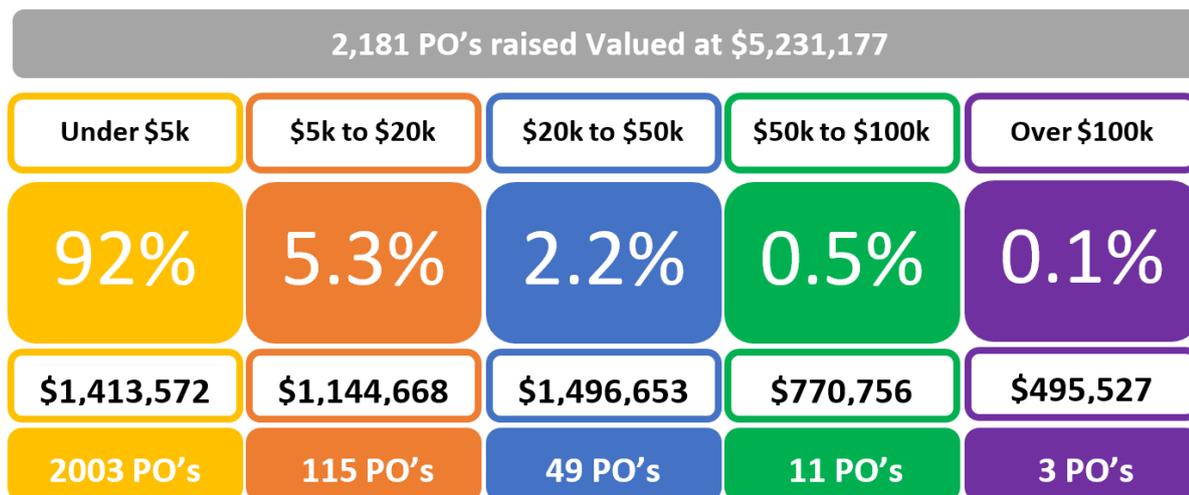


- Matamata-Piako
- Rest of Waikato
- Rest of North Island
- South Island
- Outside New Zealand
- Unknown address

As you can see the average value of the transactions, undertaken with local suppliers within our district is under \$5k. At this value a second quote is not required, enabling a local supplier to be directly appointed (the Procurement Manual encourages staff not to always go back to the same supplier to ensure they are price checking the market).

Last quarter 97.3% of purchase orders (POs) were under \$20K, with 92% of those being under \$5k. Please note this data only includes purchase orders not progress payments.

Graph 3: Transactions by value (only POs)



Council has an established Procurement Policy and Manual, which is subject to review and change. This requires approval by Council. The release of the Governments Broader Outcomes, a review of local procurement and best practice has led to looking at options that will better

support local procurement. The following changes to the Procurement Manual were approved by Council on May 13:

- Ensure local contractors have the opportunity. If there is a local supplier, they must be given an opportunity to quote. This is in line with current practise of considering local whenever possible.
- The requirement to use the Request for Quotation (RFQ) template in the \$5k-\$20k range was removed. This will simplify the procurement process therefore making it easier for local contractors/suppliers to quote. Purchases under \$20k would be able to provide quotes in their own (written) format.
- A local economic impact assessment was introduced to the non-price evaluation of tenders (10% weighting). This will allow tenderers who are using local resources to be recognised for the benefit they have on the local economy.

The local economic impact assessment considers what percentage of contract value is being spent within the district. For example a contractor who is outside of the district may score well within this section, if they are utilising local sub-contractors and materials. This is because we are recognising the benefit of the use of local sub-contractors and suppliers and the percentage of the contract value that is going back into the local economy. However, a local contractor who is also using local sub-contractors and materials would score better as a higher percentage of the contract value would be spent within the district.

This is not simply a weighting that gives local contractors an extra 10%. Instead, it encourages all contractors bidding for our work to use local resources.

- A step was added to our internal procurement planning process to assess contract size to determine if splitting or bundling the contract in a different way would allow greater opportunity for local contractors/suppliers.
- Engage with NZTA to determine if the introduction of a local impact assessment to the non-price evaluation of tenders (10% weighting) is possible for NZTA subsidised contracts.

Local government is subject to strict probity practises to ensure Council is gaining the best public value for each dollar spent. The above fit within the requirements placed upon Council whilst increasing access for local contractors/suppliers.

Mōrearea | Risk

When encouraging local procurement it is important to consider and mitigate any associated risks, including:

- Non-compliance: Council must ensure all procurement practises are fair and transparent, every dollar must be spent with best public value in mind.
- Financial: Council must ensure practises encourage a competitive market.
- Councils image: Procurement practises need to be applied consistently across Council to ensure that suppliers understand our practises

Ngā Whiringa | Options

No options for consideration.

Ngā take ā-ture, ā-Kaupapahere hoki | Legal and policy considerations

The Procurement Policy will need to be reviewed to determine if an update is required.

Ngā Pāpāhonga me ngā Wātaka | Communications and timeframes

The Communications team will develop the messaging on how the changes can be promoted to local businesses – such as local news articles and website content.

Ngā take ā-lhinga | Consent issues

Not applicable

Te Tākoha ki ngā Hua mō te Hapori me te here ki te whakakitenga o te Kaunihera | Contribution to Community Outcomes and consistency with Council Vision

Theme: Economic opportunities

Community Outcome: Through procurement, Council has an opportunity to support and stimulate the local economy. Increasing local procurement leads to greater positive impact on the local economy and particularly the sustainability of community organisations, small and medium sized businesses.

Pānga ki te pūtea, me te puna pūtea | Financial Cost and Funding Source

Not applicable

Ngā Tāpiritanga | Attachments

There are no attachments for this report.

Ngā waitohu | Signatories

Author(s)	Amy Pollock Procurement Officer	
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Approved by	Fiona Vessey Group Manager Service Delivery	
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Quarterly Procurement Report

RM No.: 2293305

Rāpopotonga Matua | Executive Summary

This report summarises procurement performance over the third quarter, whilst also comparing performance from this quarter to past quarters to track progress. Potential opportunities are highlighted and performance of recent initiatives is reported. Most of the information within this report has been created from the recently purchased Arc Blue Procurement Dashboards. This has enabled greater visibility of spend and allowed for greater analysis.

COMMITTEE RESOLUTION

That:

1. The report be received.

Moved by: J Aoake

Seconded by: Cr J Thomas

CARRIED

Horopaki | Background

Analysis of purchase order data enables greater awareness of spend via person, department, all of Council or supplier. Identifying persons with large spend profiles and spends with the same supplier across different departments. This identifies opportunities for collaboration as well as staff who may need more procurement support, to ensure procurement is undertaken effectively to gain the best value over whole of life.

Recommendations and findings from previous audits have been implemented into Councils Procurement Manual and procedures to ensure all areas for improvement are addressed and recommendations are applied.

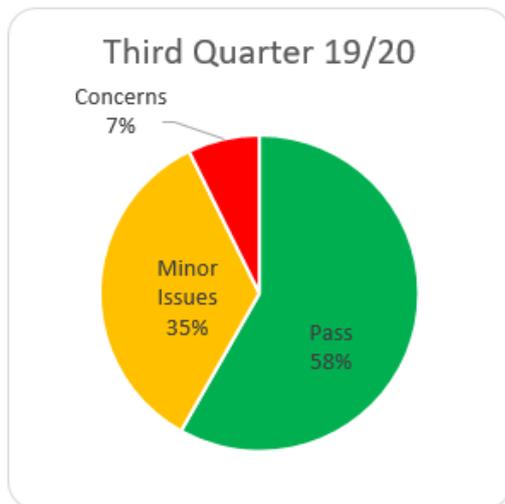
Audits and analysis of PO data will continue to be undertaken to ensure the embedding of processes into practises. Whilst working towards taking advantage of opportunities as they are identified

Ngā Take | Issues / Kōrerorero | Discussion

1. Auditing Findings

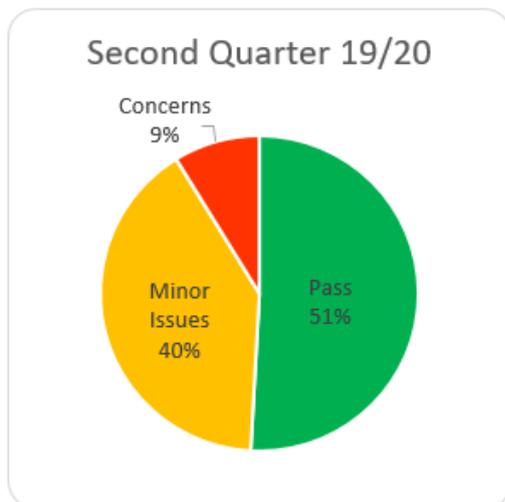
Audit findings are reported to managers to discuss with their staff. This ensures staff are made aware of any non-compliance whilst also reminding those approving requisitions, what to look for when reviewing a requisition for approval. As you can see in the graphs below, Concerns have decreased a further 2% compared to last quarter. With the overall pass rate increasing to 58%. Overall the findings suggest compliance is continuing to slowly improve with the same non-compliances are continuing to occur (e.g. not attaching quotes, not using RFQ templates, insufficient justification provided for specialised procurements) but at a reduced rate.

Graph 1: Auditing results categorised



PASS
Meets all audit requirements, with no areas of concern.

MINOR ISSUES
Small errors in the procurement & opportunities for improvement, but they only have minor impact on the procurement and Council.



CONCERNS
Many errors within a procurement or a significant error that raises concerns for compliance and increases risk to Council.

This quarter 7% (five) of audited PO's were classes as concerns. This does not mean fraud is occurring, it is a result of process not being followed. Currently all non-conforming procurements are passed onto the relevant manager.

1.1. Non-compliance Management

Non-compliance tends to occur in lower value purchases, typically between \$5,000 and \$20,000. Due to the consistent level of non-compliant auditing results, discussion around the current thresholds has been initiated. The following questions are being asked:

- Are the current thresholds appropriate?
- Is paperwork for all PO's over \$5k requiring too much?
- Should the requirement to complete the quoting paperwork be raised?

There will always be some non-compliance due to new staff learning and unforeseen circumstances. However, the aim is to have con-compliances sitting at under 10%.

2. Suppliers

2.1. Suppliers Identified for Potential contracts

All suppliers with spend more than \$100,000 with on an annual basis should be under a contract (excluding one off purchases). The table below outlines suppliers who we spent over \$100,000 to date in 18/19 that need to be reviewed.

Supplier	Value	Comments
Andrews Property services	\$214,739	Property are currently working on a tender to set up a panel for this type of work
Pump R&M	\$176,495	Under review with 3 Waters
Genera Ltd	\$100,939	Planned to be tendered

2.2. Top 10 Suppliers (PO)

The following table outlines the top 10 suppliers who had the most PO's raised this quarter. It also outlines the total spent with suppliers this quarter and the average value of PO's raised per supplier.

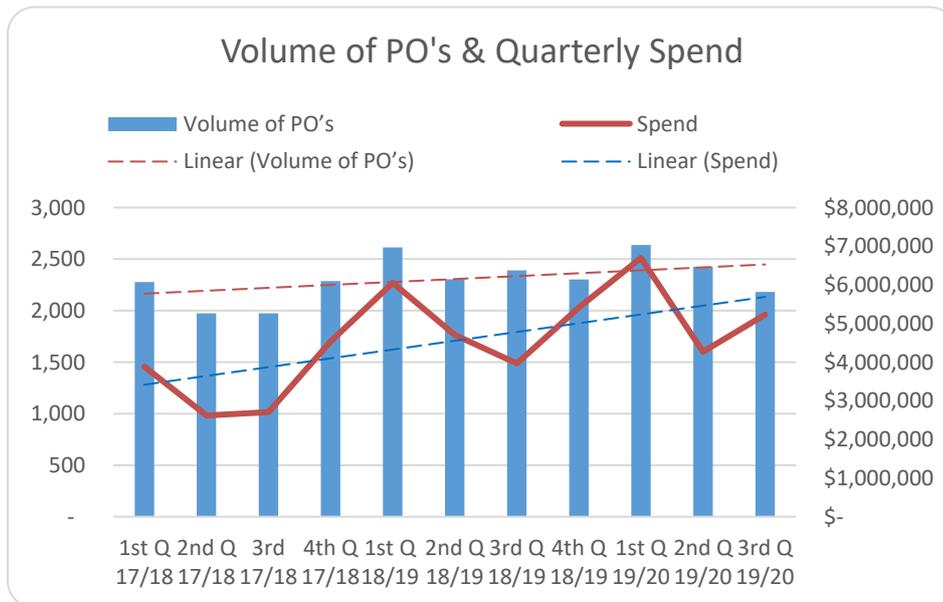
Supplier	No of transactions	Spend	Avg per transaction
OFFICEMAX NEW ZEALAND LTD	139	\$55,000	\$396
WESFARMERS INDUSTRIAL AND SAFETY (NZ) LTD	109	\$22,682	\$208
WAIHOU ENGINEERING & MECHANICAL SERVICES LTD	85	\$122,392	\$1,440
JAMES BENNETT PTY LTD	82	\$29,227	\$356
WASTE MANAGEMENT NZ LTD HAMILTON	46	\$7,732	\$168
KAISER AG LTD	43	\$21,962	\$511
CORPORATE TRAVELLER HAMILTON	41	\$9,476	\$231
PUMP R & M LTD	40	\$49,844	\$1,246
SELECT ALARMS LTD	37	\$52,609	\$1,422
GENERA LTD	35	\$62,284	\$1,780

3. Purchase Orders

3.1. Volume of PO's

2,181 PO's were raised this quarter. The graph below compares the volume of PO's raised historically to this quarter. It appears that the volume of PO's is slightly increasing with cyclical highs in the 1st and 4th quarters.

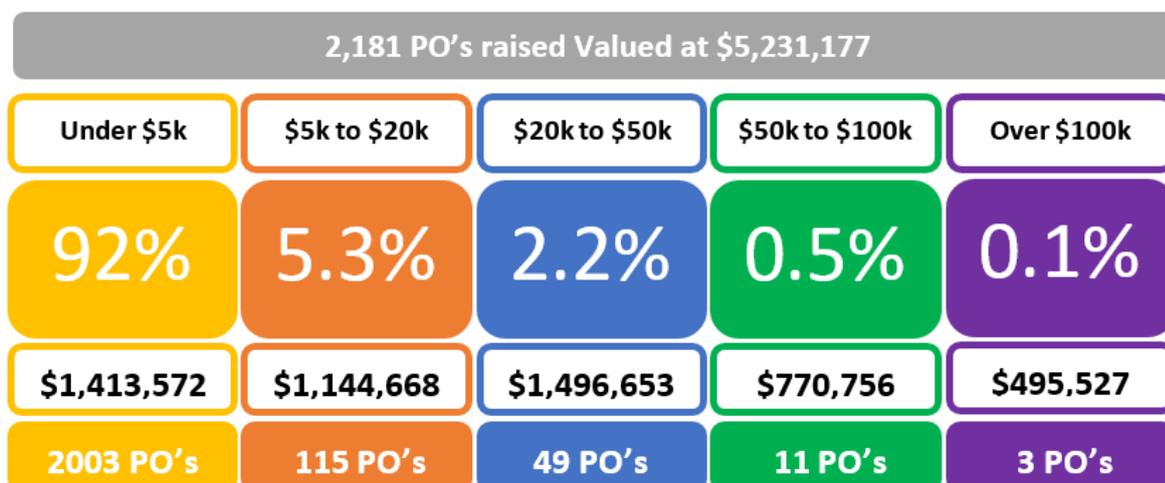
Graph 2: Volume of PO's & Quarterly Spend



30% of these PO's were raised with 10 suppliers/contractors listed in 3.2 above.

3.2. Number of PO's – Threshold breakdown

In the second first quarter 2,636 purchase orders were raised. See below for the thresholds breakdown. As below 91% of PO's raised fall under the \$5,000 threshold. With majority of the PO spend being low value it is vital to ensure procurement is undertaken correctly at every level.



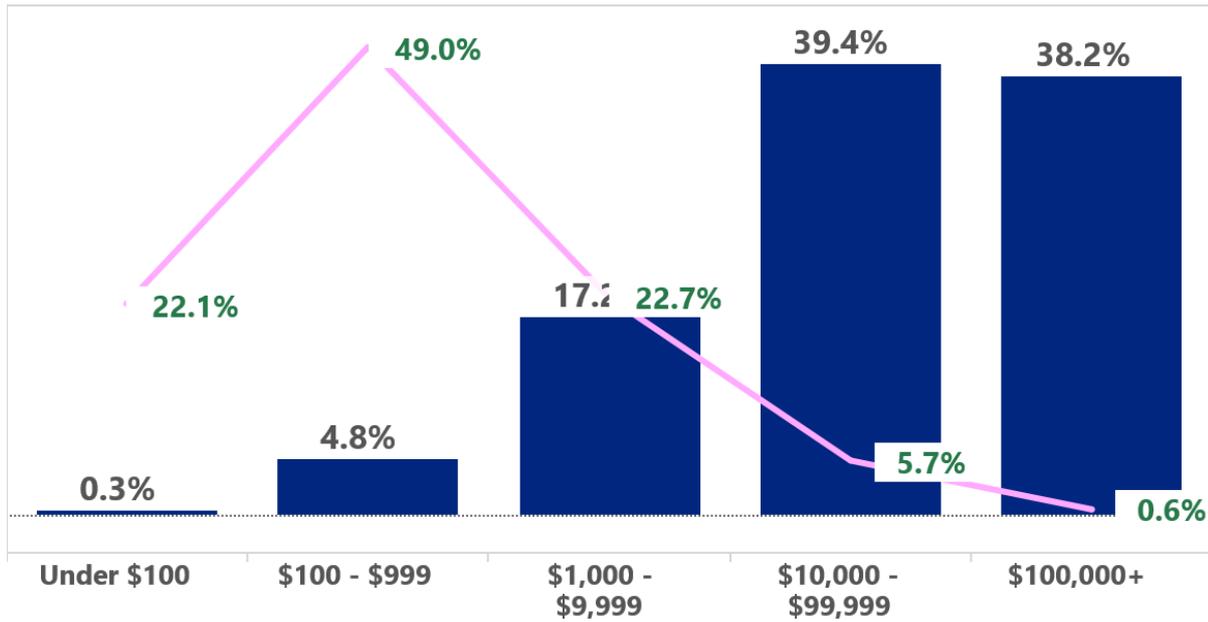
213 PO's were raised this quarter valued at under \$50. The table below contains the suppliers we have raised five or more PO's with under \$50 this quarter.

Supplier	Volume of PO's under \$50
Allied Investments Limited Hamilton	48
Kinsey Kydd Building Supplies Limited	11
Officemax New Zealand Ltd	11
Morrinsville Mitre 10	10
Mitre 10 Matamata	6
Waikato Wide Locksmith Services Limited	6
Waste Management NZ Limited Hamilton	6
J A Russell Limited Auckland	5
Te Aroha Overall Laundry Limited	5
Wesfarmers Industrial and Safety (NZ)	5

4. Transactions

The graph below compares the volume of transactions (PO's and progress payments) compared to the total spend in each value range.

71.1% of all transactions are under \$1,000 but it only equates to 5.2% of the total spend.



	Source System	Under \$100	\$100 - \$999	\$1,000 - \$9,999	\$10,000 - \$99,999	\$100,000+
Amount	AP	\$31,505	\$528,833	\$1,886,885	\$4,327,535	\$4,195,303
No of transactions	AP	638	1,415	657	164	16
Average per transaction	AP	\$49.38	\$373.73	\$2,871.97	\$26,387.41	\$262,206.41

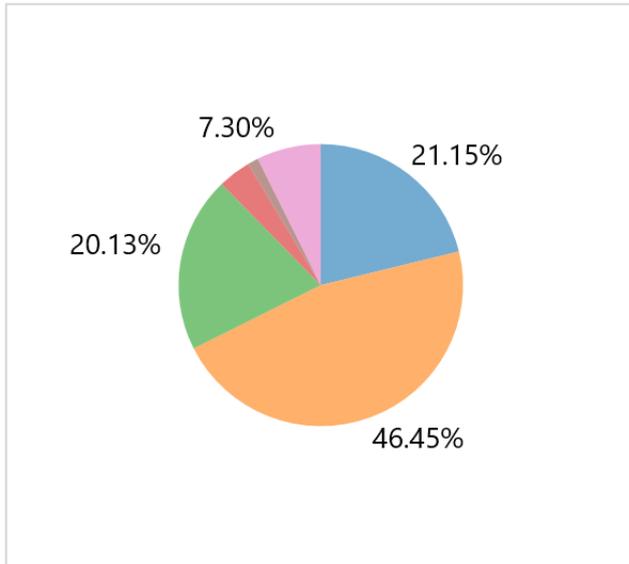
5. Contracts

All contracts should be entered into the contracts register regardless of value. The following provides an overview of the contracts register at the end of the first quarter (excluding the PSP).

96	• Active contracts in the register
\$51.3M	• Total value of active contracts
11	• Maintenance and Operations contracts
28	• Capital and Renewal contracts
57	• SFA/Services contracts

6. Geographical Spend

With recent changes to the Government Procurement rules more emphasis has been placed on engaging with Maori, Pasifika, and regional businesses and social enterprises in order to actively contribute to our local economy. The graph below shows that 21.15% of all procurement is undertaken within Matamata-Piako District, with a further 46.45% in the rest of the Waikato. Therefore 67.6% of purchases are being undertaken in the Waikato region.



- Matamata-Piako
- Rest of Waikato
- Rest of North Island
- South Island
- Outside New Zealand
- Unknown address

7. Savings

Savings obtained through joining AoG, n3, WLASS contracts and establishing contracts in house are tracked below. Initiatives that have recently been entered are coloured the same as the financial year they were implemented.

Total Savings Report					
Organisation	Supplier	Estimated Savings per Year	Actual savings achieved		
			17/18	18/19	19/20
n3	J A Russell Ltd	25%	\$ 39,442	\$ 33,204	\$ 11,571
n3	Z Energy 2015	7%	\$ 14,191	\$ 10,272	\$ 14,052
n3	NZ Safety Blackwoods	37%	\$ 11,990	\$ 28,520	\$ 37,976
n3	Bridgestone New Zealand Ltd	22%	\$ 9,525	\$ 7,748	\$ 4,468
n3	Mico New Zealand Ltd	44%	\$ 6,320	\$ 7,116	\$ 4,754
n3	Argus Tracking Ltd	16%	\$ 2,664	\$ 6,860	\$ 5,333
n3	Bunnings Warehouse	17%	\$ 2,070	\$ 3,080	\$ 2,467
n3	Placemakers	21%	\$ 1,669	\$ 4,328	\$ 1,745
n3	Resene	24%	\$ 1,080	\$ 1,073	\$ 206
n3	BOC Ltd	31%	\$ 475	\$ 250	\$ 258
WLASS	Waikato Aerial Photography Syndicate (WRAPS)				
WLASS	Contractor H&S Pre-qualification				
WLASS	Infometrics online				
WLASS	Postal and Courier Services				
WLASS	Insurance Brokerage				
WLASS	Historic Aerial Photos Archive				
AoG	Banking Services	35%	\$ 3,973	\$ 4,651	\$ 3,005
AoG	Motor Vehicles	10%	\$ 51,224	\$ 39,187	\$ 1,098
AoG	Mobile Voice and Data Services	13.9%	\$ 13,500		
AoG	Office Supplies	22%	\$ 23,779	\$ 28,305	\$ 12,606
AoG	IT Hardware	\$ 10,000	Joined in 4th Q	Reporting problem	Reporting problem
AoG	Retail Fuel	\$ 18,180	\$ 3,429	\$ 24,595	\$ 17,460
AoG	Electricity				\$ 8,251
AoG	Cleaning Services	\$ 39,260			\$ 11,161
AoG	Recruitment				
WLASS	Professional Services Panel (PSP)				not reported yet
TOTAL SAVINGS			\$ 185,331	\$ 199,189	\$ 136,412

Mōrearea | Risk

When undertaking procurement risks need to be identified, mitigated and managed. These risks include:

- Financial: ensuring Council is getting value for money
- Operational: purchasing the right outcome in the required timeframe
- Non-compliance: ensuring process non-compliance is reduced, monitored and managed
- Reputational: managing conflicts of interest and ensuring transparency and fairness

Ngā Whiringa | Options

There are no options to be considered in this report.

Ngā take ā-ture, ā-Kaupapahere hoki | Legal and policy considerations

The Office of the Auditor General provide the framework for good procurement practise by public entities.

Good practice principles, government policies, and rules.

Basic principles that govern all public spending.

- Accountability
- Openness
- Value for money
- Lawfulness
- Fairness
- Integrity

Pānga ki te pūtea, me te puna pūtea | Financial Cost and Funding Source

The financial cost involved with procurement is the staff time required. In some instances consultants are engaged for specialist procurement assistance. Procurement activities are funded within existing budgets.

Ngā Tāpiritanga | Attachments

There are no attachments for this report.

Ngā waitohu | Signatories

Author(s)	Amy Pollock Procurement Officer	
Approved by	Fiona Vessey Group Manager Service Delivery	

Annual Report 2019/20 - Q3 Financial and non-financial performance and Audit NZ interim management report

Trim No.: 2295438

Rāpopotonga Matua | Executive Summary

The Local Government Act 2002 requires Council to prepare and adopt an annual report for each financial year. The annual report is required to be audited by independent auditors. The auditors appointed to audit Council by the Auditor-General are Audit New Zealand (Audit NZ).

During each financial year Audit NZ carries out an interim audit (completed in May/June 2019) prior to the final audit conducted in August/September. The purpose of this report is to advise the Audit and Risk Committee members of the findings of the interim audit and present the Draft Interim Management Report.

At the time of writing this report Audit NZ have not provided Council with the Draft Interim Management Report.

Staff have also taken the opportunity to present a summary of Q3 performance – given the effect of the COVID 19 pandemic on New Zealand and our local community.

COMMITTEE RESOLUTION

That:

1. **The report is received.**
2. **The Audit and Risk Committee considers providing feedback to Council**

Moved by: J Aoake

Seconded by: Cr K Tappin

CARRIED

Content

Horopaki | Background

Section 98 of the Local Government Act 2002 requires Council to prepare and adopt in respect of each financial year an annual report. The annual report contains information regarding the Council's financial and non-financial performance for that year against budgets and specified performance targets. The annual report is required to be audited by independent auditors. The auditors appointed to audit Council by the Auditor-General are Audit New Zealand (Audit NZ).

Interim Audit

During each financial year Audit NZ carries out an interim audit (completed in April/May 2020) prior to the final audit conducted in August/September. The purpose of this report is to advise the Audit and Risk Committee members of the findings of the interim audit and present the Draft Interim Management Report. At the time of writing this report Audit NZ have not provided Council with the Draft Interim Management Report, this is due to the interim audit being scheduled later than usual this year. Staff will endeavour to circulate the report prior to the meeting - however if it is not available in time this item will need to be deferred.

Q3 performance measures

Attached to this report is a summary of the performance measure monitoring to 31 March 2020. Collation of this report took place through the Level 3 and 4 lockdown period. Some data does not fully reflect the effect of the lockdown – for example pool numbers. In other areas we have had some logistical challenges collating information. Staff are currently checking performance measure data for April, and anticipate being well placed to complete this work at the end of the financial year.

Q3 financial review

Again in light of the COVID effect on New Zealand, forecasting at Q3 was requested by the executive. These are attached to this report. Staff will be able to discuss this further with committee members at the meeting.

One matter of note is a change to the NZTA funding approach under COVID - NZTA have confirmed both maintenance and renewals and capital work not completed this year can be carried forward, but we will need to give them an update of what the financials are likely to look like at the end of the year and what we want to be carried forward so they can manage the cash flow at their end. In light of this staff are going to try and get as much work as possible within the budget this financial year. Staff are cautious of next year as it is going to be difficult to manage budgets and work load without the pressure of additional work.

Q3 debtors/defaults

Rates Staff have added the Penalty on the 4th Instalment on 2 June. Compared to 2018/19 penalties are slightly lower and within the range Council would usually expect for late rate payments.

2019/2020		2018/2019	
Instalment 1	\$ 48,306.55	Instalment 1	\$49,273.18
Instalment 2	\$ 50,330.74	Instalment 2	\$47,337.77
Instalment 3	\$ 44,447.53	Instalment 3	\$42,094.97
Instalment 4	\$41,563.64	Instalment 4	\$43,314.42

In Sundry Debtors the balance at 31 May 2020 has debts greater than 90 days at 7.3% of the total balance owing, again not an unduly high amount. Finance staff will continue to monitor these areas of the business.

Q3 legislative compliance review

As the third part to the review of the effect of COVID on the organisation, managers were asked to complete the legislative compliance review early – this will be circulated separately to this report and discussed by staff with the committee.

Analysis

Options considered

The Committee has the opportunity to make recommendations to Council regarding the content of the Draft Interim Management Report, and other matters raised in this report.

Legal and statutory requirements

Section 98 of the Local Government Act 2002 requires Council to prepare and adopt an annual report each financial year.

Consistency with the Long Term Plan / Annual Plan

Funding is allocated in each Long Term Plan/Annual Plan to produce and audit the Annual Report.

Ngā waitohu | Signatories

Author(s)	Michelle Staines-Hawthorne Corporate Strategy Manager	
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Approved by	Manaia Te Wiata Group Manager Business Support	
	Don McLeod Chief Executive Officer	

Audit Plan for the year ending 30 June 2020

RM No.: 2231587

Rāpopotonga Matua | Executive Summary

This report seeks approval of the draft Audit Plan for the year ending 30 June 2020.

COMMITTEE RESOLUTION

That:

1. The Committee receive the draft Audit Plan for the year ending 2020 and provide any feedback to Council.
2. The Committee receive the draft Interim Audit Report and provide any feedback to Council

Moved by: J Aoake

Seconded by: Cr D Arnold

CARRIED

Horopaki | Background

Section 98 of the Local Government Act 2002 requires Council to prepare and adopt in respect of each financial year an annual report. The annual report contains information regarding the Council's financial and non-financial performance for that year against budgets and specified performance targets. The annual report is required to be audited by independent auditors. The auditors appointed to audit Council by the Auditor General are Audit New Zealand.

Ngā Take | Issues

Attached to the report are:

- the draft 2020 Audit Plan, which formally sets out arrangements for this year's audit;
- the draft 2020-2022 Audit Engagement Letter (AEL), which agrees the terms and limitations of the annual audit engagements, as well as the responsibilities of all parties; and
- the draft 2020-2022 Audit Proposal Letter (APL), which includes the hours and fees of the audit for 2020, as well as assumptions related to these.

There are a few points to note:

- the audit fee has been set for one year only, and the reasons for this are explained in the APL; and
- the Audit Plan does not reflect the impact of Covid-19 on the Council and our audit, with this still being worked through at this stage. It does however reflect the uncertainty around audit timing which might result.

The Audit Plan outlines the proposed approach to the audit, matters of particular interest in the audit approach (both for Council specifically and the local government sector in general), fees and timeline.

Of specific note this year is the note relating to the COVID-19 pandemic. “The impact of COVID-19 on our audit risks/issues and our audit response has not yet being determined. We expect to complete our determination of the impact of COVID 19 by 30 June 2020. Where Audit identify additional COVID-19 related audit risks or issues they will advise of these separately.”

Staff are currently liaising with Audit NZ in regards to the timing of the final audit, these dates will be updated in the final version.

Analysis

Options considered

The Committee has the option of providing feedback to Council on the Audit Plan for the year ending 30 June 2020.

Legal and statutory requirements

Section 98 of the Local Government Act 2002 requires Council to prepare and adopt an annual report each financial year.

Impact on policy and bylaws

There are no policy or bylaw issues

Consistency with the Long Term Plan / Annual Plan

Funding is allocated in each Long Term Plan/Annual Plan to produce and audit the Annual Report.

Financial Impact

i. Cost

The production of the Annual Report and Summary has a budget of \$15,000 (excluding audit costs) for production of the Annual Report and Summary.

Audit fees have a budget of \$125,000. Audit New Zealand are currently reviewing their fees.

Staff requested information on audit fees for similar size councils, Audit have looked through the 2019 annual reports to find district councils with similar sized revenue and expenditure, and have provided a comparison below.

Council	From annual report 2019		
	Operating revenue	Operating expenses	Audit fee
Masterton District Council	\$ 48,551	\$ 46,013	111
Hurunui District Council	\$ 47,030	\$ 49,615	117
Tararua District Council	\$ 41,309	\$ 39,566	118
Rangitikei District Council	\$ 34,710	\$ 31,811	122
Matamata-Piako District Council	\$ 57,125	\$ 54,105	125
Hauraki District Council	\$ 39,164	\$ 39,708	132
Whakatane District Council	\$ 74,302	\$ 61,631	133
Westland District Council	\$ 27,028	\$ 25,945	140
Manawatu District Council	\$ 54,487	\$ 54,699	147
Ruapehu District Council	\$ 39,367	\$ 35,609	148
Horowhenua District Council	\$ 53,894	\$ 59,608	157

Councils auditors have commented that - While not a complete list, as there is a clearly a good deal of variation and unknown factors about the audits which really challenges the value of the comparison. For example, there is likely additional complexities for some councils at the higher end of the scale that aren't captured by a comparison based on income statement alone.

There is another factor which Councillors may wish to consider when comparing fees against these and other councils. Audit NZ has communicated with the OAG that it is clear that audit fees for some councils have not kept pace with the real costs of the audit over recent years. Audit NZ are comfortable that MPDC's fee is close to where it should be, given the size and complexity of the audit. However, a number of other councils would likely have been facing a significant increase in their fee proposals for this year, had the Auditor-General not held the increase to 1.5% across the board in the COVID 19 environment.

ii. Funding Source

The Annual Report cost is provided for within the strategies and plans activity budgets. The Annual Report and audit are funded from general rates.

Audit fees are the subject of a separate report to the Committee.

Ngā waitohu | Signatories

Author(s)	Ellie Mackintosh Graduate Policy Planner	
Approved by	Michelle Staines-Hawthorne Corporate Strategy Manager	
	Manaia Te Wiata Group Manager Business Support	
	Don McLeod Chief Executive Officer	

Debenture Trust Deed - Letter of Engagement

RM No.: 2295412

Rāpopotonga Matua | Executive Summary

This report seeks to provide the Committee with the letter of engagement for the limited independent assurance report of the Debenture Trust Deed to be undertaken by the Council's auditors.

COMMITTEE RESOLUTION

That:

1. The information be received

Moved by: Cr B Dewhurst

Seconded by: Cr J Thomas

CARRIED

Content

Horopaki | Background

Several years ago, Council restructured its security arrangements for debt using a debenture trust deed. This deed alters how security is given for debt and allows Council more flexibility in structuring its debt than previous mechanisms.

As part of Council's annual audit of accounts and performance, our auditors undertake an audit of the trust deed arrangements in accordance with the requirements of the Trust Deed.

Ngā take | Issues

Attached to this report is a copy of the engagement letter for the limited independent assurance report to be undertaken by our auditors. The letter sets out the scope of the audit, the Council's and the Trustee's responsibilities.

The outcome of the Debenture Trust Deed Audit will be available from our Auditors in October.

Ngā waitohu | Signatories

Author(s)	Michelle Staines-Hawthorne Corporate Strategy Manager	
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Approved by	Larnia Rushbrooke Deputy Finance Manager	
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	Manaia Te Wiata Group Manager Business Support	
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	Don McLeod Chief Executive Officer	
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Long Term Plan 2021-31 Project Update

RM No.: 2287181

Rāpopotonga Matua | Executive Summary

Council is required to prepare and adopt a Long Term Plan under the Local Government Act 2002 (LGA) every three years.

The purpose of this report is to provide an update on the Long Term Plan project and the associated risk register.

At the time of writing the Audit Arrangement Letter and Fees from Audit NZ had not yet been received.

COMMITTEE RESOLUTION

That:

1. The information be received.
2. Any views on the Long Term Plan 2021-31 project and risk register are provided.

Moved by: Cr J Thomas

Seconded by: Cr A Wilcock

CARRIED

Horopaki | Background

Council is required to prepare and adopt a Long Term Plan under the LGA. The Long Term Plan sets out the activities, budgets, Financial Strategy and key financial policies of the Council for the next 10 years and the Infrastructure Strategy for the next 30 years. The Long Term Plan is required to be updated every three years, with the last Long Term Plan being approved in 2018 (available online <https://www.mpdc.govt.nz/plans/long-term-plan>).

The Long Term Plan:

- describes the type of district our communities have told us they want – our community outcomes
- identifies the key projects to take place over the next 10 years
- provides an overview of each activity we will carry out and the services we will provide for the next ten years
- determines how much this will cost and how we will fund it.

We also do it to give our community the opportunity to have a say on where we are heading and to ensure our planning is robust. In completing the plan we are required to do a number of things, including:

- take a sustainable development approach and promote community interests
- carry out our business in a clear, transparent and accountable manner
- operate in an efficient and effective manner, using sound business practices
- take into account community views by offering clear information and the opportunity to present views
- provide opportunities for Māori to contribute to decision making
- collaborate and co-operate with other agencies and councils to achieve desired outcomes.

The Long Term Plan is a complex document covering all activities of Council, major strategic documents, financial policies, auditing and a large consultation component with the community.

The Long Term Plan must be adopted prior to 30 June 2021. The project timeline for a Long Term Plan is typically 18 months or more, and involves staff across the whole organisation, Councillors and the community. A high level overview of the timeline is set out under Communication and Timeline below.

Ngā Take | Issues / Kōrerorero | Discussion

Project Timeline

Due to Covid-19, nationwide lockdown and responding to the emergency taking priority, some of the project milestones and timelines have had to be revised. The project remains on track to achieve its target date of Adoption of the Long Term Plan by 30 June 2021, however some of the workstreams have had to be condensed to enable this;

- Budget preparation; In past LTP projects staff have prepared first cut budgets for discussion with Council in July/August. This has allowed multiple reiterations of the budgets prior to approving a Draft budget for consultation. Due to Covid-19 and the subsequent response including reviewing the Council position on the 2020/21 Annual Plan, the Project Team has agreed to only do ONE run of the budgets, which will be prepared for Council discussion in October/November. This means that budget managers will have the latest information available on starting position (2020/21 Annual Plan will be adopted by 30 June 2020). Council is also considering undertaking pre-consultation with the community on the financial strategy, which will inform the budget managers in preparing their relevant budgets.

Forecasting Assumptions

Work is underway to prepare the forecasting assumptions for the Long Term Plan. With the current Covid-19 situation, some of our assumptions will come with a high degree of uncertainty, as the full impact, both locally and globally, of the Covid-19 remains unknown. The Draft Forecasting Assumptions will be reported to the Committee in October for comments and feedback.

This is reflected in the updated Risk Register attached to this report.

Population projections

Infometrics Limited has prepared the population projections for our district to 2051. The projections were prepared during the months of December to February, prior to Covid-19. The projections do not account for any real or potential impact of Covid-19. However staff asked Infometrics to consider the current situation when making their recommendation with regards to which scenario to adopt as the underlying assumption for the purpose of the Long term Plan.

Infometrics presented to Council at a workshop 22 April, and recommended that Council adopts the Medium growth scenario.

As a result of COVID-19, international net migration is likely to be negligible for 2020 and 2021, and employment in Matamata-Piako District will decline slightly. Overall, net migration into Matamata-Piako is likely to be lower than projected until 2025. Given the soft outlook for net migration, the high projection scenario is not recommended as it is unlikely to be achieved in the near term. Furthermore, even when projected growth rates resume after 2025, they will be starting from a lower point, meaning that long term levels set out in the high projection are unlikely to be achieved either.

Near term growth rates are likely to be commensurate with the low projection. However, with lower growth in the low scenario, this may encourage decisions that preclude future growth. Therefore, it is recommended that the medium scenario be adopted by MPDC. The medium scenario provides an appropriate balance given the uncertainty in the near term due to COVID-19.

The Medium Growth Projections scenario was adopted by Council 13 May 2020.

Financial Strategy and Benchmark Limits

Initial workshop with Council was held in February. Council provided high level direction on the various Financial Prudence Benchmark limits, including indicating a rates increase limit of LGCI plus X%.

Over the past few months the economic environment and financial situation of our community have changed significantly. Council re-viewed its position on the Annual Plan 2020/21, which will have a flow on effect into the Long Term Plan. Both in terms of starting point and longer term effect of 'catch-ups' on work that was deferred or postponed as a result of Covid-19.

Council is currently considering how to engage with our communities to gauge their views on what the Financial Strategy should look like for the Long Term Plan. A verbal update to the committee will be provided at the time of the meeting.

Universal water metering

On 5 February 2020 Council held a workshop to discuss the rates structure and development contributions policy. This discussion was led by consultant Fraser Colegrave of Insight Economics. At that workshop elected members requested more information on universal water metering to understand the issues and option around this.

Staff have worked with Fraser to complete a report on Universal Water metering.

Overall the report concludes the Matamata-Piako district is facing the challenge of sustained growth in water demand due to increased economic activity and population growth, with industrial processing activity also having a large impact on water use. The report details options to improve the efficient use of water across the district.

Universal water metering is one possible option. While universal water metering (UWM) can be a powerful tool for reducing water consumption, the financial benefits to the district are limited.

The Council is currently undertaking various initiatives to help improve its understanding of various facets of its water network. Once better information about the network is available a more informed decision can be made about the best way to improve the efficiency of future district water use. The report ultimately recommends the Council consider parking this issue for now and revisiting it at the next LTP review in three years' time when it has better information about its own network and when current economic uncertainties due to Covid-19 have been resolved.

Council endorsed this recommendation at its meeting 13 May, and will not progress with the UWM at this point in time.

Mōrearea | Risk

A risk register is maintained for the Long Term Plan project. This is reported to the Audit and Risk Committee quarterly, and is attached to this report.

Ngā Whiringa | Options

The Committee is asked to provide feedback on the Project and the attached Risk Register.

Ngā take ā-ture, ā-Kaupapahere hoki | Legal and policy considerations

Requirement for a Long Term Plan

The preparation of the Long Term Plan is a requirement under the Local Government Act 2002. [Schedule 10](#) of the LGA sets out the requirements for a LTP. The LTP must include information about;

- Community Outcomes
- Groups of Activities
- Capital Expenditure for groups of activities
- Statement of service provision
- Funding impact statement for groups of activities
- Variation between territorial authority's longer term plan and assessment of water and sanitary services and waste management plans
- Council controlled organisations
- Development of Māori capacity to contribute to decision-making processes
- Financial strategy and Infrastructure Strategy
- Revenue and financing policy
- Significant and engagement policy
- Forecast financial statements
- Financial statements for previous year
- Statement concerning balancing of budget
- Funding impact statement
- Rating base information
- Reserve funds
- Significant forecasting assumption

Local Government Wellbeing Amendment Act 2019

The Local Government Wellbeing Amendment Act 2019 came into force in May 2019, re-introducing the four well-beings into legislation. This means Council must promote the social, economic, environmental and economic wellbeing of communities in the present and for the future. Council must report on how we are contributing towards the well-beings.

Mayoral Powers

Under LGA [s41A](#), *"it is the role of a mayor to lead the development of the territorial authority's plans (including the long-term plan and the annual plan), policies, and budgets for consideration by the members of the territorial authority."*

Council policies and strategies

As part of the preparation of the Long Term Plan, Activity and Asset Management Plans will be checked against Council's key strategic and policy documents and wider regional and national

documents for strategic fit. The preparation of the Long Term Plan may lead to the review of some Council policy documents.

Ngā Pāpāhonga me ngā Wātaka | Communications and timeframes

The Long Term Plan project is one of Council's key opportunities to engage with our communities to find out what their aspirations and priorities are. The LTP is subject to the special consultative process under the LGA ([s83](#)). The special consultative process is a structured one month submission process with a hearing for those who have submitted and wish to speak to their submission.

The Long Term Plan project timeline also provides for a 'pre-consultation' process with the community referred to as the Right Debate where Council can ask for feedback on key issues it is considering for the Long Term Plan.

The timeline for the project centres on key dates for completion of the draft documents in December 2020, auditing in January / February 2021 and consultation in March / April 2021. The Project On A Page (attached) provides an overview of the different building blocks and the associated timelines for the project. The below table provides a summary of key milestones and timelines.

Description	Start	Finish
Briefing Papers		COMPLETE
Demographic/Growth/Economic/Assumptions	Oct 2019	COMPLETE
Revaluation of Assets	Jan 2020	June 2020
Community Outcomes Review (if required) <i>Council adopted the existing Vision and Outcomes (refer Council minutes 11 March 2020)</i>	Jan 2020	COMPLETE
Rates Structure	April 2020	June 2020
Activity Plans (including budgets)	April 2020	Nov 2020
Right Debate (pre-consultation)	April 2020	Aug 2020
Infrastructure and Financial Strategy	April 2020	Oct 2020
Asset Management Plans	Feb 2020	Oct 2020
Policy Review	April 2020	Oct 2020
Council controlled organisation section	July 2020	Nov 2020
Māori participation in decision making	July 2020	Oct 2020
Budgets/ Financials/ Notes	July 2020	Dec 2020
Document development	July 2020	Dec 2020
Quality checks and administration	July 2020	Dec 2020
Communications Strategy and implementation	Feb 2020	Dec 2020
External Audit Process	Jan 2021	June 2021
Special Consultative Procedure	Jan 2021	June 2021

Pānga ki te pūtea, me te puna pūtea | Financial Cost and Funding Source

The development of and consultation on the Long Term Plan is funded from the Strategy and Engagement Activity Operating budget.

Ngā waitohu | Signatories

Author(s)	Ann-Jorun Hunter Policy Planner	
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Approved by	Michelle Staines-Hawthorne Corporate Strategy Manager	
	Don McLeod Chief Executive Officer	

7 Information Reports

Annual Plan 2020/21 and associated documents update

RM No.: 2291704

Rāpopotonga Matua | Executive Summary

Consultation on the draft Annual Plan 2020/21, Fees and Charges 2020/21, Introductory and Land Transport Bylaws was open from 18 March to 19 April 2020, the Trade Waste Bylaw was open from 18 March to 19 May 2020 to allow a two month consultation. Council received 114 submissions within the consultation period and a number of further submissions were received after the consultation period.

Council held a Hearing on Wednesday 27 May to hear those who identified they wished to present their submissions, and consider all the submissions received.

Mayor, Councillors and staff to provide an update on the Hearing at the meeting.

COMMITTEE RESOLUTION

That:

1. The information be received.

Moved by: Cr A Wilcock
Seconded by: Cr B Dewhurst

CARRIED

Horopaki | Background

On 11 March 2020 Council approved the various documents for public consultation which was open from 18 March to 19 April (or 19 May for the Trade Waste Bylaw to allow a two month consultation).

The Annual Plan outlines any major variation to what was proposed in the Long Term Plan and is Council's budget for the financial year 1 July to 30 June. The draft proposed a 6.4% rates increase made up of a combination of fixed costs (like inflation), increasing costs (like insurance, power, and contract prices), growth (giving us new assets to manage), and plans to improve a number of our services. Staff and Council had spent several months working on our plans for the next financial year – but the world changed dramatically in the space of a few weeks with the Covid-19 pandemic. Given this Council then asked staff to revisit the budgets, model rates options and what this would mean for Council services.

The Fees and Charges details all fees that Council charge ranging from swimming pool entry to building consent fees. The majority of the fees and charges have remained the same or have been increased based on inflation data from Business and Economic Research Ltd (BERL) and then rounded accordingly. Major changes include updating fees for our Event Centres, Building Consents and Rubbish.

The Introductory and Tradewaste Bylaws proposed only minor amendments. The Land Transport Bylaw proposed a number of speed limit changes across the district.

Council have voted in favour of a zero increase to general rates this year following COVID-19. While general rates will not increase, there will be a \$12 increase to rates for rubbish and recycling, and a \$49.50 increase for water. These increases are to targeted rates, so will only affect ratepayers who receive those services.

Councillors reviewed over 115 submissions, and heard presentations from 12 submitters at the hearing on Wednesday before making decisions on rates and fees and charges for the next financial year (starting 1 July).

Council also voted to establish a COVID-19 Response Fund of up to \$2 million (using funding from reserves) to help the district recover. Council holds money from previous investment and asset sales in “community purposes reserves”, which are used for one off significant projects in the community – such as the current Provincial Growth Fund projects. These reserves mean we can progress some major projects without having a significant impact on rates. They also form part of Council’s strong financial position, providing funds that we can access in an emergency.

At the hearing Council passed the following resolution:

That:

1. *The information be received.*
2. *The late submissions received are accepted.*
3. *Council hears all submitters who wish to be heard.*

That:

4. *Council has heard those submitters that wished to be heard and has considered all submissions received.*
5. *Decisions have been made and recorded in relation to each submission*
6. *Council approve:*
 - *a zero increase in the general rate;*
 - *an approximate total rate increase of \$49.50 per annum on the targeted water rate;*
 - *an approximate total rate increase of \$12 per annum on the targeted solid waste rate.*
7. *Council approve the designation of up to \$2M from reserve funds as COVID19 Response fund for use in one-off, fixed term investments which may include:*
 - *expanding Council’s capacity to complete capital projects such as project managers and support;*
 - *engaging fixed term staff to move forward on the Council’s digital strategy;*
 - *Cultural, and socio economic relief for our community as a result of the COVID19 pandemic.*
8. *Council staff inform each submitter of the decision as per the schedule of decisions.*

The above decision is considered to be prudent and for those activities with budget pressures provides a sustainable level of funding.

Mōrearea | Risk

In 2014 amendments were made to the Local Government Act 2002 changing the requirement for mandatory consultation on the Annual Plan. Section 95 of the Local Government Act 2002 now states that if the proposed Annual Plan does not include significant or material differences from the content of the Long Term Plan for the financial year to which the proposed Annual Plan relates then Council does not need to consult. Council made the decision to consult early March and consultation began mid March not long before the COVID-19 lockdown and we are confident in meeting all legislative requirements in regards to consultation.

The budget is prepared using the best available information. Council, under normal circumstances faces a certain level of risk when setting its budgets. General risks that were identified as part of the budget discussions are listed below.

- Project timing and cost, whether we will be able to complete projects when scheduled.
- Water income – our metered water is not guaranteed and is mainly contributed by six large industry providers, the loss of one of those industries would have a large impact on Councils total rate take.
- Solid waste income – may be less than forecast and costs greater than budgeted.
- Overall revenue could be less than budgeted
- Interest rates could change
- Economic and other factors may result in growth being less than has been estimated.
- There could be legislative changes come through over the next year that have an impact on our budgets that have not been accounted for.

The effect of COVID -19 and the central government responses to the pandemic have exacerbated these existing risks and created new ones. In particular -

- Reduced fees and charges revenue, not reflected by corresponding cuts in fixed costs, e.g. swimming pools, spas, building and resource consents
- Reduced development contributions revenue
- Difficulties in collecting rates revenue
- Unknown levels of funding for community and business recovery efforts
- Infrastructure catch up investments.

In terms of mitigation several potential actions have been identified – these will be discussed further with Council if required and as we move in to the new financial year.

- Use of reserves/debt or increased funding in future years to manage shortfalls in income
- Review of fixed costs, levels of service again to limit shortfalls in income
- Reallocation of funds within activities that are funded from the same source

Ngā take ā-ture, ā-Kaupapahere hoki | Legal and policy considerations

The COVID-19 Response (Further Management Measures) Legislation Bill was introduced on 5 May and has passed through parliament, this bill has three main parts to it affecting Annual Plans and Long Term Plans:

- Streamlines the process for amending a Long Term Plan – so that, where an amendment to the Long Term Plan is needed as a result of COVID-19 the consultation document can be adopted without an audit report if necessary.
- Public Notices - amending various legislation to remove the strict requirement that a public notice be placed in a newspaper circulating in the district, but requiring internet publication in all cases. There is a risk that disruption to local newspaper distribution during the COVID-19 response may make it unreasonably expensive or ineffective to publish in newspapers.

- Special Consultative Procedure - adding flexibility so that, to the extent that is reasonably necessary in the circumstances, the consultation period can be reduced below the current minimum of one month and/or hearings of submitters are not required.

As stated earlier our Council had already initiated consultation when the lockdown occurred and are confident in meeting all legislative requirements.

The assessment by staff is that the changes to the Annual Plan do not trigger a need to re-consult or amend the Long Term Plan, further, any risk around this process is considered to be extremely low.

Ngā Pāpāhonga me ngā Wātaka | Communications and timeframes

Draft documents were approved on 11 March 2020, open for consultation from 18 March to 19 April 2020 (19 May for the Tradewaste Bylaw) with the Hearing scheduled for 27 May 2020. Following the Hearing it is proposed staff inform each submitter of the overall decisions and their specific decision (if required) as well as the wider public of the overall decisions. Staff then incorporate the decisions into the appropriate documents and these final documents are then brought back to Council in June 2020 for adoption and striking of the rates for 2020/21.

Prior to the Covid-19 lockdown Council sent letters or emails to those directly impacted by the changes proposed. Additionally there were newspaper adverts, videos posted on Councils website and Facebook page and posts on the Facebook page that consultation was open and where to go to make a submission.

Staff had organised community consultation with two market days (one which we were able to attend before lockdown), meetings with 12 community groups/events (one which we were able to meet with Federated Farmers before lockdown). The community groups included attending a Hui with important stakeholders and raising consultation to the Te Manawhenua Forum members who were all contacted.

We had also organised to hold six drop-in days at the libraries in our three towns, where community members could come and talk to staff about any questions or concerns they had. Unfortunately these all had to be cancelled, besides the two mentioned above, due to the lockdown that occurred and prior to the lockdown groups were cancelling events as they held more people than what was recommended by the Government at the time. When this happened we increased our online communication with posts on the Facebook page, and videos from Mayor Ash. Once Council started modelling new rates for 2020/21 we increased our online communication again to assure our community we were listening to what they had to say amidst the ever evolving Covid-19 pandemic and advised of our new proposed direction and adjusted our communication strategy accordingly with what we were able to achieve within the lockdown rules.

Te Tākoha ki ngā Hua mō te Hapori me te here ki te whakakitenga o te Kaunihera | Contribution to Community Outcomes and consistency with Council Vision

Council has developed a vision for the Long Term Plan 2018-28 as: *Matamata-Piako – The Place of choice – Lifestyle. Opportunities. Home.* A set of Community Outcomes have been developed to support this vision.

The outcomes relevant to this process are:

Healthy Communities

We encourage community engagement and provide sound and visionary decision making.

Economic Opportunities

We provide leadership and advocacy is provided to enable our communities to grow.

Our future planning enables sustainable growth in our district.

Vibrant Cultural Values

We value and encourage strong relationships with iwi and other cultures, recognising waahi tapu and taonga/significant and treasured sites and whakapapa/ ancestral heritage.

Tangata Whenua with Manawhenua status (those with authority over the land under Maaori lore) have meaningful involvement in decision making.

Ngā waitohu | Signatories

Author(s)	Sandra Harris Senior Policy Planner	
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Approved by	Michelle Staines-Hawthorne Corporate Strategy Manager	
	Manaia Te Wiata Group Manager Business Support	
	Don McLeod Chief Executive Officer	

Council's response and recovery efforts to Covid-19

RM No.: 2292497

Rāpopotonga Matua | Executive Summary

The COVID 19 Pandemic and lock down will have a profound ongoing effect on the Community wellbeing in every sense.

In the post COVID lock down situation the effectiveness and speed of recovery will be dependent on many factors – some within Council's control and others not.

The purpose of this report is to provide the committee with an overview and update on how Council is responding to the ongoing Covid-19 situation, and supporting our communities in their road to recovery.

Council has set up a section on the website for all information relating to Covid-19 (<https://www.mpdc.govt.nz/covid-19>). This section is continuously updated as new information becomes available.

How the current situation impact on specific projects such as the Annual Plan, Long Term Plan and the Annual Report is covered in the respective reports on those projects.

COMMITTEE RESOLUTION

That:

- 1. The information is received**
- 2. The Committee provides any comments or feedback.**

Moved by: Cr J Thomas

Seconded by: Cr D Arnold

CARRIED

Horopaki | Background

The global Covid-19 pandemic continues to develop across the world, with more than 4 million people infected, and over 300,00 people dying from the virus worldwide (at the time of writing). In response to the pandemic and threat to public health New Zealand went into lockdown on Wednesday 25 March 11.59pm. As the lockdown started to take effect in terms of health outcomes, the economic impact of closed borders and international lockdown became more and more evident.

While New Zealand is currently slowly opening up its economy again, the impact on local, regional and national economies are yet to be confirmed. Many businesses have had to make staff redundant or close up shop all together as their income has dwindled.

As a result some forecasters' project that the unemployment rate will reach double-digits over the coming months, as the full impact of the lockdown and global down-turn is felt.

It is expected that the social, cultural and economic wellbeing of New Zealanders will continue to be compromised for some time, while the country and the world work towards recovery.

Council's role in recovery

Local Government alongside Central Government is seen to play a pivotal role in community recovery. In particular in terms of maintaining cash flow to the community and local businesses and provide financial stimulus to the local economy, through its capital works programme and operations. Council also plays a role in making grant funding available, and providing for rates remission/postponement in certain circumstances.

Ngā Take | Issues / Kōrerorero | Discussion

Emergency Response

Council has an Incident Management Team and is coordinating with Civil Defence, Ministry of Health and other agencies.

Matamata-Piako District Council, Hauraki District Council and Thames Coromandel District Council initially joined forces to operate an Eastern Waikato Emergency Operations Centre to co-ordinate community support during the COVID-19 National State of Emergency.

This EOC closed on 1 May, and in addition to the Councils above, we are now working Waikato District Council and Hamilton City Council in a Northern Waikato EOC based out of Hamilton.

This Civil Defence operation's focus was primarily on welfare – ensuring people were looked after and had everything they need (food, medication etc) to get through the lockdown. Council is also providing staff to the Group Emergency Coordination Centre in Hamilton (the Civil Defence response for the whole of the Waikato)

The public health response is being led by the Ministry of Health and District Health Boards, but at a local level there is a raft of community support requirements to be managed as the nation deals with the wider wellbeing needs of residents and visitors.

National Recovery

At the time of writing Central Government had yet to announce details about the national recovery programme and how this will be coordinated.

A proposal to use the Waikato Plan Leadership Committee (WPLC) of the Waikato regional Council to coordinate the regional recovery efforts is currently being discussed with other councils and community leaders. Matamata-Piako District Council has a joint representative (Toby Adams) on this committee with Thames-Coromandel and Hauraki District councils.

Council will support and contribute as appropriate once this has been established.

Planning for Recovery

Council has set up a new working group to identify and promote opportunities to support the district's recovery, following the Covid-19 lockdown.

The new working group is made up of Mayor Ash Tanner, Deputy Mayor Neil Goodger (Morrinsville ward), Councillor Teena Cornes (Te Aroha ward), Councillor Kevin Tappin (Matamata ward), supported by staff.

The focus of this working group is to work alongside Civil Defence in the recovery for our district, and proactively identify opportunities to stimulate the local economy.

Council's current recovery work includes;

- Supporting and promoting the Shop Local campaign

- Current capital projects in the 20/21 Annual Plan are still funded.
- Council procurement processes are being reviewed to support use of local businesses
- Rates penalties remissions will be dealt with under current policy – but this will be monitored.
- Rates remissions and postponements not currently being considered – again this will be monitored.
- Ratepayers encouraged to talk to us early about payments.

Council has also made several applications for capital funding from Central Government through various avenues including drought funding from NEMA, and funding for so-called shovel ready projects through MBIE. An update on those applications will be provided at the time of the meeting.

Council is also aware of, and working with other agencies on the joint regional response and recovery efforts.

Te Waka – Waikato’s Regional Economic Development agency

As part of the Government to response to COVID-19 they have announced a \$4million regional support package for SMEs which will be delivered using the Regional Business Partners Network. Te Waka’s Business Growth Team will deliver this programme with the support of the service provider network, regional organisations and district councils.

Te Waka has also made various resources available to businesses via their website <https://www.tewaka.nz/>

Mōrearea | Risk

There is a risk that a lack of engagement and collaboration across the community may reduce the effectiveness of any recovery efforts.

There is an inherent risk associated with the uncertain environment in which we are currently operating. Council is reviewing and re-assessing project specific risks on an ongoing basis to ensure decisions are made based on the best available information at the time.

Ngā Whiringa | Options

The Forum can choose to make comments or provide feedback on the information provided.

Ngā take ā-ture, ā-Kaupapahere hoki | Legal and policy considerations

There are no legal or policy considerations in relation to this report.

Ngā Pāpāhonga me ngā Wātaka | Communications and timeframes

Council has set up a separate section for Covid-19 information on the mpdc website (<https://www.mpdc.govt.nz/covid-19>). This includes what services are available at what level, how council is working to support community recovery, how people can support local businesses and more. Council provides regular updates via its Antenno app and the Facebook page, and also sends out a weekly e-newsletters. From end of May Council will also be publishing information in the local community newspapers.

Ngā take ā-lhinga | Consent issues

There are no consent issues.

Te Tākoha ki ngā Hua mō te Hapori me te here ki te whakakitenga o te Kaunihera | Contribution to Community Outcomes and consistency with Council Vision

Theme: Economic Opportunities

Community Outcome: We provide leadership and advocacy is provided to enable our communities to grow.

Pānga ki te pūtea, me te puna pūtea | Financial Cost and Funding Source

The Recovery Plan is funded from existing operational budgets

Ngā waitohu | Signatories

Author(s)	Ann-Jorun Hunter Policy Planner	
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Approved by	Michelle Staines-Hawthorne Corporate Strategy Manager	
	Don McLeod Chief Executive Officer	

8 Urgent Additional Business

There was no urgent additional business

3.24pm pm

The Chairperson thanked Members for their attendance and attention to business and declared the meeting closed.

CONFIRMED AS A TRUE AND CORRECT RECORD
OF THE MEETING OF KOMITI O TE ŌTITA ME TE
MŌREAREA | AUDIT & RISK COMMITTEE HELD ON
9 JUNE 2020.

DATE:

CHAIRPERSON:
Hon. John Luxton