

I hereby give notice that an Ordinary meeting of the
Audit, Risk and Finance Committee

will be held on:

Date: Wednesday 14 February 2018

Time: 10.00 am

Venue: Meeting Room, Mangawhai Club – Molesworth Drive, Mangawhai

Agenda

Membership

Chair: Stana Pezic
Members: Councillor del La Varis-Woodcock
Councillor Geange
Councillor Larsen
Councillor Wade
Deputy Mayor Wethey

Staff and Associates:

Acting Chief Executive, General Manager Risk, IT and Finance, Treasury and Financial Services
Manager, Administration Assistant (Minute-taker).

**Linda Osborne
Administration Manager**

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Ordinary Meeting of the Audit, Risk and Finance Committee

Wednesday 14 February 2018 in Mangawhai

1 Opening

1.1 Present

1.2 Apologies

1.3 Confirmation of Agenda

The Committee to confirm the Agenda.

1.4 Conflict of Interest Declaration

Committee Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a Committee Member/Commissioner and any private or other external interest they might have. It is also considered best practice for those members to the Executive Team attending the meeting to also signal any conflicts that they may have with an item before the Committee.

2 Confirmation of Minutes

2.1 Audit, Risk and Finance Committee minutes 01 December 2017

Democratic Services Manager 1610.06

Recommended

That the minutes of the Audit and Risk Committee meeting held 01 December 2017 be confirmed as a true and correct record.

Meeting	Audit, Risk and Finance Committee
Date	Friday 01 December 2017
Time	The meeting commenced at 10.00 am The meeting concluded at 12.11 pm
Venue	Meeting Room – Mangawhai Club, Molesworth Drive, Mangawhai
Status	Unconfirmed

Minutes

Membership

Chair: Stana Pezic
Members: Councillor Del la Varis-Woodcock
Councillor Geange
Councillor Larsen
Councillor Wade
Councillor Wethey

Staff and Associates:

Acting Chief Executive, Acting General Manager Finance, Democratic Services Manager
(Minute-taker).

Seán Mahoney
Democratic Services Manager

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Unconfirmed

Ordinary Meeting Audit Risk and Finance Committee
Friday 01 December 2017
1 Opening
1.1 Present

Stana Pezic and Councillors Del la Varis-Woodcock, Geange, Wade and Wethey

In Attendance

Name	Designation	Item(s)
Peter Tynan	Acting Chief Executive	All
Robert Nelson	Acting General Manager Finance	All
Curt Martin	General Manager Infrastructure	All
Fran Mikulicic	General Manger Planning and Regulatory	All
Duncan McAulay	General Manager Strategy and Performance	All
Peter Marshall	General Manager Corporate Services	All
Robert Maassen	Health and Safety Advisor	3.5
Peter Gulliver	Deloitte	All
Sean Mahoney	Democratic Services Manager	All (Minute-taker)

Adjournments

Nil

Absences

Nil.

1.2 Apologies
Moved Wethey/Gent

That the apology of Councillor Larsen be received.

Carried
1.3 Confirmation of Agenda

The Committee confirmed the Agenda.

1.4 Conflict of Interest Declaration

Nil.

2 Confirmation of Minutes

2.1 Audit and Risk Committee minutes of 11 September 2017

Democratic Services Manager 1610.06/September 2017

Moved Wethey/Geange

That the minutes of the Audit and Risk Committee meeting held 11 September 2017, as amended, be confirmed as a true and correct record.

Carried

3 Papers

3.1 Forecast One 2017/2018

Financial Services Manager 2303.24

Moved Del la Varis-Woodcock/Wethey

That the Audit, Risk and Finance Committee:

- 1 *Receives the report from the Financial Services Manager 'Forecast One 2017/2018' dated 15 November 2017; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provisions of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Recommends approval by Council of the forecast as set out in the forecast sections in the above-mentioned report and its attachments, and determines that no further action is required at this point in time; and*
- 4 *Notes the revised forecast shows decreased operating revenues of \$0.4 million, reduced operating costs of \$0.5 million, increased capital funding of \$7.1 million and revision of the capital expenditure projects list; and*
- 5 *Recommends approval by Council of the revised capital expenditure schedules listed in Attachment 4 (of the above-mentioned report); and*
- 6 *Recommends approval by Council the use of \$3.1 million of prior year surpluses and general reserves to reduce debt; and*
- 7 *Notes that forecast debt is currently projected in the order \$48.7 million which is a reduction from the Annual Plan of \$13.4 million compared with the planned \$3.8 million.*

The increased repayments are due to release of available general reserves, property sales and development contribution payments for the Mangawhai Community Wastewater Scheme (MCWWS).

Carried

3.2 Treasury Management

Assistant Accountant 2304.15

Moved Geange/Wethey

That the Audit, Risk and Finance Committee receives the Assistant Accountant's report 'Treasury Management' dated 15 November 2017 and the information contained therein.

Carried

[NB: Council officers were instructed to clarify:

- the \$1.2 million drop in Roading Financial Assistance; and
- Kai Iwi Lakes and Taharoa Domain Governance Committee's spending in 2017/2018; and
- The details of outstanding Financial, Development and Reserve Contributions.]

3.3 Amendments to Treasury Management Policy

Acting General Manager Finance 2304.15

This item was circulated separately.

Moved Wethey/Geange

That the Audit, Risk and Finance Committee:

- 1 *Receives the acting GM Finance's report Amendments to Treasury Management Policy dated 28 November 2017; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provision of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Notes that the General Manager Finance will update the Treasury Management Policy as per the Committee's recommendations, to be brought back to the Committee's next meeting for further consideration.*

Carried

[NB: Council officers were asked to amend the Treasury Management Policy and circulate it to the Committee prior to its next meeting in February 2018.]

3.4 Audit Action Update

Financial Services Manager 2304.15

Moved Del la Varis-Woodcock/Wethey

That the Audit, Risk and Finance Committee receives the Financial Services Manager's 'Audit Action Update' dated 23 November 2017, and the information contained therein.

Carried

3.5 Health and Safety Report

Health and Safety Advisor 2209.12

This item was circulated separately.

Moved Geange/Wethey

That the Audit, Risk and Finance Committee notes the information presented in the Health and Safety Advisor's report and its attachments.

Carried

[NB: Council officers were instructed to source relevant governance training.]

4 Public Excluded Audit, Risk and Finance Committee Minute Items

01 December 2017

The meeting went into Public Excluded session at 11.21 am.

Moved Geange/Wade

That the public be excluded from the following part of the proceedings of this meeting, namely

- Risk Register
- Contract Monitoring and Reporting: Infrastructure, Community and Regulatory

The general subject matter of each matter to be considered while the public is excluded, the reasons 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 are as follows:

General subject of each matter to be considered:	Reason for passing this resolution	Ground(s) under Section 48 (1) for the passing this resolution:
Risk Register	<p>Section 7(2)(g) maintain legal professional privilege</p> <p>Section 7(2)(i) enable any authority holding the information to carry on, without prejudice or disadvantage negotiations (including commercial and industrial negotiations).</p>	<p>Section 48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>
Contract Monitoring and Reporting: Infrastructure, Community and Regulatory	<p>Section 7(2)(g) maintain legal professional privilege</p> <p>Section 7(2)(i) enable any authority holding the information to carry on, without prejudice or disadvantage negotiations (including commercial and industrial negotiations).</p>	<p>Section 48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>

Carried

Public Excluded Minutes 01 December 2017

4.1 Risk Register

General Manager Strategy and Performance 2304.15

Moved Geange/Del la Varis-Woodcock

That the Audit, Risk and Finance Committee receives the General Manager Strategy and Performance's Report 'Risk Register' and its Attachments 1-3, dated 22 November 2017 and the information contained therein.

Carried

4.2 Contract Monitoring and Reporting: Infrastructure, Community and Regulatory

General Manager Infrastructure

General Manager Community

General Manager Planning and Community 4107.01

Moved Wade/Wethey

That the Audit, Risk and Finance Committee:

- 1 *Receives the General Manager Infrastructure's, General Manager Community's, General Manager Planning and Regulatory's report 'Contract Monitoring and Reporting: Infrastructure, Community and Regulatory' dated 17 November 2017; and*
- 2 *Notes the comments and information provided (Attachments 1-6 of above-mentioned report) in respect of the term contracts being reported on:*
 - *CON705 Parks, Reserves and Public Toilets;*
 - *CON682 Rooding Network Maintenance;*
 - *CON789 3-Waters Operations and Maintenance;*
 - *CON706 Solid Waste;*
 - *MCWWS Operating Deed; and*
 - *CON824 Animal Management and Compliance Services.*

Carried

Moved Geange/Wethey

That the meeting returns to Open meeting.

Carried

5 Open Minutes Audit, Risk and Finance Committee 01 December 2017

Meeting returned to Open session at 12.10 am.

Moved Geange/Wethey

That the public be re-admitted to the meeting and resolutions made whilst in Public Excluded be confirmed in Open meeting.

Carried

5.1 Risk Register

General Manager Strategy and Performance 2304.15

Moved Geange/Del la Varis-Woodcock

That the Audit, Risk and Finance Committee receives the General Manager Strategy and Performance's Report 'Risk Register' and its Attachments 1-3, dated 22 November 2017 and the information contained therein.

Carried

5.2 Contract Monitoring and Reporting: Infrastructure, Community and Regulatory

General Manager Infrastructure

General Manager Community

General Manager Planning and Community 4107.01

Moved Wade/Wethey

That the Audit, Risk and Finance Committee:

- 1 *Receives the General Manager Infrastructure's, General Manager Community's, General Manager Planning and Regulatory's report 'Contract Monitoring and Reporting: Infrastructure, Community and Regulatory' dated 17 November 2017; and*
- 2 *Notes the comments and information provided (Attachments 1-6 of above-mentioned report) in respect of the term contracts being reported on:*
 - *CON705 Parks, Reserves and Public Toilets;*
 - *CON682 Roading Network Maintenance;*
 - *CON789 3-Waters Operations and Maintenance;*
 - *CON706 Solid Waste;*
 - *MCWWS Operating Deed; and*
 - *CON824 Animal Management and Compliance Services.*

Carried

6 Closure

The meeting closed at 12.11 pm.

Confirmed
Chair

Kaipara District Council
Dargaville

Unconfirmed

3 Papers

3.1 Treasury Management

Assistant Accountant 2304.15

Recommended

That the Audit, Risk and Finance Committee receives the Assistant Accountant's report 'Treasury Management' dated 26 January 2018 and the information contained therein.

File number: 2304.15
Report to: Audit, Risk and Finance Committee
Meeting date: 14 February 2018
Subject: Treasury Management
Date of report: 26 January 2018
From: Violeta Kayryakova, Assistant Accountant

Approved for agenda

Report purpose **Decision** **Information**
Assessment of significance **Significant** **Non-significant**

Summary

Council undertakes treasury management activities in accordance with its Treasury Management Policy and Treasury Operations schedule and with the active assistance of its Treasury advisors, PwC. In addition to the Treasury reporting that is part of the Chief Executive's monthly report, it is intended to provide the Audit, Risk and Finance Committee (the Committee) with more detailed operational Treasury reporting at each meeting.

Tools and techniques that are used to manage debt are:

- Cash flow forecasting, undertaken in-house (using an excel spreadsheet);
- Treasury worksheet, managed jointly by Council staff and PwC (using an excel tool provided by PwC) to monitor Council's debt management position at a given point; and
- Active advice and information from Council's Treasury advisors, PwC.

Council's interest rate position is 81% of the portfolio fixed. There are no out of policy positions to report.

Council acceded to the Local Government Funding Agency (LGFA) on 24 March 2016. Since that time Council has progressively refinanced and repaid debt. At 31 December 2017 a total of \$40 million was drawn. The long term borrowing of \$3 million and short term borrowing of \$9 million was repaid during December 2017.

Recommendation

That the Audit, Risk and Finance Committee receives the Assistant Accountant's report 'Treasury Management' dated 26 January 2018 and the information contained therein.

Reason for the recommendation

It is appropriate that the Audit, Risk and Finance Committee is informed and receives information relating to Treasury management activities and can monitor positions and strategy.

Reason for the report

To provide the Audit, Risk and Finance Committee (the Committee) detailed Treasury operations and management information and to provide an opportunity to discuss ongoing strategy.

Background

Council's first industry standard Treasury management policies were adopted in December 2011. Council is currently reviewing and updating the Treasury Management Policy.

Council's first appointed specialist Treasury advisors, APRM (now PwC) in 2011 and this service continues.

Treasury operations and management

Treasury operations and management are undertaken jointly by in-house staff and with Council's advisors, PwC.

Tools and techniques that are used to manage debt are:

- Cash flow forecasting, undertaken in-house (using an excel spreadsheet). This projects the timing of actual cash movements over the course of the year;
- Treasury worksheet, managed jointly by Council staff and PwC (using an excel tool provided by PwC) to monitor Council's debt management position at a given point. This tool records all loans and swaps that have been entered into and monitors the position against policy limits. It is used to project future position as well as current and is used as a vehicle to scenario model. The tool generates a one page Council report which indicates whether or not we are within Policy and parameters (**Attachment 1**), one page summaries of Council's funding and liquidity risk position (**Attachment 2**) and Council's interest rate risk position (**Attachment 3**).
- Active advice and information from PwC in the form of a monthly telephone conference to discuss the current position in relation to the market and strategies going forward, ad hoc meetings or telephone conversations as required, general market bulletins and other material that is more specific to Kaipara District Council as required. General bulletins from PwC are supplemented by market material from banks. **Attachment 4** is an example of a general bulletin.

In addition excel tools have been provided to calculate the cost of funds for budgeting and forecasting purposes (undertaken jointly). A benchmark tool is also being developed and populated.

Treasury policy positions

There are no out of policy positions to report.

Treasury strategy

Council's long time strategy has been to join the Local Government Funding Agency (LGFA) in order to access funding and pricing enjoyed by its peers. On 24 March 2016, Council acceded to LGFA. Council has progressively refinanced a total of \$43 million debt: \$20 million on 11 March 2016, \$15 million on 16 May 2016 and further \$8 million on 29 August 2016. In December 2017, \$3 million was repaid. The balance is funded on a short term basis as necessary.

Factors to consider

Community views

The community would expect industry standard Treasury management practices.

Policy implications

This report is in line with Policy.

Financial implications

There are no financial implications as a result of this report.

Legal/delegations implications

This report is for information and does not trigger legal or delegation implications.

Options

The options available to the Committee:

Option A: Accept the report. Under this option the Committee would receive the information.

Option B: Ask for additional information or further clarification. Under this option the Committee could ask for additional information or further clarification.

Assessment of options

These options are not necessarily mutually exclusive, however Option A is more immediate.

Assessment of significance

Receiving Treasury information is a routine business practice issue and is not significant in terms of Council's Significance and Engagement Policy.

Recommended option

Option A, receive the report.

Attachments

- **Attachment 1:** Council's Policy Position report at 31 December 2017
- **Attachment 2:** Funding and liquidity risk position at 31 December 2017
- **Attachment 3:** Interest rate risk position at 31 December 2017
- **Attachment 4:** Strategy and Tactics New Zealand Interest Rates at 31 December 2017

Kaipara District Council Interest Rate Position			
12 Month Forecast Core Debt:	57.7	31-Dec-17	
Policy Limits	60% - 90%		
Overall Fixed: Floating Mix	81.44%		
Policy Compliance	Y		
Fixed Rate Maturity Profile:			
Years	1 - 3 years	3 - 5 years	5 years plus
Policy Limits	15% - 60%	15% - 60%	0% - 60%
Actual Hedging	30%	21%	49%
Policy Compliance	Y	Y	Y
Liquidity Ratio:			
	110%		
Actual	163.52%		
Policy Compliance	Y		
Funding Maturity Profile:			
Years	0 - 3 years	3 - 5 years	5 years plus
Policy Limits	15% - 60%	15% - 60%	10% - 40%
Actual Hedging	42%	38%	20%
Policy Compliance	Y	Y	Y
Weighted Average Duration:			
Funding	2.92 Years		
Fixed Rate Portfolio (swaps and fixed rate loans)	4.3 Years		
Weighted average margin			
0.52%			
Weighted average Commitment/Line Fee			
0.12%			
Weighted average fixed rate (swaps & term loans/bonds)			
4.39%			
All up cost of borrowing (On Drawn Debt)			
5.82%			
Counterparty Credit Risk (Interest Rate Risk Mgmt Instruments and investments)			
Policy Credit Limit (NZ\$) per NZ Registered Bank (Interest rate risk management)		\$	20,000,000
Policy Credit Limit (NZ\$) per NZ Registered Bank (Investments)		\$	15,000,000
Policy Credit Limit (NZ\$) per NZ Registered Bank (Total maximum per counterparty)		\$	30,000,000
	Credit Exposure (Swaps) (\$m)	Credit Exposure (Investments) (\$m)	Compliance
WPC	0.00	0.00	Y
ANZ	1.67	0.00	Y
ASB	0.00	0.00	Y
BNZ	5.20	0.00	Y
Kiwibank	0.00	0.00	Y
CBA	0.00	0.00	Y

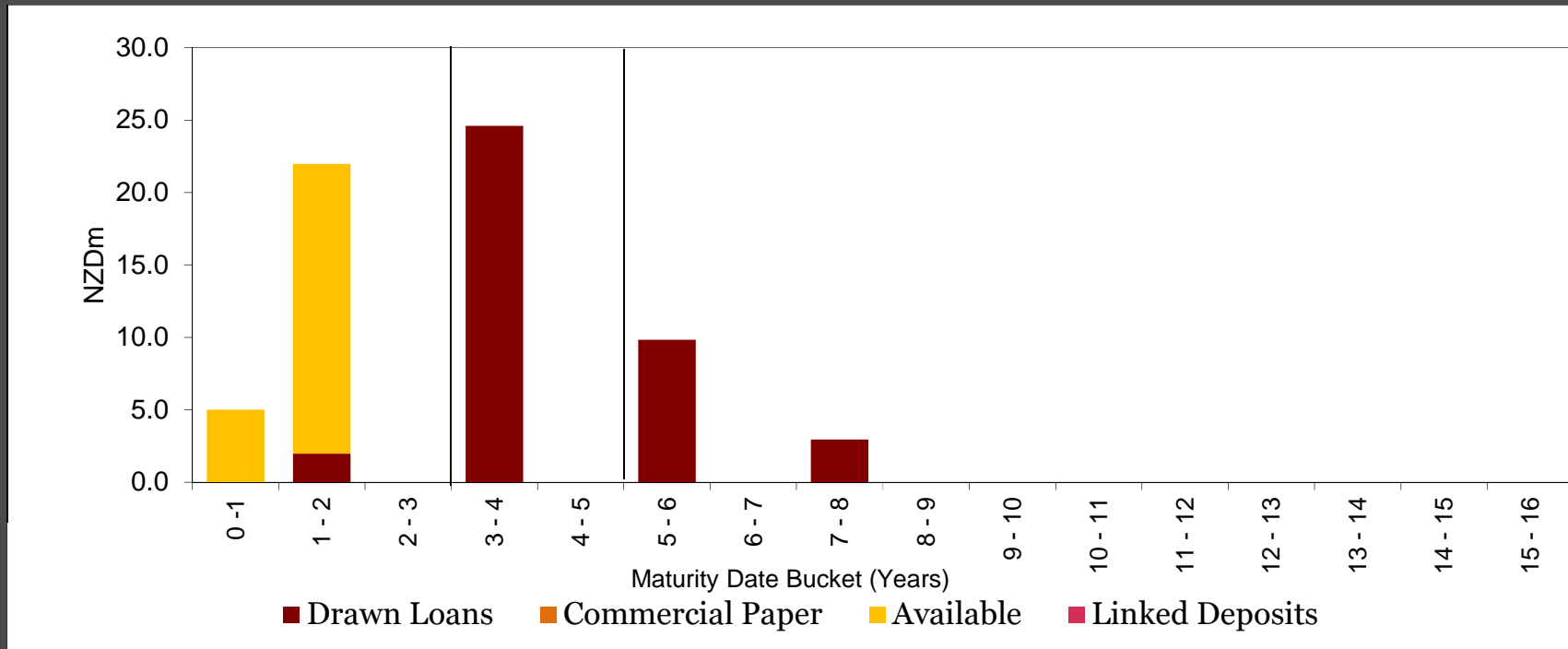
31-Dec-17

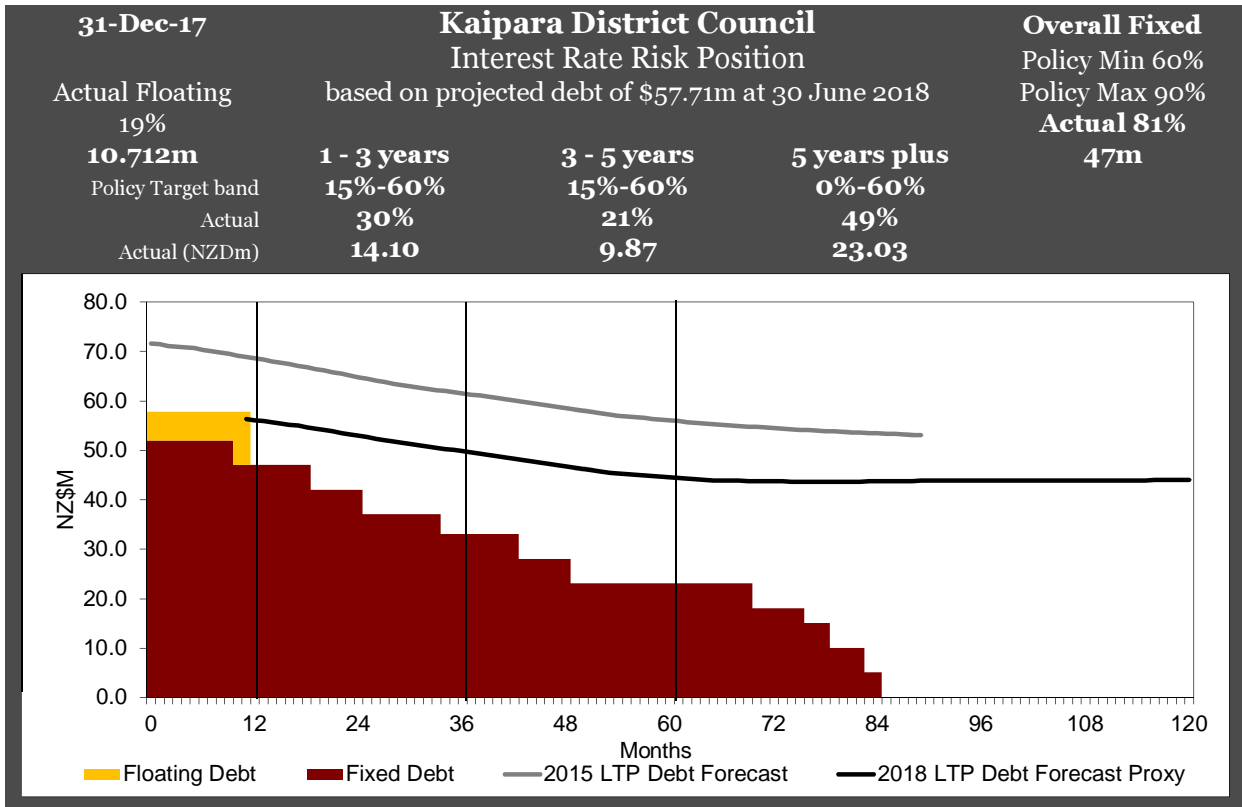
Kaipara District Council Funding & Liquidity Risk Position

Committed Loan/Stock/Facilities/Investments \$64.4m
 Current External Debt \$39.4m
 Current Net Debt \$39.4m

Policy Liquidity Ratio $\geq 110\%$
 Actual Liquidity Ratio 164%

	0 - 3 years	3 - 5 years	5 years plus
Policy Target Band	15%-60%	15%-60%	10%-40%
Actual	42%	38%	20%
Actual (NZDm)	26.97	24.60	12.79





Interest Rate Risk Management

Interest rate risk management is about protecting against future interest rate rises and giving a measure of certainty about interest rate costs. The level of interest rate protection is looked at in the context of overall debt forecasts and is measured against the projected debt position at 30 June (2018 at this point). The grey line in the graph above shows the projected debt for the remaining years of the 2015-2025 Long Term Plan. The black line is an interim proxy for the 2018-2028 Long Term Plan base. The graph shows that interest rate protection is at 90% for August 2018 (based on the 2017-2018 Annual Plan) and diminishes over time.

Interest Rate Risk Position

The interest rate risk position visually represents the Council's interest rate position within approved interest rate control limits as set out in the treasury policy document. The chart takes a snapshot of the risk position as at the reporting date.

The brown part of the graph shows the amount of debt which is fixed - (this includes fixed rate bonds together with payer swaps) meaning debt which gets repriced in one years time or later. The top of the red area represents the forecast debt in a year's time. The yellow area therefore illustrates the amount of debt deemed floating rate and will include any forecast debt that has not been pre-hedged. Any existing loans or financial instruments which will be repriced within the next 12 months are included in the red area.

The key areas of focus are;

Fixed Rate Percentage Limit: (wholesale interest rate certainty)

The fixed rate percentage calculation is the total amount of fixed rate debt/interest rate hedges over the 12 month forecast net debt

Fixed Rate Maturity Limits: (spreading of wholesale interest rate maturity risks)

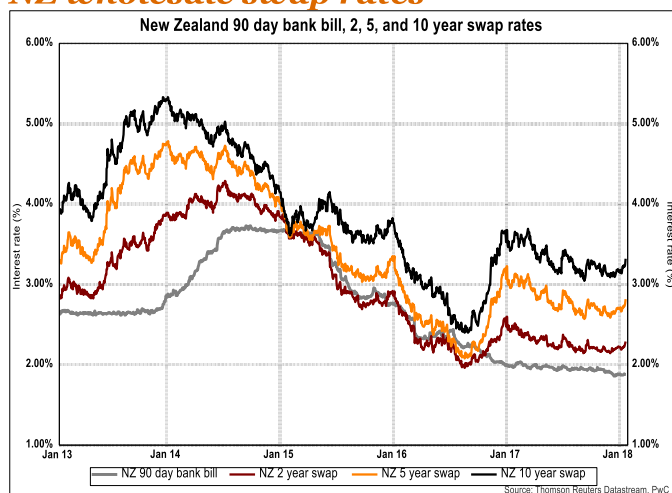
Fixed rate repricing maturity dates are spread based on defined maturity band limits, 1 - 3 years, 3 - 5 years and 5 - 10 years. Minimum and maximum percentage limits within each time band ensure a spread of maturities and reduces the risk of maturity concentrations.

Strategy and tactics

NZ interest rate report – 22 January 2018



NZ wholesale swap rates



Upcoming key data releases

Date (NZT)	Release	Previous	Consensus forecasts (Bloomberg)	Impact on NZIR ↓↑
25/1	NZ CPI qoq	+0.5%	+0.4%	↑
26/1	ECB financing rate	0.0%	0.0%	-

(Source: Bloomberg)

Core view

- RBNZ has brought forward the timing of the first OCR hike by one quarter (to Q2 2019) due to higher petrol prices and a lower NZD TWI. New Government policies such as higher minimum wages and lower migration to be inflationary, though this is unlikely to lead to upward pressure on short-term rates until mid-2018. Long-term rate are expected to increase gradually as the US Federal Reserve increase interest rates three times during 2018.

NZD interest rate hedging recommendations (generic)

Borrower

- Fixed-floating master limit:** Clients should be at mid-points of fixed rate policy.
- 1 to 3 years sub-limit:** Minimums of policy limits in 1 to 3 year maturity sub-limits using out of the money purchased borrower caps, collar options and purchased borrower swaptions.
- 3 to 5 years sub-limit:** Balance in the 3 to 5 year maturity sub-limits using out of the money purchased borrower caps, collar options and purchased borrower swaptions.
- 5 to 10 years sub-limit:** Maintain midpoints of policy in the 5 to 10 year maturity sub-limit. Target a wholesale strike rate of 3.75% and below to maintain hedging at midpoints of policy. Use forward starting borrower swaps on the back of existing swaps maturing past five years to extend existing term, rather than increase overall fixed rate hedging percentages. Any increase in hedging levels above this should be with 'ear-marked' purchased borrower swaptions.

Investor

- Target yields between 4.80%-5.20% in the 3 to 5-year timeframe.

NZ interest rate CARR index

NZ interest rate swap yield curve drivers			
Short-term	PwC forecast range		CARR index (average)
2yr swap rate: 2.26%	Low	High	
Next three months	2.15%	2.40%	↑+0.4
Next twelve months	2.15%	2.50%	↑+0.6
Long-term	PwC forecast		CARR index (average)
10yr swap rate: 3.30%	Low	High	
Next three months	3.10%	3.50%	↑ 0.4
Next twelve months	3.10%	3.80%	↑+1.0
NZ swap yield curve slope		PwC forecast range	
10yr/2yr differential: 104 bps		Low	High
Next month		90	115
Next three months		90	120
Next twelve months		90	135

The CARR (Central Assumption – Rate Reaction) represents the outcome of 11 factors (on a -3 to +3 scale) determining the strength of the expected interest rate movement over the relevant time period. The width of the arrow in right column above highlights the degree of expected interest rate movement relative to today's interest rates. See full details on page 3.

Roger's comments

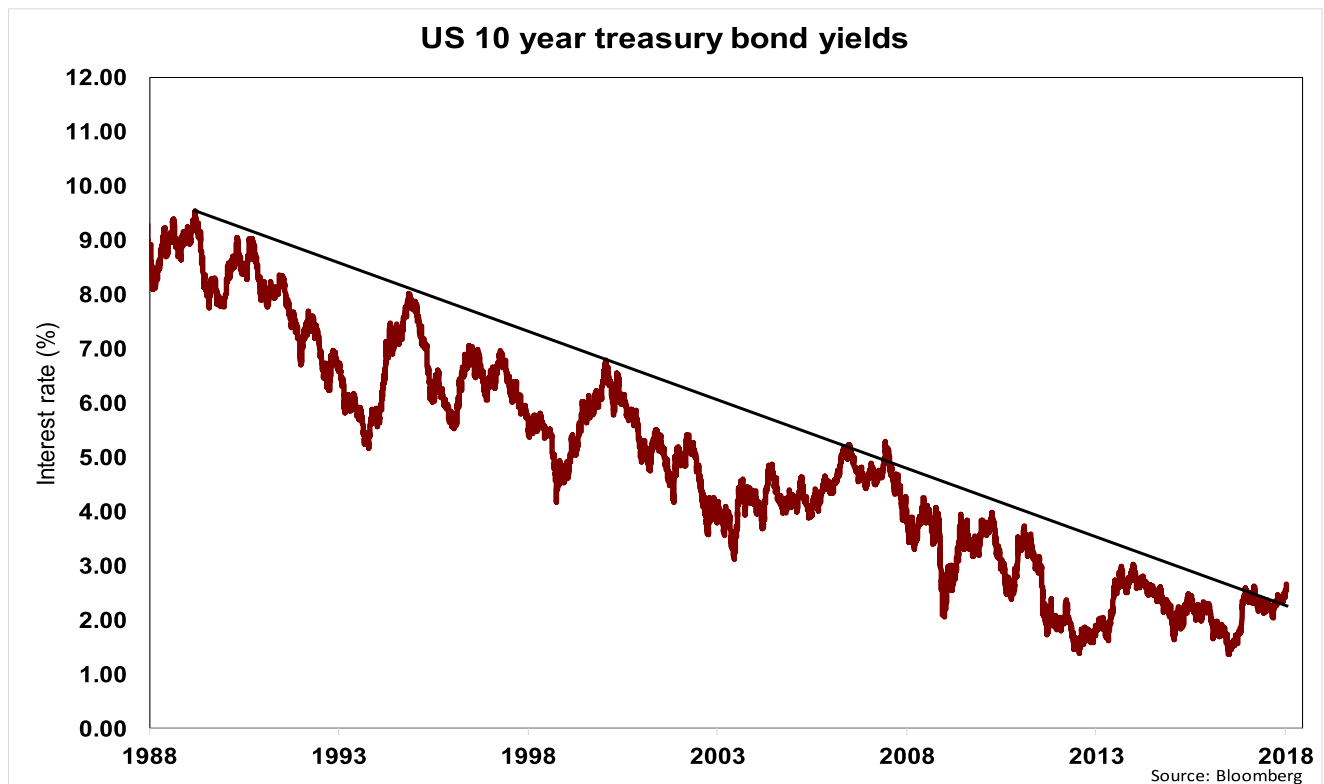
Is the 30-year decline in long-term interest rates ending?

It is certainly a different interest rate environment at the start of 2018 than what it has been over recent years.

The global financial and investment markets have already voted with their feet in anticipating that inflation will increase in most western economies this year and that money printing in Europe is finally ending. The result is material increases in US long-term interest rates over recent weeks from 2.30% to 2.66% as the super low yields in Europe no longer holds US yields down. Outside of global geo-political shocks or risk events (resulting in safe haven buying of bonds), it is difficult to see who the big buyers of US Treasury bonds will be to return the yields to lower levels. As US inflation and short-term interest rates increase through this year expect to see US long-term yields pushing even higher to 3.00%. The implications for our medium and longer-term swap interest rates are obvious.

The rise in the oil price over recent months has also been a contributing factors to the higher US interest rate yields. Shale oil production in the US provides a natural cap to continuing oil price increases and it appears that the oil market has sold prices too high, too quick. I would not expect oil prices any higher and a pull back to below US\$60/b in Brent may be one variable that slows down the increase in long-term interest rates.

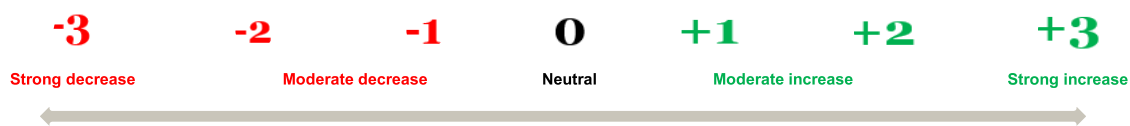
The chart below plots the US Treasury Bond "bull market" (yields lower, bond prices higher) that has run since the yields were above 9.00% in 1988. The Fed Chairman in the mid 1980's, Paul Volcker (those with grey hair such as myself will be old enough to remember him!) was very successful in taming the inflation beast that started the decline in interest rates. The bond market threatened to move yields above the downtrend line in 2008, only to be gazumped by the GFC. Today the downtrend line is again under threat as the world economy finally moves on from the super loose monetary conditions that were required after the GFC.



NZ interest rate CARR index

CARR index (Central Assumptions – Rate Reaction)

12 key variables, indicators and trends that drive the NZ interest rate swap yield curve



Date: 22 January 2018

NZ 2-year swap rate: 2.26%
NZ 10-year swap rate: 3.30%

	Relative variables	Current position and outlook	NZIR impact -3 to +3		
			1 mth	3 mths	12 mths
Short term interest rates (90 day – 3 year term)					
1	Monetary policy/inflation	RBNZ lifted inflation forecasts in November MPS while bringing forward next OCR hike timing by one quarter to Q2 2019. Higher petrol prices and a lower NZD should translate to higher tradable inflation. Business pricing intentions appear to be on the rise. Our base case is for the next RBNZ hike in early 2019.	0	0	+1
2	Commodity prices	Whole milk powder (WMP) below US\$3000/mt. Potential for drier NZ conditions (reduced volumes) to support prices over coming months. Stronger European supply and firm Chinese/other Asian demand broadly cancel each other out. Broader commodity prices remain supported by improved global growth outlook. NZ terms of trade remains near 40-year highs.	0	+1	+1
3	Property market	NZ housing activity and house price growth appears to be stabilising. Fundamental outlook remains supportive, with supply still catching up. Falling net migration may ease demand pressure though RBNZ still has ability to loosen macro-prudential policies (LVRs).	0	0	-1
4	GDP growth performance	Q3 GDP growth remained buoyant at +0.6%qoq including significant upward revisions to 2017 and 2016. Expect GDP growth to remain strong, though a persistent softening in business confidence would provide downside risk.	0	+1	+1
5	NZD TWI	After suppressing tradable inflation for the past year, the weaker currency in Q4 2017 may now begin to have an inflationary impact on imported goods. It has been a strong start for the NZD thus far in 2018 though we do not expect any further appreciation to 0.7400/0.7500 to be sustainable.	0	+1	+1
6	Domestic politics	Increased political uncertainty in the short term as financial markets wait for policy announcements from new coalition. Stricter migration policies from Labour and NZ First likely to lead to higher wage pressure and ultimately higher inflation during 2018.	0	0	+1

7	Foreign bond holdings	Foreign ownership of NZ bonds stabilised after declining for much of 2015 to early 2017.	0	0	0
	Average NZ IR short term impact		0	+0.4	+0.6

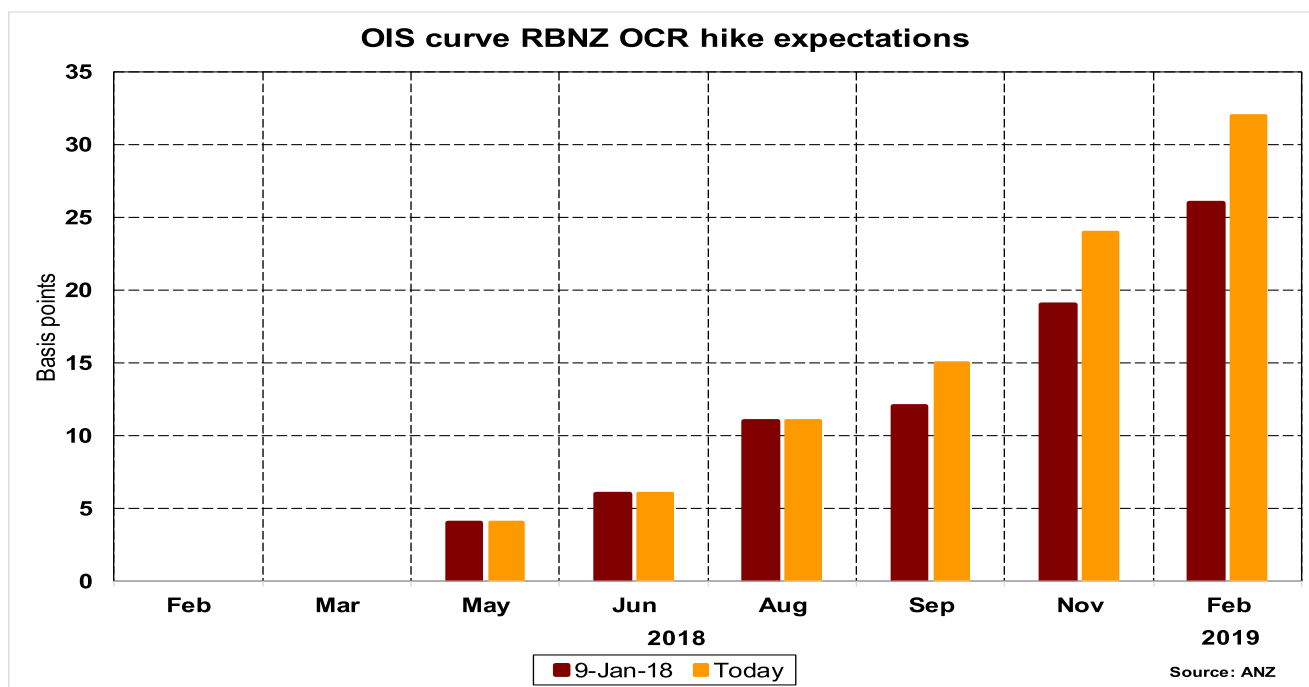
Long term interest rates (3 – 10 year term) (continued)

8	Global investor sentiment	Improved global growth outlook and extremely low volatility as positives for general global investor sentiment. 10 years on from the GFC, central banks are recognising the requirement to unwind excessive stimulus from the economy.	+1	+1	+2
9	Federal Reserve	No changes to the Fed's inflation and interest rates forecast in December, despite positive revisions to unemployment and growth. Tax reform now passed, providing further comfort to FOMC members that three hikes in 2018 will be appropriate.	0	+1	+1
10	Political and economic risks	Roy Moore and the Republicans lost the Alabama senate election to Democrat Doug Jones. The result cuts the Republicans majority in the Senate to a razor thin 51-49 which may make future reforms even harder to pass. Conflict between North Korea and Donald Trump remains an ongoing threat.	-1	-1	0
11	Fed balance sheet	Unwinding of holdings in US Treasuries and MBS into 2018 as inflation and business investment improves from GFC lull. In September, the Fed confirmed that it would step up the monthly pace of shrinking its balance sheet, as scheduled, to USD 20 billion (from 10 billion) beginning in January 2018.	+1	+1	+1
12	Long term inflation outlook	Long-term inflation expectations remain anchored. Uncertainty over inflation given a less responsive 'Phillips curve' (i.e. inverse correlation between unemployment and inflation), globalisation and technological change. Core inflation pressures will need to be stronger to see a more material shift higher in long-term interest rates.	0	0	+1
	Average NZ IR long term impact		+0.2	+0.4	+1.0

Charts of the week

Short-term interest rates:

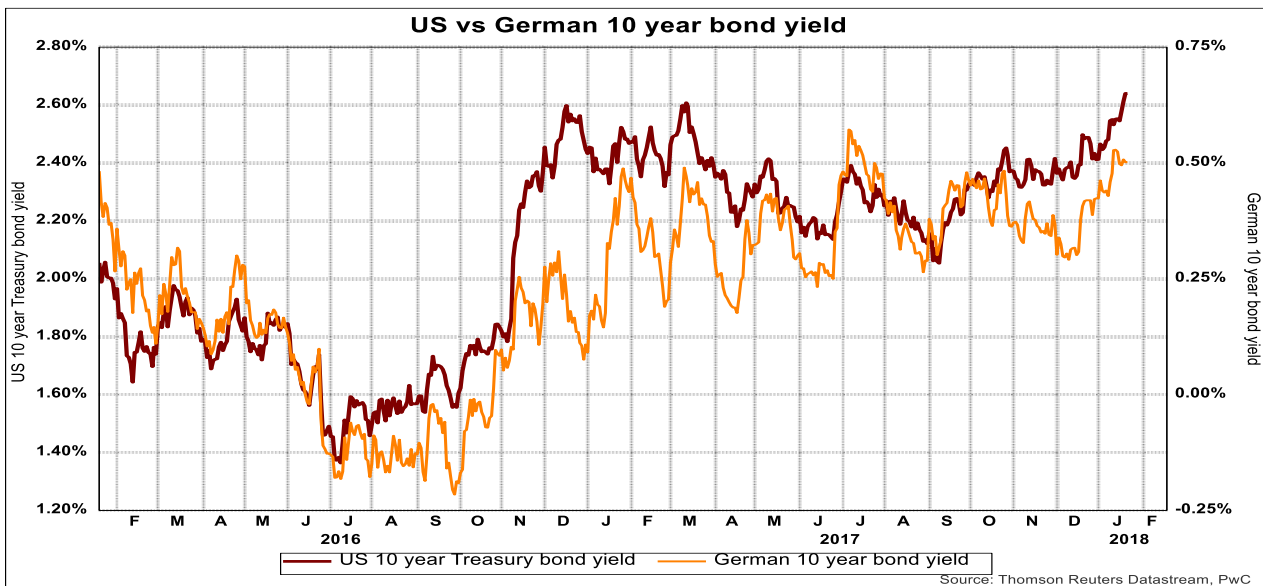
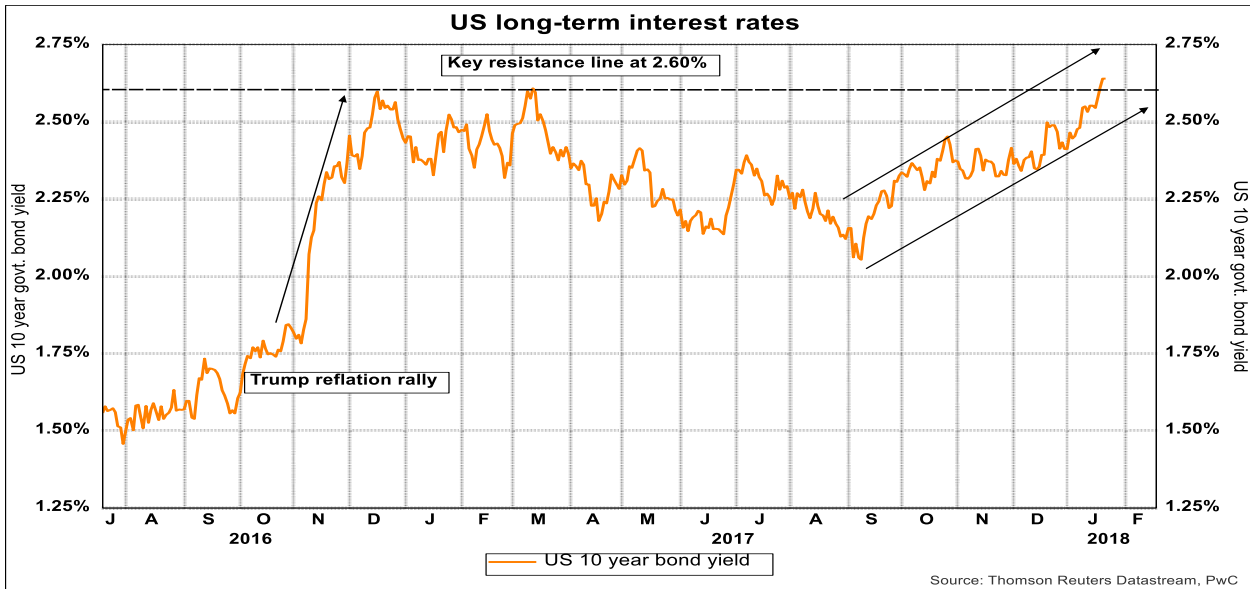
The short end of the New Zealand swap curve has continued its momentum higher over the past week with the two year swap currently trading up four basis points to 2.26%. Financial markets have started to build in expectations of a stronger CPI reading for Q4 with consensus at 1.9%yoy (1.8%yoy forecast by the RBNZ). The Overnight Index Swap (OIS) curve now shows a full interest rate hike priced in for November 2018. Pricing has been brought forward by financial markets in response to the strong start to the year for commodities and stronger inflation expectations on the back of improved global growth, a strong domestic housing market and a shortage of skilled labour culminating in higher wage pressures throughout the year.



We acknowledge the inflation outlook for 2018 is improved compared to this time last year, though we reserve caution that the RBNZ will be willing to hike the OCR this year after suffering years of headline CPI below the 2% median target level. It was the outgoing Governor Wheeler's stance that the RBNZ would need to see consecutive quarters of 2%+ inflation rather than simply expect it before hiking interest rates. The unknown at this point is whether the incoming Governor Orr shares this viewpoint. Our base case is for the first RBNZ hike in February 2019 though we anticipate short term interest rates will rise gradually in the second half of 2018 as the RBNZ ramp up the monetary policy tightening commentary.

Long-term interest rates:

The NZ interest rate yield curve has steepened over the past week with the increase in the 10 year swap yield outpacing the increase at the short end of the curve. The NZ 10 year swap is up eight basis points to 2.30%, following the US 10 year Treasury which has broken up the key resistance level of 2.60% to currently trade at 2.65%. Treasuries failed at the 2.60% level multiple times during the Trump reflation rally and it has taken the combination of stronger commodity prices, an improved global growth outlook and optimism around ECB winding down their QE programme for the level to be breached.



As mentioned last week, the changing tide of central banks away from super loose monetary policy combined with an improved global growth outlook providing a higher floor to commodity prices, lends itself to a bias higher for interest rates through the course of the year. Outside of global geo-political shocks or risk events (resulting in safe haven buying of bonds), there is little evidence on the current horizon to alter this view. Global long term interest rates have certainly moved sharply higher in a short space of time. For this reason, we do expect some consolidation around current levels in the near term, with a bias higher in the medium to long term. Any longer dated hedging for borrowers should be done at opportunistic levels following any temporary falls in long term yields as the result of unforeseen risk events.

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The purpose of the report is to document our current financial market views and generic hedging recommendations. The statements and opinions contained in this report are based on data obtained from the financial markets and are so contained in good faith and in the belief that such statements, opinions and data are not false or misleading. In preparing this report, we have relied upon information which we believe to be reliable and accurate. We reserve the right (but will be under no obligation) to review our assessment and if we consider it necessary, to revise our opinion in the light of any information existing at the date of this report which becomes known to us after that date. This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.



3.2 Treasury Management Policy

Treasury and Financial Services Manager 2304.15

Recommended

That the Audit, Risk and Finance Committee:

- 1 *Receives the Financial Services Manager's report 'Treasury Management Policy' dated 31 January 2018; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provision of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Recommends to Council the adoption of the Treasury Management Policy.*

File number: 2304.15 **Approved for agenda**
Report to: Audit, Risk and Finance Committee
Meeting date: **14 February 2018**
Subject: **Treasury Management Policy**
Date of report: 31 January 2018
From: Rick Groufsky, Financial Services Manager
Report purpose **Decision** **Information**
Assessment of significance **Significant** **Non-significant**

Summary

Council has a Treasury Management Policy incorporating liability management and investment policies required by the Local Government Act 2002. The Treasury Management Policy has been amended and updated based on a review undertaken by KPMG. PwC, Council's treasury advisor, also participated in the review and supports the changes.

The changes amend the policy settings in one area; the proportion of debt required to be at a fixed interest rate. Changes also introduce an overarching risk appetite statement, improve the wording of delegations and policy breaches, make the liquidity definition consistent with that applied by the Local Government Funding Agency (LGFA), and introduce a new interest rate benchmark.

Recommendation

That the Audit, Risk and Finance Committee:

- 1 *Receives the Financial Services Manager's report 'Treasury Management Policy' dated 31 January 2018; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provision of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Recommends to Council the adoption of the Treasury Management Policy.*

Reason for the recommendation

It is appropriate that the Audit, Risk and Finance Committee review policies and adopt changes to improve Council's policy portfolio.

Reason for the report

Following a review the Treasury Management Policy has been updated. The updated policy document requires the recommendation of the Audit, Risk and Finance Committee (the Committee) to Council for adoption.

Background

The Local Government Act 2002 s102(2) requires councils to have a liability management policy and an investment policy. Kaipara District Council combines these in one document, the Treasury Management

Policy. The current policy was adopted as part of the Long Term Plan 2015/2025 process.

As part of the Long Term Plan 2018/2028 project all policy documents are reviewed and where necessary updated.

KPMG was engaged to review the current Treasury Management Policy and they reported to Council in May 2017. Their report stated “We found the Policy to be generally fit for purpose and well structured. The Policy is consistent with peer councils in New Zealand”¹.

KPMG made three substantive recommendations:

1. Council clearly articulate its risk appetite via a risk appetite statement.
2. Interest rate controls (fixed /floating) terminology be improved.
3. A reduction to the range of financial instrument Council is authorised to use.

They also suggested improvements to wording particularly around delegations and reporting of breaches.

Management reviewed the KPMG recommendations with PwC, Council’s treasury advisors. In general they agreed with the KPMG recommendations except the reduction to the range of financial instruments Council is authorised to use. KPMG argued many of the authorised instruments were not being used and the list should be limited to those currently being utilised to manage the debt portfolio. The counter argument supported by PwC and management is that the range is consistent with best practice, does not expose Council to risk outside of policy and retains flexibility for risk management. Accordingly, this recommendation has not been adopted.

When reviewing KPMG’s interest rate control recommendations it was recognised the policy settings (that between 60% and 90% is required to be fixed) is too restrictive especially when applied to Kaipara’s relatively small and falling level of debt. PwC recommended a different approach in which the range for fixed interest rates varies depending on the maturity term for the debt. The longer the maturity, the lower the proportion required to be fixed. The rationale is:

- i. the longer the term the less certainty regarding the future level of debt; and
- ii. The longer the term the less certainty around forecasting/predicting interest rates.

Adopting this approach requires a change to the benchmark used to assess management’s operational performance. The weighted composite benchmark is to be replaced by a wholesale interest rate mid-point benchmark rate. Council’s market benchmark rate will be the seven-year swap rate monthly rolling average over a seven year period.

A risk appetite statement and a Debt Interest Rate Policy Parameters table have been incorporated into section 6. The new Interest Rate Benchmark definition is incorporated in section 8.

There have been further minor amendments to the text of the policy reflecting input from KPMG and PwC.

Management’s review of the document identified two further amendments. First, the wording of the definition of liquidity under Debt ratios and limits was not consistent with the definition applied by the

¹ KPMG Treasury Policy Review May 2014 page 3

LGFA. Council's wording has been aligned with that of the LGFA. The change of wording does not affect the policy setting or Council's compliance. Secondly, the Statutory Objectives section has been retitled Statutory and Principal Objectives to reflect the content and reformatted. In addition a number of suggestions from the Committee at the last Audit, Risk and Finance Committee meeting have also been incorporated.

All the changes to the Treasury Management Policy have been reviewed by Council's treasury advisors PwC and have their support.

Factors to consider

Community views

The community expects Council to have a fit for purpose liability and investment policies.

Policy implications

The recommended amendments will not require Council to change the manner in which it operates its treasury activities.

Financial implications

There are no financial implications from the adoption of these recommendation.

Legal/delegation implications

Adoption of a liability management policy and an investment policy is a legal requirement. Under the delegations a recommendation to Council to adopt the amendments is required from the Committee.

Options

Option A: Accept the report and recommend adoption of the Treasury Management Policy to Council.

Option B: Accept the report and make further amendments to the Policy before recommending adoption to Council.

Option C: Receive the report and ask for additional information or clarification.

Assessment of options

Council has taken professional advice to review and update the Treasury Management Policy. The Committee can rely on that advice and recommend the Treasury Management Policy for adoption by Council.

Assessment of significance

Recommending adoption of the Treasury Management Policy is not significant in terms of Council's Significance and Engagement Policy.

Recommended option

The recommended option is **Option A**.

Attachments

- Attachment 1: Treasury Management Policy



Kaipara District Council

Treasury Policy

**Incorporating the Liability Management and Investment Policies
as required by sections 104 and 105 of the
Local Government Act 2002**

Council Approved: DD MMM 2018



Kaipara te Orangakui

**KAIPARA
DISTRICT**

Two Oceans Two Harbours

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1.0 Introduction

1.1 Policy purpose

The purpose of the Treasury Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Kaipara District Council (“Council”). The formalisation of such policies and procedures will enable treasury risks within Council to be prudently managed.

As circumstances change, the policies and procedures outlined in this policy will be modified to ensure that treasury risks within Council continue to be well managed. In addition, regular reviews will be conducted to test the existing policy against the following criteria:

- Industry “best practices” for a Council the size and type of Kaipara.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Treasury Policy and treasury management function to recognise, measure, control, manage and report on Council’s financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks and other associated risks.
- The operation of a pro-active treasury function in an environment of control and compliance.
- The robustness of the policy’s risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assistance to Council in achieving strategic objectives relating to ratepayers.

It is intended that the policy be distributed to all personnel involved in any aspect of Council’s financial management. In this respect, all staff must be completely familiar with their responsibilities under the policy at all times.

2.0 Scope and Objectives

2.1 Scope

This document identifies the policy and procedures of Council in respect of treasury management activities.

The policy has not been prepared to cover other aspects of Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of Council cover these matters.

2.2 Risk Appetite

Council's overriding obligation is to manage its affairs prudently and in the interests of its community and is guided by the obligations imposed by the Local Government Act 2002.

Accordingly Council's philosophy on the conduct of its treasury activities is to ensure that the risks associated are properly identified, quantified and managed to ensure it meets the obligations under the Act and that there is minimal negative impact on the Council arising from such risks. Council is a risk averse entity, and does not wish to seek risk from its treasury activities. Accordingly activity that may be construed as speculative in nature is expressly forbidden.

2.3 Objectives

The objective of this Treasury Policy is to control and manage costs and investment returns that can influence operational budgets and public equity. Specifically:-

Statutory and principal objectives

- All external borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of all relevant legislation including but not limited to:
 - Local Government Act 2002, in particular Part 6 including sections 101,102, 104 and105, and incorporate the Liability Management Policy and Investment Policy.
 - Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
 - Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trustee Act 1956 Part II Investments.

- All projected external borrowings are to be approved by Council as part of the Annual Plan or the Long Term Planning process (LTP) or resolution of Council before the borrowing is affected.
- All legal documentation in respect to external borrowing and financial instruments will be approved by Council's solicitors prior to the transaction being executed.
- Council will not enter into any borrowings denominated in a foreign currency.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council itself.
- Hire Purchase, Deferred Purchase, Trade Credit - for the purposes of sub-paragraph (c)(ii)(B) of the definition of "borrowing" in section 112 of the LGA 2002, "borrowing" does not include:
 - Debt incurred in connection with hire purchase of goods, the deferred purchase of goods or services, or the giving of credit for the purchase of goods or services, if the goods or services are obtained in the ordinary course of Council's performance of its lawful functions, on terms and conditions available generally to parties of equivalent credit-worthiness, for amounts not exceeding in aggregate \$250,000 ; or
 - The deferred purchase of goods or services or the giving of credit for the purchase of goods or services through the mechanism of contract retentions held for periods less than 365 days.
- Other - Instruments not specifically referred to in this policy may only be used with specific Council approval.
- The Council routinely defers payment following completion of construction or other large scale engineering contracts in accordance with standard industry practices. Although this practice may mean that these deferred payments fall within the definition of borrowing for the purposes of the Act and this policy, these contractual arrangements create very little risk for the Council. There is no interest exposure on these payments; the credit-worthiness of the contracting party is not relevant; and the deferred period is sufficiently long that no impact on liquidity is anticipated, as payments can be programmed in advance through the annual plan process or standard cash flow procedures. Therefore, the Council will enter into these contracts in accordance with its standard procurement procedures, and deferred payment conditions will not require any additional approval by the Council.

General objectives

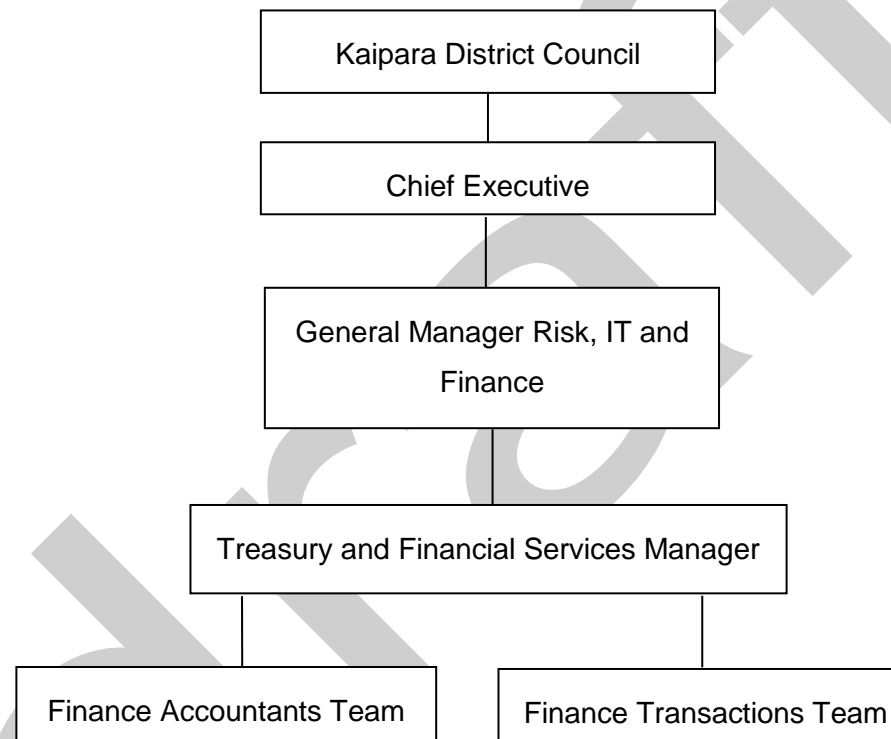
- To manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Minimise Council's costs and risks in the management of its borrowings.
- Minimise Council's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.

- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Treasury Policy so as to protect Council's financial assets and manage costs.
- Arrange and structure external long term funding for Council at a favourable margin and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this policy.
- Monitor Council's return on investments.
- Ensure the Council, management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- To ensure adequate internal controls exist to protect Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, investors and investment counterparties.

3.0 Management Responsibilities

3.1 Overview of management structure

The following diagram illustrates those positions or functions that have treasury responsibilities.



3.2 Council

Council has ultimate responsibility for ensuring that there is an effective Policy for the management of its risks. In this respect Council decides the level and nature of risks that are acceptable, given the underlying objectives of Council.

Council is responsible for approving the Treasury Policy. While the Policy can be reviewed and changes recommended by other persons, the authority to make or change Policy cannot be delegated.

In this respect, Council has responsibility for:

- Approving the long-term financial position of Council through the 10 year LTP and the adopted annual plan.
- Approving new debt through the adoption of the Annual Plan, specific Council resolution and approval of this policy.
- Approving the Treasury Policy incorporating the following:
 - Counterparties and credit limits.
 - Risk management methodologies and benchmarks.
 - Guidelines for the use of financial instruments.
 - Receive a triennial review report on the policy.
- Evaluating and approving amendments to policy.
- Approving budgets and high level performance reporting.
- Approve opening and closing of bank accounts.
- Approval for one-off transaction falling outside Policy.

Council should also ensure that:

- It receives regular information from management on risk exposure and financial instrument usage in a form, that is understood, and that enables it to make informed judgements as to the level of risk undertaken.
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved in a timely manner.
- Submissions are received from management requesting approval for one-off transactions falling outside policy guidelines.

3.3 Chief Executive (CE)

While Council has final responsibility for the policy governing the management of Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the Chief Executive.

4.0 Liability Management Policy

Council’s liabilities comprise borrowings and various other liabilities. Council maintains borrowings in order to:

- Fund working capital requirements and short term funding gaps.
- Raise specific debt associated with projects and capital expenditures.
- Fund assets whose useful lives extend over several generations of ratepayers.

4.1 Debt ratios and limits

Debt will be managed within the following macro limits.

Ratio	KDC Policy Limits	LGFA Lending Covenants
Net debt as a percentage of total revenue	<170%	<175%
Net Interest as a percentage of total revenue	<15%	<20%
Net Interest as a percentage of annual rates income (debt secured under debenture)	<20%	<25%
Liquidity (External debt + committed loan facilities + liquid investments to existing external debt)	>110%	>110%

- Total Revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net debt is defined as total debt less liquid investments.
- Liquidity is defined as external term debt plus committed loan facilities plus available liquid investments divided by existing external debt. Liquid investments are assets defined as being:
 - Overnight Bank cash deposits
 - Wholesale/retail bank term deposits no greater than 30 days

- Bank issued RCD's less than 181 days
- Wholesale/ retail bank term deposits linked to pre funding of maturing term debt exposures
- Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

Debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

Disaster recovery requirements are to be met through the liquidity ratio.

draft

4.2 Asset management plans

In approving new debt Council considers the impact on its borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with Council's LTP.

4.3 Borrowing mechanisms

Council is able to borrow through a variety of market mechanisms including issuing stock/bonds, commercial paper (CP) and debentures, direct bank borrowing, accessing the short and long-term wholesale and retail capital markets directly or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the following is taken into account:-

- Available terms from banks, LGFA, debt capital markets and loan stock issuance.
- Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for loan stock issuance, LGFA, debt capital markets and bank borrowing.
- The market's outlook on future credit margin and interest rate movements as well as its own.
- Legal documentation and financial covenants together with security and credit rating considerations.
- For internally funded projects, to ensure that finance terms for those projects are at similar terms to those from external borrowing.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing and manage its relationships with its investors, LGFA and financial institutions/brokers.

Council has the ability to pre-fund up to 18 months of forecast debt requirements including re-financings.

4.4 Security

Council's borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue offered through a Debenture Trust Deed.

Under the Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks equally or 'Pari Passu' with other lenders.

Council offers deemed rates as security for general borrowing programs. From time to time, with prior Council approval, security may be offered by providing a charge over one or more of Council's assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (e.g. an operating lease, or project finance).
- Council considers a charge over physical assets to be appropriate.
- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Deed.

4.5 Debt repayment

The funds from all asset sales, operating surpluses, grants and subsidies will be applied to the reduction of debt and/or a reduction in borrowing requirements once any direct debt obligations are repaid, unless Council specifically directs that the funds will be put to another use.

Debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

Council will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.

4.6 Guarantees/contingent liabilities and other financial arrangements

Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, Trusts, or Business Units, when the purposes of the loan are in line with Council's strategic objectives.

Council is not allowed to guarantee loans to Council-controlled trading organisations under Section 62 of the Local Government Act.

Financial arrangements include:

- Advances to community organisations.

Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed NZ\$1 million in aggregate or attached to a property.

4.7 Internal borrowing of special and general reserve funds

Given that Council may require funding for capital expenditure over the remaining life of the existing special and general reserve funds, where such funds are deemed necessary they should be used for internal borrowing purposes when external borrowing is required. Accordingly Council maintains its funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective.

Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead, Council will manage these funds using available borrowing facilities.

No interest is payable unless Council so directs or there is an agreement in place.

4.8 New Zealand Local Government Funding Agency Limited investment

Despite anything earlier in this Policy, Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:-

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA. For example, Borrower Notes.
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the LGFA.

5.0 Investment Policy and Limits

5.1 General policy

Council is currently a net borrower and is likely to remain so for the foreseeable future. Council should internally borrow from special reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt. Investments are maintained to meet specified business reasons.

Such reasons can be:-

- For strategic purposes consistent with Council's LTP.
- To reduce the current ratepayer burden.
- The retention of vested land.
- Holding short term investments for working capital and liquidity requirements.
- Holding investments that are necessary to carry out Council operations consistent with Annual Plans, to implement strategic initiatives, or to support inter-generational allocations.
- Holding assets (such as property) for commercial returns.
- Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to accumulated surplus, Council created restricted reserves and general reserves.

Council recognises that as a responsible public authority all investments held, should be low risk. Council also recognises that low risk investments generally mean lower returns.

5.2 Investment mix

Council may maintain investments in the following assets from time to time:-

- Equity investments, including investments held in CCO/CCTO and other shareholdings.
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development.

- Forestry investments
- Financial investments

5.2.1 Equity investments

Equity investments, including investments held in CCO/CCTO and other shareholdings. Council maintains equity investments and other minor shareholdings.

Council's equity investments fulfil various strategic, economic development and financial objectives as outlined in the LTP. Equity investment may be held where Council considers there to be strategic community value.

Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.

Any purchase or disposition of equity investments requires Council approval. Council may also acquire shares that are gifted or are a result of restructuring. Any purchase or disposition of equity investments will be reported to the next meeting of Council.

Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the relevant sub-committee as applicable, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are being achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

5.2.2 Property investments

Council's overall objective is to only own property that is necessary to achieve its strategic objectives. As a general rule, Council will not maintain a property investment where it is not essential to the delivery of relevant services, and property is only retained where it relates to a primary output of Council. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council generally follows similar assessment criteria in relation to new property investments.

Council reviews the performance of its property investments on a regular basis.

5.2.3 Forestry

Forestry assets are held as long term investments on the basis of net positive discounted cashflows, factoring in projected market prices and annual maintenance and cutting costs.

5.2.4 Financial investments

Financial investment objectives

- Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 6.3. Council may invest in approved financial instruments as set out in section 6.2. These investments are aligned with Council's objective of investing in high credit quality and highly liquid assets.

Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due.

- Council's net investment interest rate profile will be managed within the parameters outlined in section 6.0.

Special funds, sinking funds, reserve and endowment funds

Liquid assets are not required to be held against special funds and reserve funds. Instead Council will internally borrow or utilise these funds where ever possible.

Sinking Funds will no longer be maintained by Council.

No interest is payable on internal borrowing to/from reserves, unless otherwise directed by Council or in accordance with the fund agreements.

Trust funds

Where Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the Trust. If the Trust's investment policy is not specified then this policy should apply.

5.3 New Zealand Local Government Funding Agency Limited investment

Despite anything earlier in this Policy, Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

Council's objective in making any such investment will be to:-

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for the Council.

Because of these dual objectives, Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. Notwithstanding the Counterparty Credit Risk Limits (set out in Section 6.3 of this policy), Council may invest in financial instruments

issued by the LGFA up to a maximum of \$5 million (i.e. borrower notes). If required in connection with the investment, Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

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6.0 Risk Management

The definition and recognition of interest rate, liquidity, funding, investment, counterparty credit, market, operational and legal risk of Council will be as detailed below and applies to both the Liability Management policy and Investment policy.

6.1 Risk recognition

Interest rate risk is the risk that investment returns or funding costs (due to adverse movements in market interest rates) will materially exceed or fall short of projections included in the LTP and Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions/returns/and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of investment returns or funding costs. Certainty around funding costs is to be achieved through the active management of underlying interest rate exposures.

6.2 Approved financial instruments

Dealing in interest rate products must be limited to financial instruments approved by Council.

Approved financial instruments are as follows:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Uncommitted money market facilities Loan stock/bond issuance <ul style="list-style-type: none"> • Floating Rate Note (FRN) • Fixed Rate Note (MTN) Commercial paper (CP) /Bills / Promissory notes Finance Leases
Investments	Short term bank deposits Bank registered certificates of deposit (RCDs) NZ Government, LGFA, Local Authority stock or State Owned Enterprise (SOE) bonds and FRNs (senior) Corporate bonds (senior)

Category	Instrument
	Corporate Floating Rate Notes (senior) Promissory notes/Commercial paper (senior) Corporate/SOE/Other Local Authority Bonds NZLGFA Borrower Notes Bank term deposits linked to pre funding maturing debt
Interest rate risk management	Forward rate agreements (“FRAs”) on: <ul style="list-style-type: none"> • Bank bills • Government bonds Interest rate swaps including: <ul style="list-style-type: none"> • Forward start swaps and collars (start date <24 months, unless linked to existing maturing swaps and collars) • Amortising swaps (whereby notional principal amount reduces) • Swap extensions and shortenings Interest rate options on: <ul style="list-style-type: none"> • Bank bills (purchased caps and one for one collars) • Government bonds • Interest rate swaptions (purchased swaptions and one for one collars only)

Any other financial instrument must be specifically approved by Council on a case-by-case basis and only be applied to the one singular transaction being approved.

All investment securities must be senior in ranking. The following types of investment instruments are expressly excluded:

- Structured debt where issuing entities are not a primary borrower/ issuer.
- Subordinated debt, junior debt, perpetual notes and hybrid notes such as convertibles.

6.3 Interest rate risk control limits

Net debt/borrowings

Council debt/borrowings should be within the following fixed/floating interest rate risk control limit:

Debt Interest Rate Policy Parameters (calculated on a rolling monthly basis):		
Debt Period Ending	Minimum Fixed	Maximum Fixed
Less than 12 months	50%	95%
12 – 36 months	40%	90%
37 – 60 months	30%	80%
Greater than 60 months	Nil	50%

“Fixed Rate” is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

“Floating Rate” is defined as an interest rate repricing within 12 months.

The percentages are calculated on the rolling projected net debt level calculated by management (signed off by the CE or equivalent). Net debt is the amount of total debt net of liquid short-term financial assets/investments. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the policy minimums and maximums.

- A fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by Council.
- The above interest rate risk control limits apply when external debt exceeds \$25 million.
- Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Any interest rate derivatives or interest rate fixing with a maturity beyond 16 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate and this maturity is beyond 16 years.
- Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”.

- Purchased borrower swaptions mature within 12 months.
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.
- Forward start period on swaps and collar strategies to be no more than 24 months, unless it extends the maturity of existing interest rate fixing (via either derivatives or fixed rate borrowing).

Sinking funds, special and general reserve funds

Given that Council may require funding for capital expenditure cash shortfalls over the remaining life of the existing special and general reserve funds, where such funds are deemed necessary they should be used for internal borrowing purposes when external borrowing is required. Accordingly, Council maintains its funds in short term maturities emphasising counterparty credit worthiness and liquidity. The interest rate yield achieved on the funds therefore is a secondary objective.

This will negate counterparty credit risk and any interest rate repricing risk that occurs when Council borrows at a higher rate compared to the investment rate achieved by Special/Reserve Funds.

Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead, Council will manage these funds using internal borrowing facilities.

Foreign currency

Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services, plant and equipment.

Generally, all significant commitments for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved. Both spot and forward foreign exchange contracts can be used by Council.

Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

Council does not hold investments denominated in foreign currency.

All foreign currency hedging must be approved by the GMF.

6.4 Liquidity risk/funding risk

6.4.1 Risk recognition

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

The management of Council's funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:

- Local Government risk is priced to a higher fee and margin level.
- Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to Council experiences financial/exposure difficulties resulting in Council not being able to manage their debt portfolio as optimally as desired.
- New Zealand investment community experiences a substantial "over supply" of Council investment assets.
- Financial market shocks from domestic or global events.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

6.4.2 Liquidity/funding risk control limits

- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.
- External term loans and committed debt facilities together with available unencumbered liquid investments must be maintained at an amount exceeding 110% of existing total external debt.
- Council has the ability to pre-fund up to 18 months forecast debt requirements including re-financings. Debt re-financings that have been pre-funded, will remain included within the funding maturity profile until their maturity date.
- The CE has the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be reported and ratified by the Council at the earliest opportunity.

- The maturity profile of the total committed funding in respect to all loans and committed facilities, is to be controlled by the following system and apply when external debt exceeds \$25 million:-

Period	Minimum Cover	Maximum Cover
0 to 3 years	15%	60%
3 to 5 years	15%	60%
5 years plus	10%	60%

- A funding maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by Council.
- To minimise concentration risk the LGFA require that no more than the greater of NZD 100 million or 33% of a Council's borrowings from the LGFA will mature in any 12-month period.

6.5 Counterparty credit risk

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where Council is a party. The credit risk to Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by Council. Treasury related transactions would only be entered into with organisations specifically approved by Council.

Counterparties and limits can only be approved on the basis of long-term credit ratings (Standard & Poor's, Fitch or Moody's) being A and above or short term rating of A-1 or above.

Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits.

Counterparty/Issuer	Minimum long term / short term credit rating – stated and possible	Investments maximum per counterparty (\$m)	Interest rate risk management instrument maximum per counterparty (\$m)	Total maximum per counterparty (\$m)
NZ Government	N/A	Unlimited	none	Unlimited
Local Government Funding Agency	N/A	Unlimited	none	Unlimited
NZD Registered Supranationals	AAA	10.0	none	10.0
State Owned Enterprises	A+ / A-1	5.0	none	5.0
NZ Registered Bank	A / A-1	15.0	20.0	30.0
Corporate Bonds / CP	A+ / A-1	2.0	none	2.0
Local Government Stock / Bonds / FRN / CP	A+ / A-1 (if rated)	10.0	none	10.0
This summary list will be expanded on a counterparty named basis which will be authorised by the CE.				

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

- Investments (e.g. Bank Deposits) – Transaction Notional × Weighting 100%. (Unless a legal right of set-off over corresponding borrowings exist whereupon a 0% weighting may apply).
- Interest Rate Risk Management (e.g. swaps, FRAs) – Transaction Notional × Maturity (years) × 3%.
- Foreign Exchange – Transactional principal amount x the square root of the Maturity (years) x 15%

Investments are normally held to maturity date. Where investments are liquidated before legal maturity date, approval is obtained from the CE, who also approves guidelines for a minimum acceptable sale price. The General Manager Risk, IT and Finance (GMF) evaluates quotes based on these instructions and proceeds with the transaction.

Local Government Funding Agency

Borrower Notes. On occasion when Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of “Borrower Notes”. A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

Risk management

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as possible. Maturities should be well spread. The approval process must take into account the liquidity of the market the instrument is traded in and re-priced from.

6.6 Operational risk

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls.

Operational risk is very relevant when dealing with financial instruments given that:-

- Financial instruments may not be fully understood.
- Too much reliance is often placed on the specialised skills of one or two people.
- Most treasury instruments are executed over the phone.
- Operational risk is minimised through the adoption of all requirements of this policy.

6.6.1 Dealing authorities and limits

Transactions will only be executed by those persons and within limits approved by Council.

6.6.2 Segregation of duties

As there are a small number of people involved in borrowing and investment activity, adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting is not strictly achievable. The risk will be minimised by the following process:-

- The GMF reports directly to the CE.
- There is a documented approval process for borrowing, interest rate and investment activity.
- Any execution activities undertaken by the GMF will be checked by the Treasury and Financial Services Manager (FSM) and the FSM will report any irregularities direct to the CE. Any execution activities undertaken by the FSM and the Finance Accountants Team (FSM and Assistant Accountant (AA)) will be checked by the Finance Transactions Team (Finance Officer and Finance Administrator) and any irregularities reported to the GMF and CE.
- In the absence of the FSM, the FSM's deal execution delegated authority moves to the Revenue Manager.

6.6.3 Procedures

All treasury instruments should be recorded and diarised within a treasury spread sheet, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting must be done immediately following execution/confirmation. Details of procedures including templates of deal tickets should be compiled in a treasury procedures manual separate to this policy.

Procedures should include:-

- Regular management reporting.
- Regular risk assessment, including review of procedures and controls as directed by Council or appropriate sub-committee of Council.
- Organisational, systems, procedural and reconciliation controls to ensure:
 - All borrowing, interest rate and investment activity is bona fide and properly authorised.
 - Checks are in place to ensure Council accounts and records are updated promptly, accurately and completely.
 - All outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity.

Organisational controls

- The GMF or equivalent has responsibility for establishing appropriate structures, procedures and controls to support borrowing, interest rate and investment activity.
- All borrowing, investment, cash management and interest rate risk management activity is undertaken in accordance with approved delegations authorised by Council.

Cheque/electronic banking signatories

- Positions approved by the CE as per register.
- Dual signatures are required for all cheques and electronic transfers.
- Cheques must be in the name of the counterparty crossed "Not Negotiable, Account Payee Only", via Council's bank account.

Authorised personnel

- All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

Recording of deals

- All deals are recorded on properly formatted deal tickets by the Finance Accountants Team and approved as required by the FSM, GMF or CE. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spread sheets) are maintained and updated promptly following completion of transaction.

Confirmations

- All inward letter confirmations including registry confirmations are received and checked by the Finance Transactions Team against completed deal tickets and the treasury spread sheet records to ensure accuracy.
- All deliverable securities are held in Council's safe.
- Deals, once confirmed, are filed (deal ticket and attached confirmation) by the Finance Transactions Team in deal date/number order.
- Any discrepancies arising during deal confirmation checks which require amendment to Council records are signed off by the FSM, GMF or CE.

Settlement

- The majority of borrowing, interest rate and investment payments are settled by direct debit authority.
- For electronic payments, batches are set up electronically. These batches are checked by the FSM to ensure settlement details are correct. Payment details are authorised by two approved signatories as per Council registers.

Reconciliations

- Bank reconciliations are performed monthly by the Finance Transactions Team and checked and approved by the FSM. Any unresolved un-reconciled items arising during bank statement reconciliation which require amendment to Council's records are signed off by the GMF.
- A monthly reconciliation of the treasury spread sheet to the general ledger is carried out by the FSM and reviewed by the GMF.
- Interest income from the treasury spread sheet is reconciled to bank statements.

6.7 Legal risk

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

Council will seek to minimise this risk by adopting policy regarding:-

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

6.8 Agreements

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council.

Council's internal/appointed legal counsel must sign off on all documentation for new loan borrowings, re-financings and investment structures.

6.9 Financial covenants and other obligations

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.

Council must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

6.10 Specific Council Approval

Any activity outside the limits set in section 6 will require specific Council approval.

7.0 Cash Management

The Finance Accountants Team has the responsibility to carry out the day-to-day cash and short-term debt management activities. All cash inflows and outflows pass through bank accounts controlled by the finance function.

- The Finance Accountants Team will calculate and maintain comprehensive cash flow projections on a daily (two weeks forward), weekly (four weeks forward) and monthly (12 months forward) basis. The Long Term Planning process completed every three years looks forward for 10 years. These cash flow forecasts determine Council's borrowing requirements and surpluses for investment.
- On a daily basis, electronically download all Council bank account information.
- Co-ordinate Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters.
- Undertake short term borrowing functions as required, minimising overdraft costs.
- Ensuring efficient cash management through improvement to accurate forecasting using spreadsheet modelling.
- Minimise fees and bank/Government charges by optimising bank account/facility structures.
- Match future cash flows to smooth overall timeline.
- Provide reports detailing actual cash flows during the month compared with those budgeted.
- Maximise the return from available funds by ensuring significant payments are made within the vendor's payment terms, but no earlier than required, unless there is a financial benefit from doing so.
- Cash is invested for a term of no more than 3 months and in approved instruments and counterparties.

8.0 Measuring Treasury Performance

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

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

All treasury limits must be complied with including (but not limited to) counterparty credit limits, dealing limits and exposure limits.

All treasury deadlines are to be met, including reporting deadlines.

8.2 Management of debt and interest rate risk

The actual funding cost for Council (taking into consideration costs of entering into interest rate risk management transactions) should be below the budgeted interest cost.

Since senior management is granted discretion by Council to manage debt and interest rate risk within specified limits, the actual funding rate achieved must be compared against an appropriate external benchmark interest rate that assumes a risk neutral position within existing policy. **Note:** in this respect, a risk neutral position is one that is always precisely at the mid-point of the minimum and maximum percentage limits specified within the policy.

Given current fixed/floating risk control limits and fixed rate maturity profile limits as defined in Section 6.3 of the Treasury Policy, the market benchmark (composite) indicator rate will be calculated as follows:

- The wholesale interest rate is the mid-point policy benchmark rate. Council's policy mid-point represents an average term of 7-years. The market benchmark rate will be calculated every month and represent the 7-year swap rate monthly rolling average over a 7-year period.

The micro-benchmark rate used to measure performance is the aggregate of the composite benchmark indicator rate calculated above and the margin that applies to existing funding facilities.

Accordingly, the actual weighted average interest rate for the financial year to date (that incorporates all issuance margins and derivative settlements) must be compared against the micro-benchmark rate on a monthly basis, with historical comparison reported graphically over the previous 12 months.

9.0 Reporting

When budgeting forecast interest costs/returns, the actual physical position of existing loans, investments and interest rate instruments must be taken into account.

9.1 Treasury reporting

The following reports are produced:

Report Name	Frequency	Prepared By	Recipient
Daily Cash Position Treasury Spread sheet	Daily	AA/FA	FSM
Treasury Exceptions Report	As required	FSM	GMF
Treasury Report <ul style="list-style-type: none"> • Policy limit compliance • Borrowing limits • Funding and Interest Position • Funding facility • New treasury transactions • Cost of funds vs. budget • Cash flow forecast report • Liquidity risk position • Counterparty credit • Treasury performance Debt maturity profile • Treasury investments 	Monthly (ELT)/ Quarterly (Council)	AA/FA	ELT/Council
Quarterly Treasury Strategy Paper	Quarterly	GMF	Council

Report Name	Frequency	Prepared By	Recipient
Statement of Public Debt	Monthly	FSM	Council
Revaluation of financial instruments	At least Annually	FSM	Council

9.2 Accounting treatment of financial instruments

Council uses financial market instruments for the primary purpose of reducing its exposure to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense.

Under NZ IPSAS accounting standards changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to actively manage Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's annual accounts.

The FSM is responsible for advising the GMF and CE of any changes to relevant NZ IPSAS which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least once annually for risk management purposes. Banks can confirm valuation of financial instruments at least six monthly and during periods of significant change quarterly.

9.3 Valuation of treasury instruments

All treasury financial instruments must be revalued (marked-to-market) at least annually. This includes those instruments that are used only for hedging purposes.

Underlying rates to be used to value treasury instruments are as follows:-

- Official daily settlement prices for established markets.
- Official daily market rates for short term treasury instruments (e.g. FRA settlement rates calculated by Reuters from price maker quotations as displayed on the BKBM page).
- Relevant market mid-rates provided by the company's bankers at the end of the business day (5.00pm) for other over-the-counter treasury instruments.
- For markets that are illiquid, or where market prices are not readily available, rates calculated in accordance with procedures approved by the GMF.

10.0 Policy Review

This Treasury Policy is to be formally reviewed on a triennial basis.

The CE has the responsibility to prepare a review report that is presented to Council or Council sub-committee. The report will include:-

- Recommendation as to changes, deletions and additions to the policy.
- Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).
- Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.
- Analysis of bank and lender service provision, share of financial instrument transactions etc.
- Comments and recommendations from Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- An annual audit of the treasury spread sheets and procedures should be undertaken.
- Total net debt servicing costs and debt should not exceed limits specified in the covenants of lenders to Council.

Council receives the report, approves policy changes and/or reject recommendations for policy changes.

3.3 Audit Action Update

Treasury and Financial Services Manager 2304.15

Recommended

That the Audit, Risk and Finance Committee receives the Financial Services Manager's 'Audit Action Update' dated 31 January 2018, and the information contained therein.

File number: 2304.15 **Approved for agenda**
Report to: Audit, Risk and Finance Committee
Meeting date: **14 February 2018**
Subject: **Audit Action Update**
Date of report: 31 January 2018
From: Rick Groufsky, Financial Services Manager
Report purpose **Decision** **Information**
Assessment of significance **Significant** **Non-significant**

Summary

Under the Local Government Act 2002 (LGA 2002) Council is required to have its Annual Report and Long Term Plans (including Long Term Plan Amendments) audited.

Following completion of the audits, Council's auditors, Deloitte, produce a report to Council detailing findings from each review and highlighting areas for improvement.

In addition, where internal audits are undertaken the findings are reported with areas for improvement highlighted.

These improvements are incorporated into schedules and reviewed by management regularly to ensure actions are being undertaken to resolve the issues. A summary of outstanding items is presented to each Audit, Risk and Finance Committee (the Committee) meeting with an explanation of the more critical issues and a summary of progress where applicable.

Recommendation

That the Audit, Risk and Finance Committee receives the Financial Services Manager's 'Audit Action Update' dated 31 January 2018, and the information contained therein.

Reason for the recommendation

It is appropriate that the Audit, Risk and Finance Committee monitors progress in addressing actions identified by Council's auditors and receives communications in relation to the audits conducted.

Reason for the report

To enable the Committee to review the outstanding External Audit Management Letter action items, Key Risk Treatment Plan and Internal Audit action items and review communications received relating to the audits.

Background

External audit

Under the Local Government Act 2002 (LGA 2002) Council is required to have its Annual Report audited. This work was completed by Deloitte for the 2012/2013 to 2016/2017 years on behalf of the Auditor-General.

In addition to their formal audit opinion, which is included in the Annual Report, the auditors also produce a 'Report to the Council' and a 'Constructive Report to Management'.

External auditors summarise the overall findings from their audits, note the range of issues that Council faces or should consider (such as improvements that could be made to Council processes) and make recommendations for action by Council.

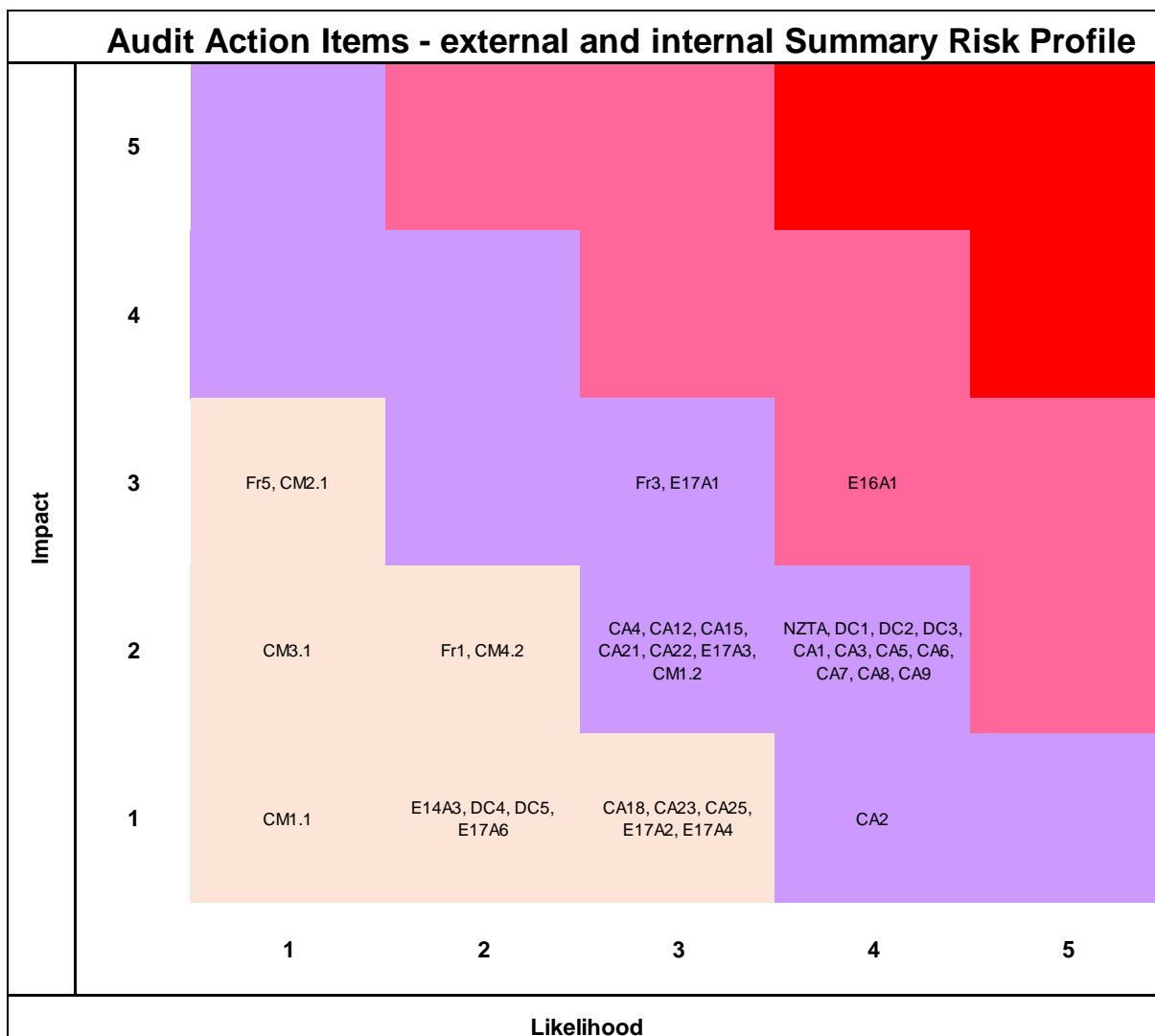
Internal audit

In addition to the external audit, further work is undertaken to review systems and practises within Council. This work is not required under legislation however it is considered good practice to carry out independent reviews of Council's activities. In a similar manner to the external audit, the internal auditor produces a report with their findings and a list of recommendations for Council to implement with a view to improving their operation. Again audit action schedules are prepared which list the recommendations from the internal auditors, identifies the issues where it is considered that further follow-up action is warranted and notes progress against the recommendations until the action is complete.

Audit Summary Risk Profile

The audit action schedule is maintained and lists the recommendations from the respective auditors, identifies the issues where it is considered further follow-up action is warranted and notes progress against the recommendations until the action is complete.

Rather than provide the full detail of all outstanding matters with the report to the Committee a summary grid has been prepared. This sets out a listing of all outstanding items and their relative risk to Council. A key to the source of the points is included.



Impact	Likelihood	Key (plus point number)
1 Insignificant - little or no impact	Rare - only exceptional circumstances	E14 External audit y/e 2014
2 Minor -some effect but within tolerable limits	Unlikely - infrequent and unpredictable	E15 External audit y/e 2015
3 Moderate - will affect but still tolerable	Moderate - occasional and unpredictable	E16 External audit y/e 2016
4 Major - Effect beyond tolerable limits	Likely - Regular and predictable	E17 External audit y/e 2017
5 Extreme - Effect on viability	Almost certain - frequent and established history	Fr Fraud review - Deloitte
		CA Internal audit - cash handling
		DC Internal audit - development contributions
		NZTA NZTA audit
		CM Internal audit - contract management

In addition, the summary below totalling the number of items outstanding from the previous report, new items added and items completed will give a guide to progress by staff in the period.

Outstanding Items Summary

		Total Previous	New	Closed	Total Outstanding
Extreme	9-10 points	Nil			Nil
Major Impact	7 – 8 points	1			1
Moderate Impact	5 – 6 points	29	2	10	21
Low Impact	2 – 4 points	15	6	6	15
Total		<u>45</u>	<u>8</u>	<u>16</u>	<u>37</u>

Comment will be made on all items with a score of 7 or more i.e. matters with a potentially major impact on Council, plus others of importance. It will be noted there are a number of items on the grid which although still outstanding do not greatly impact risk to Council. These have a score of 4 or less.

Comment on significant items

E16A1 Collecting data for non-financial performance measures.

Audit concern: No central control of the process leading to difficulties with timeliness of data for audit review and inconsistent methodologies and results. This may also impact on quarterly reporting to ratepayers.

Our response: To assist with this work the LTP 2018/2028 has fewer measures and a “critical” sub-category. Management will ensure these are recorded and monitored regularly during the year.

Fr3 Fraudulent manipulation of bank payments – use a limited number of suppliers.

Audit concern: With no restriction on suppliers, fictitious suppliers could be set up and paid for similar services.

Our response: System enhancements to further improve supplier security will be reviewed as part of the implementation of electronic purchase orders in MagiQ. This is expected to be implemented before June 2018.

E17A1 IT perimeter security

Audit concern: There are risks to Council data and operations if patches for network software are not installed in a timely manner.

Our response: Council has traditionally relied on software vendors to install patches as part of their support arrangements. As identified by Deloitte some vendors did not undertake this work in a timely manner. Council has implemented plans to move responsibility for the upgrades from the vendors to the IT department where possible. This will be progressed over the next 12 months. For systems where it is not possible IT will closely monitor vendor performance to ensure system security.

Level 2 Impact items. The majority of the level 2 items relate to the cash handling audit completed earlier this year. Work continues to clear these items and significant progress is expected in the coming months.

External Audit 2016/2017

The constructive report to management was received and reported to the November 2017 meeting.

Internal Audit

The contract management framework and effectiveness internal audit by PWC has been received. Their report states “Council’s contract management policy was comprehensive and is in alignment with good practice.....It was pitched at the right level for providing guidance, without being overly prescriptive.” And further “Delegations and approvals are in place. Council contracts have monitoring and reporting mechanisms in place as appropriate for the type and value of the contract.” The summary findings, recommendations and management responses have been incorporated into the Audit Summary Risk Profile.

Long Term Plan 2018/2028

Deloitte are undertaking the audit of the Consultation Document and Long Term Plan. Once completed any recommendations from their audit will be reported to the Committee.

Communications from Deloitte (external auditors)

Nil.

Next step

The Committee should satisfy itself appropriate action is being taken to address outstanding items.

3.4 Bills in Parliament: Legislation Progress

General Manager Finance

Brookfields Lawyers 2126.05

Recommended

That the Audit, Risk and Finance Committee receives the General Manager Finance's report 'Bills in Parliament: Legislation Progress' dated 07 February 2018, and the information contained therein.

File number: 2126.05 **Approved for agenda**
Report to: Audit and Risk Committee
Meeting date: 14 February 2018
Subject: **Bills in Parliament: Legislation Progress**
Date of report: 07 February 2018
From: Robert Nelson, General Manager Finance
 Brookfields Lawyers

Report purpose **Decision** **Information**
Assessment of significance **Significant** **Non-significant**

Summary

New Zealand Parliament is currently considering a number of Bills that may impact on the business of local government. This report provides a Summary (**Attachment 1**) of these Bills to ensure that Council is well prepared when Bills are enacted and/or submitted to the Select Committee responsible for commenting on a Bill.

Only those Bills relevant to Council/local government that have been introduced as of 12 June 2017 (being the date of the last report provided by Brookfields Lawyers) are included in this report. We have also included another overview of the Resource Legislation Amendment Bill (which received royal assent on 18 April 2017) as we consider this to be of significant importance to Council.

Recommendation

That the Audit, Risk and Finance Committee receives the General Manager Finance's report 'Bills in Parliament: Legislation Progress' dated 07 February 2018, and the information contained therein.

Reason for the recommendation

Council needs to be aware of proposed Bills that may impact on local government and Kaipara District Council.

Reason for the Report

This report is to make the Audit, Risk and Finance Committee aware of current Bills that are progressing through Parliament that are relevant to Council, to enable them to consider the potential impact they may have and consider whether there is a need for further action, such as the lodging of a submission. It also provides information on consultation being undertaken by Government and other agencies that may result in legislative change or have an impact on Council. All relevant Bills are listed in the background below, but only those having direct impact on local government are expanded upon in the schedule (**Attachment 1**).

Background

Council operates in what can be described as a dynamic environment where changes are always happening. In order for Council to respond to proposed changes it firstly needs to be aware of any proposals. This will allow Council to respond appropriately when required. If Council is not aware of proposed changes then it would be unable to respond when required.

It will also allow Council the time to put in place any changes and prepare for any budgetary implications it may have where possible.

Bills gaining Royal Assent (i.e. now enacted)

- Civil Defence Emergency Management Amendment Bill (No2)
- Electronic Interactions Reform Bill
- Energy Innovation (Electric Vehicles and Other Matters) Amendment Bill
- Healthy Homes Guarantee Bill (No2)
- Land Transfer Bill
- Land Transport Amendment Bill (No2)
- Parental Leave and Employment Protection Amendment Bill
- Rates Rebate (Retirement Village Residents) Amendment Bill
- Resource Legislation Amendment Bill

Bills Introduced since last report

- Conservation (Infringement System) Bill
- Electoral Integrity Amendment Bill
- Employment Relations Amendment Bill
- KiwiFund Bill
- Local Government Act 2002 Amendment Bill (No2)
- Sale and Supply of Alcohol (Renewal of Licences) Amendment Bill
- Telecommunications (New Regulatory Framework) Amendment Bill

Other Bills before Parliament

- Conservation (Infringement System) Bill
- Food Safety Law Reform Bill
- Health (Fluoridation of Drinking Water) Amendment Bill
- Taxation (Annual Rates for 2017-18, Employment and Investment Income, and Remedial Matters) Bill

Members Bill – newly introduced

- Local Government (Freedom of Access) Amendment Bill

Issues

Changes in legislation have the potential to affect how Council undertakes and manages its functions. Issues that can arise out of any change include affordability, resourcing and having people aware of changing processes and changing criteria required for decisions.

There are some proposed legislation changes that have not been introduced to Parliament yet and therefore may not feature in the information provided. The information is obtained from the Parliament website which is updated every two to four weeks, therefore changes may have occurred between the period between Audit, Risk and Finance Committee Agenda closing and the Audit, Risk and Finance Committee sitting.

Factors to consider

Community views

Other than the Bills to which Assent has been given, information provided in the attached legislation progress worksheet (***Attachment 1***), is not yet law and therefore is not binding on Council. As such community views are not required as a result of presenting this information.

Enacting legislation is a full public process, with the community able to provide their views to Parliament through submissions to the appropriate Select Committee.

Policy implications

Some of the information provided may impact on Council policy if/when Bills come into law. There are certain times within the Parliament process in which Council can express its views on a proposal. The information provided may trigger the need for Council to respond by, for example, lodging a submission to the appropriate Select Committee. Once a Bill has been passed into law it is important that staff identify the implications of the changes made for Council and develop an Action Plan to ensure that any necessary changes, for example, to Council processes, are made.

Financial implications

The information does not pose any financial implications merely to highlight potential impacts when Bills come into law. It is at the point where a Bill comes into law that it may have financial implications for Council.

Legal/delegation implications

This Agenda item is for information only and has no legal implications. While this does not affect any Council delegations, the Audit, Risk and Finance Committee may decide at any time that it is prudent for Council to submit on a proposal.

Attachment

- Legislation Progress Spreadsheet (Attachment 1)

Attachment 1: Progress of Legislation

Bills gaining royal assent				
Title	Overview	Impacts on Council? (Low – Medium – High)	Date of Assent	Manager Responsible
Civil Defence Emergency Management Amendment Bill (No2)	<p>This Bill amends the Civil Defence Emergency Management Act 2002 to provide that the national Civil Defence Emergency Management Strategy remains in place until 09 April 2019.</p> <p>The Bill extends the time period to identify improvements in New Zealand's response to natural disasters and other emergencies and the period of time for which the existing National CDEM Strategy remains in effect to provide time for the Government to consider the technical advisory group's findings before finalising the new National CDEM Strategy.</p>	<p>Medium: As a local authority Council ought to remain up to date with any legislative updates relating to responses to natural disasters and other emergencies. This is important to the Council's role to provide localised emergency procedures and advanced warnings of what to do in an emergency.</p>	<p>Assent: 07/08/17</p>	
Electronic Interactions Reform Bill	<p>The aim of the Bill is to amend 17 Acts to enable digital interactions, businesses, and Government agencies. Some of the main changes include:</p>	<p>Low: The impact on Council is low but Council should remain</p>	<p>Assent 15/12/17</p>	



	<ul style="list-style-type: none"> (a) A person who has access to an individual’s electronic identity photograph may share it, with the individuals consent, to a participating agency for specified purposes. (b) The Commerce Commission may allow compulsory interviews to be held by audio or audio-visual link with the agreement of the person concerned. (c) Giving evidence and notice by electronic means. (d) Enabling electronic licences and electronic voting. 	<p>up to date with any legislative updates in relation to the use of giving evidence and notice by electronic means, enabling electronic licences and voting, the use and acceptance of electronically verified documents, which all affect Council’s interests in various areas of Council’s everyday dealings.</p>		
<p>Energy Innovation (Electric Vehicles and Other Matters) Amendment Bill</p>	<p>The broad policy of this omnibus Bill is to encourage energy innovation, such as emerging energy technologies and increased variation in energy-related business models so that New Zealand has the ability to respond to its environmental and energy objectives.</p> <p>The Bill encourages the uptake of electric vehicles by extending the road user charge exemption and clarifying that a road controlling authority may use its bylaw making powers so that electric vehicles can access bus and high-occupancy lanes. It also expands the purposes for which the existing electricity efficiency levy, gas levy, and petroleum or engine fuel monitoring levy can be used to enable the Energy Efficiency and Conservation Authority to use all three levies.</p>	<p>High: Local Government New Zealand (LGNZ) made a submission on this Bill. Many councils are actively encouraging the uptake of electronic vehicles and consider it important that the legislative frameworks are clear and adaptive</p>	<p>Assent: 28/06/17</p>	

		<p>to changing circumstances. It is important that Council remains updated on topics and issues affecting local authorities around the country. Of particular importance are the amendments to the Electricity Industry Act 2012 and the Land Transport Act 1998 (road controlling authorities may make certain bylaws).</p>		
<p>Healthy Homes Guarantee Bill (No2)</p>	<p>This Bill amends the Residential Tenancies Act 1986 with the purpose of ensuring that every rental home in New Zealand meets minimum standards of heating and insulation.</p> <p>The main provisions relate to:</p> <p>(a) The contents of the tenancy agreement, which must state that the home meets the standards set out under section 132A.</p> <p>(b) Landlords responsibilities which include providing premises in a reasonable state of cleanliness, provide and maintain the premises in a reasonable state of repair, comply with all the</p>	<p>High: As a social housing provider, this legislation directly impacts Council. Council ought to be informed on legislative requirements for housing as it relates to its responsibilities and tenants' rights in</p>	<p>Assent: 04/12/17</p>	

	<p>requirements in respect of buildings, provide adequate means for storage of water if no reticulated water supply, compensate tenant for any reasonable expenses incurred by the tenant in repairing the premises and take all reasonable steps to ensure that none of the landlords' other tenants cause or permits interference with the reasonable peace and privacy of the tenant.</p> <p>(c) The landlord must comply with the standards for heating and insulation and failure to do so is deemed an unlawful act.</p> <p>(d) Function of ensuring healthy homes – the department has the function of preparing and publishing minimum standards of heating and insulation for residential premises.</p>	<p>relation to insulation, housing standards and heating.</p>		
<p>Land Transfer Bill</p>	<p>The aim of this Bill is to replace the Land Transfer Act 1952, the Land Transfer Amendment Act 1963 and the Land Transfer (Computer Registration and Electronic Lodgement) Amendment Act 2002 and to create a new updated statute relating to New Zealand's land transfer system.</p> <p>The main changes include:</p> <p>(a) Identity verification so that before a mortgage instrument is lodged for registration, the mortgagee must take reasonable steps to verify the identity of the mortgagor.</p> <p>(b) The High Court may order the alteration of the register in cases of manifest injustice on the application of a person who has been deprived of an estate or interest in land.</p> <p>(c) Consent for variation of cross-leases; a cross-lease should</p>	<p>Medium: Council should be informed about legislation relating to the sale and purchase of land and dealings in land, as this is an area of local interest and involvement.</p>	<p>Assent: 10/07/17</p>	

	be able to be varied only with the consent of all the mortgagees.			
Land Transport Amendment (No 2) Bill	<p>This Bill will strengthen the legislation relating to mandatory alcohol interlocks,* strengthen the framework for managing public transport fare evasion, create more effective deterrents to reduce the incidents of fleeing drivers, make changes to heavy vehicle regulation, change the regulatory framework for small passenger services, and make a range of minor amendments to ensure that the Land Transport Act 1998 is clear and operating as intended.</p> <p>*Alcohol interlock sentences: This has been available since September 2012 for repeat drink drivers with two or more offences within five years. Under the alcohol interlock sentence, an offender must hold an alcohol interlock licence, which restricts the holder to driving vehicles with an interlock fitted. An alcohol interlock is an electronic device that prevents the use of a vehicle if alcohol is detected in a breath sample. The driver breathes into the alcohol interlock before starting the vehicles. The alcohol interlock analyses the breath sample and if alcohol is detected the vehicle will not start.</p>	Medium: This Bill does not directly impact Council, however Council as a local roading authority ought to be aware of legislative change in relation to roads and transport.	Assent: 10/08/17	
Parental Leave and Employment Protection Amendment Bill	This Bill amends the Parental Leave and Employment Protection Act 1987 and will increase paid parental leave to 22 weeks from 01 July 2018, with a further increase to 26 weeks from 01 July 2020.	Medium: As an employer, Council ought to remain up to date with any legislative amendments relating to employees' entitlements and legal	Assent: 04/12/17	

		rights to leave.		
Rates Rebate (Retirement Residents) Village Amendment Bill	The aim of the Bill is to amend the Rates Rebate Act 1973 to allow residents of retirement villages with occupation rights agreements and who pay rates indirectly rather than directly to the local authority, to receive rates rebates.	High: LGNZ made a submission in support of the Bill, which enables residents in retirement villages to claim a rates rebate. It directly impacts Council, as the rates rebate administering body.	Assent: 02/02018	
Resource Legislation Amendment Bill	This Bill amends the Resource Management Act 1991 (RMA), Reserves Act 1977, Public Works Act 1981, Conservation Act 1987, Environmental Protection Authority Act 2011 and Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012. The explanatory note to the Bill states that its aim is to “create a resource management system that achieves the sustainable management of natural and physical resources in an efficient and equitable way”. Some of the changes to the RMA took immediate effect. Other changes have transitional periods specified in the Bill (the majority of changes to the resource consent process came into force six months after enactment, on 18 October 2017). The significant changes include: (a) Increased emphasis on natural hazard management through amendment to section 6 matters of national importance.	High: This Bill has wide-reaching consequences for councils nationwide. Council must keep up to date with the various changes. Note: Interestingly, the new Minister for the Environment, David Parker, announced plans to reverse the changes in s120(1A) which	Assent: 18/04/17	

	<ul style="list-style-type: none"> (b) Regional councils and territorial authorities have new functions relating to the long term development capacity of their regions or districts. (c) Iwi participation arrangements, which provides opportunity for local and iwi authorities to discuss, agree and record ways in which tangata whenua may participate in the decision-making process under the RMA. (d) Requiring councils to follow national planning templates that will improve the consistency and reduce the complexity of plans. This will substantially reduce the volume of planning documents across the country because most provisions will be standardised. (e) Faster and more flexible planning processes. The Bill provides three different tracks by which a council can produce a plan: the existing track that now has tighter timelines, a new collaborative track, and a streamlined track. (f) Reduced requirements for consents. The Bill eliminates the need for many minor consents by giving councils discretion to not require them, by introducing a new 10-day fast-track for simple consents and by removing requirements for consents where they are already required under other Acts. (g) Making the costs for RMA processes more transparent for users by requiring councils to fix the fees for processing certain consent applications, a fixed remuneration for hearing panels and a fixed fee for hearings. Financial contributions are phased 	<p>removed public notification and appeal rights for discretionary consent decisions.</p>		
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	<p>out over five years. As a result, Council will need to get its Development Contributions Policy reviewed as part of the LTP process.</p> <p>(h) Stronger national direction around requiring provision for growth like housing, and provision for national regulations to address issues like dairy stock in river and other regulations to limit the extent of RMA application.</p> <p>The Bill amends the Public Works Act 1981 by extending the powers of the Minister for Land, increasing the level of additional compensation for acquiring land that includes the home of a landowner and for a landowner that does not have a home on the land.</p>			
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Bills Introduced				
Title	Overview	Impacts on Council? (Low – Medium – High)	Current Status	Manager Responsible
Conservation (Infringement System) Bill	<p>The aim of the Bill is to create systems of infringement offences for less serious offending under Acts that are administered and enforced by the Department of Conservation and local authorities.</p> <p>The infringement system included in the Bill is designed to allow a warning to be given, an infringement notice to be issued, or a prosecution to be taken depending on the offence. The main provisions include:</p> <p>(a) The power of warranted officers, who on reasonable grounds believe, that a person has committed an offence against the Conservation Act 1987 may require a person to provide</p>	<p>Medium: As a local authority Council has powers and authority to impose infringements in relation to offences under a number of the Acts to which the Bill relates. It is important that officers in the respective roles are updated on any changes</p>	<p>Introduced: 22/01/18</p>	

Bills Introduced				
Title	Overview	Impacts on Council? (Low – Medium – High)	Current Status	Manager Responsible
	<p>particulars / personal information.</p> <p>(b) Forfeiture of property for an infringement offence.</p> <p>(c) The Bill sets out the infringement offences in the Act and provides that nothing prevents prosecution of, and conviction for, an offence other than as an infringement offence (meaning the offence may be prosecuted by the filing of a charging document or by issuing an infringement notice). The offences which are infringement offences relate to fisheries, control of dogs, conservation areas, and miscellaneous offences such as the management of marginal strips.</p> <p>(d) The Bill also provides for infringement notices to be made under the following Acts:</p> <ul style="list-style-type: none"> • Marine Mammals Protection Act 1978 • Marine Reserves Act 1971 • National Parks Act 1980 • Reserves Act 1977 • Trade in Endangered Species Act 1989 • Wild Animal Control Act 1977 • Wildlife Act 1953. 	that are relevant to their powers and duties under each Act.		
Electoral (Integrity) Amendment Bill	This Bill amends the electoral Act 1993 to enhance public confidence in the integrity of the electoral system by upholding the proportionality of political party representation in Parliament. The key change is that the seat of a member may become vacant when the member ceases	Low: This Bill does not affect the Council but relates to Parliamentary governance, which is a	Introduced: 12/12/17 First Reading: 10/08/18	

Bills Introduced				
Title	Overview	Impacts on Council? (Low – Medium – High)	Current Status	Manager Responsible
	to be, or chooses not to be a parliamentary member.	general on-going local government interest.		
Employment Relations Amendment Bill	The Bill amends the Employment Relations Act 2000 to implement the Government's commitments on workplace relations. The proposals are designed to provide greater protection to workers, and to strengthen the role of collective bargaining in the workplace to ensure fair wages	Medium: As an employer, the Council should maintain a watching brief on any legislation affecting employment and wages.	Introduced 29/01/18 First Reading 01/02/18	
KiwiFund Bill	<p>This Bill establishes an independent working group with the objective to set up a Government-owned and operated KiwiSaver provider, known as KiwiFund: Part 2 of the Bill relates to the following:</p> <p>(a) The term for the working group to make recommendations to the Minister will be 12 months after the first meeting.</p> <p>(b) Membership of the group will consist of five members including experience with banking, savings and retirement issues.</p> <p>(c) The primary objective of the group will be to examine the accountability requirements of the current KiwiSaver provider fees and investment practices and to advise on establishing a Government-owned and operated KiwiSaver provider.</p> <p>(d) Members will be entitled to receive remuneration for services and be entitled to reimbursements for traveling expenses.</p>	Low: As an employer, Council should maintain a watching brief on any legislative changes to KiwiSaver initiatives and remain informed on legislation that may be relevant to employers' contributions to the scheme.	Introduced: 13/12/17	

Bills Introduced				
Title	Overview	Impacts on Council? (Low – Medium – High)	Current Status	Manager Responsible
Local Government Act 2002 Amendment Bill (No2)	The main aim of the Bill is to amend the Local Government Act 2002 to provide a broader range of functions to be transferred between local authorities, joint government arrangements for areas of common or shared interest, and greater use of joint council-controlled organisations (CCO's).	High: The Bill is directly relevant to Council especially with regard to: <ul style="list-style-type: none"> • The transfer of the responsibilities between Council and Northland Regional Council. • The changed role and powers of the Commission (especially the provisions that facilitate local authority led reorganisations); • The provisions for the establishment of CCO's. 	Second Reading: 29/06/17 Committee of the whole house	
Sale and Supply of Alcohol (Renewal of Licences) Amendment Bill	This Bill amends the principal Act and provides that where a local alcohol policy is in place under the provisions of the Sale and Supply of Alcohol Act 2012 any renewal of a licence under the Act must not be inconsistent with the provisions of that local alcohol policy in	High: Members of the District Licensing Committee and administrative team	Introduced 14/12/17	

Bills Introduced				
Title	Overview	Impacts on Council? (Low – Medium – High)	Current Status	Manager Responsible
	relation to the location and density matters.	should be briefed and kept up to date on the legislative changes, which will be an important requirement to consider and take into account when renewing licences should the Bill be passed into law.		
Telecommunications (New Regulatory Framework) Amendment Bill	<p>The aim of the Bill is to amend the Telecommunications Act 2001 to:</p> <ul style="list-style-type: none"> (a) Establish a stable and predictable regulatory framework for fibre fixed line access services; (b) Remove unnecessary copper fixed line access service regulation; (c) Streamline regulatory processes to enable a rapid response to competition problems and provide more regulatory oversight of retail service quality. 	<p>Medium: The telecommunications industry has identified a need to develop a mutually beneficial relationship with local government to address resource management issues, access to roading corridors, Council assets, rating policies etcetera. Broadband is part of core infrastructure and therefore any legislative amendments in relation</p>	<p>Introduced: 08/08/17</p> <p>First reading: 16/08/17</p> <p>Select Committee</p>	

Bills Introduced				
Title	Overview	Impacts on Council? (Low – Medium – High)	Current Status	Manager Responsible
		to telecommunications are relevant to Council.		

Other Bills before Parliament				
Title	Overview	Impacts on Council?(Low - Medium - High)	Current Status	Manager Responsible
Conservation (Infringement System) Bill	<p>This Bill is an omnibus Bill to amend a number of conservation-related acts. The Bill looks to introduce an infringement system to be provided to central and local government agencies, to deal with less serious offending in relation to public resources.</p> <p>The objectives of this Bill are a response to problems that have arisen in implementing the current compliance system. The objectives are to:</p> <ul style="list-style-type: none"> (a) Improve the effectiveness of conservation compliance and law enforcement, to better protect conservation. (b) Ensure that penalties for offences are commensurate with the seriousness of the offence. (c) Ensure that people do not risk criminal convictions if they commit minor offences. (d) Make the treatment of offences consistent with those in similar regimes, such as fisheries. (e) Remove unnecessary costs to the court system. (f) Contribute to the Government's objectives of improving Government interaction with New Zealanders and delivering better public services for less cost. 	<p>High: It is important for Council to be up to date with its ability to prosecute for non-compliance with the conservation-related legislation.</p> <p>Of particular relevance for Council is that in relation to local authority administered reserves, this Bill provides for consistency between how compliance on reserves (administered under the Reserves Act 1977) could be managed compared to compliance on comparable public lands held under the Local Government Act 2002.</p>	<p>Bill introduced: 22/02/17</p>	

<p>Food Safety Law Reform Bill</p>	<p>The Bill makes improvements and enhancements to three Acts governing the food safety system, improving their alignment, operation, and design so as to better protect human health, and maintain and strengthen New Zealand's reputation as a supplier of safe and suitable food both domestically and internationally.</p> <p>The main amendments include:</p> <ul style="list-style-type: none"> (a) In respect of new regulation-making provisions introduced by the Bill, required consultation is to be carried out before any regulations are made. (b) The requirement to consult on notices that supplement regulations is removed. However, it provides that consultation is required before the Director-General makes any notices to supplement any of the regulations set out in section 163(2) as amended by this Bill. 	<p>Medium: As a monitoring authority tasked with ensuring compliance with the Food Act 2014, issuing food licences and food grades, Council should remain updated with amendments to the Food Act.</p>	<p>Select Committee: 19/12/16</p> <p>Second Reading: 22/06/17</p> <p>Committee of the whole House: 12/12/17</p>	
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<p>Health (Fluoridation of Drinking Water) Amendment Bill</p>	<p>This Bill amends Part 2A of the Health Act 1956 by inserting a power for DHBs to make decisions and give directions about the fluoridation of local government drinking water supplies in their areas.</p>	<p>High: LGNZ made a submission on the Bill seeking the removal of the responsibility for making decisions on fluoridation in drinking water from the territorial authorities and seeks national leadership in relation to this. It is important that Council maintains a watching brief on progression of the Bill in relation to its powers and responsibilities in respect of this matter.</p>	<p>First Reading: 6/12/16</p> <p>Select Committee: 29/05/17</p>	
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<p>Taxation (Annual Rates for 2017-18, Employment and Investment Income, and Remedial Matters) Bill</p>	<p>This omnibus Bill contains taxation amendments aimed at modernising and improving the settings for the administration of the tax system, and at improving the current tax settings within a broad-base, low rate framework.</p> <p>The policy proposals in this Bill fall into two categories:</p> <p>(a) The first is aimed at modernising and improving the settings for the administration of the tax system as part of the Government’s programme of transforming the revenue system through business process and technology change. This includes measures relating to employment and investment income information, the electronic filing threshold for goods and services tax (GST), amendments to the pay as you earn (PAYE) rules, and amendments to penalty interest rules.</p> <p>(b) The second is aimed at improving the current tax settings within a broad-base, low rate (BBLR) framework. Under this framework, the tax treatment of alternative forms of income and expenditure is intended to be as even as possible. This ensures that overall tax rates can be kept low, while also minimising the biases that taxation introduces into economic decisions.</p>	<p>Medium: As a business organisation, Council should remain updated with any tax requirements and amendments. Specifically, in relation to the tax for CCOs.</p>	<p>First Reading: 24/05/17</p> <p>Select Committee</p>	
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Members Bills				
<p>Local Government (Freedom of Access) Amendment Bill</p>	<p>The Bill amends the Local Government Act 2002 to ensure communities have freedom of access to land that councils are responsible for administering by preventing persons from obstructing, impeding, or preventing an enforcement officer or local authority agent from carrying out their statutory functions, duties or other tasks required and to widen the scope in which an enforcement officer may remove and seize property.</p> <p>The main provisions relate to:</p> <p>(a) Seizure of property not on private land. The circumstances could be:</p> <ul style="list-style-type: none"> • Where property has been erected, placed or fixed for longer than a period totalling five days; • The erection was not done with consent; • Before seizing and impounding the property the enforcement officer directed (orally or written) who it believed to be the owner to remove the property, advised that if the property is not removed that the enforcement officer has the power to seize and impound the property; and • Had provided the person to whom the enforcement officer believed to be the owner with the necessary time to remove that property without delay. Provides that every person commits an offence against the Act if it fails to comply with the requirements and gives false particulars. <p>(b) Any constable who has reasonable suspicion that a person has</p>	<p>High: This is directly relevant to the Council and its enforcement officers. The Bill seeks to better balance the rights of councils to protect property from being interfered with. It is important that Council maintains a watching brief to ensure that it's updated on any legislative changes regarding its rights and powers of an enforcement officer to seize and impound property that is not on private land.</p>	<p>Bill introduced: 08/06/17</p> <p>First Reading</p>	

	committed an offence of preventing, obstructing or impeding enforcement officers or agents of a local authority in carrying out its functions may arrest that person without a warrant.			
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3.5 Health and Safety Report

Health and Safety Advisor 2209.12

Recommended

That the Audit, Risk and Finance Committee:

- 1 *Receives the Health and Safety Advisor's report dated 07 February 2018; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provision of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *That the Audit and Risk Committee notes the information presented in the report and attachment.*

File number: 2209.12 **Approved for agenda**

Report to: Audit, Risk and Finance Committee

Meeting date: **14 February 2018**

Subject: **Health and Safety Report**

Date of report: 7 February 2018

From: Rob Maassen, Health and Safety Advisor

Report purpose **Decision** **Recommendation** **Information**

Assessment of significance **Significant** **Non-significant**

Summary

To provide the Audit and Risk Committee with information on critical health and safety risks, the controls in place to manage those risks and the occurrence and nature of any Occupational Health and Safety (OHS) events at the Kaipara District Council (KDC) workplace. The attached (**Attachment 1**) report from Council Health and Safety Advisor covers the period since the last Committee meeting, being November and December 2017.

Recommendation

That the Audit, Risk and Finance Committee:

- 1 *Receives the Health and Safety Advisor's report dated 07 February 2018; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provision of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *That the Audit and Risk Committee notes the information presented in the report and attachment.*

Reason for the recommendation

To advise the Committee of any issues for Kaipara District Council Health and Safety

Background

Elected member's role is to provide strategic direction to the business, to oversee the management of business risks and are thereby recommended to:

- Apply due diligence to ensure the council is meeting legal health and safety obligations
- Ensure that health and safety risks have been identified and that KDC is meeting the legal obligation to lower the risk so far as is reasonably practicable.
- Be confident that KDC is providing a safe workplace for its staff, contract workers, customers and visitors.

This report provides key information that addresses these matters at a governance level.

Issues

Two contractor injuries are reported to the Committee this meeting

Background

Elected member's role is to provide strategic direction to the business, to oversee the management of business risks and are thereby recommended to:

- Apply due diligence to ensure the council is meeting legal health and safety obligations
- Ensure that health and safety risks have been identified and that KDC is meeting the legal obligation to lower the risk so far as is reasonably practicable.
- Be confident that KDC is providing a safe workplace for its staff, contract workers, customers and visitors.

This report provides key information that addresses these matters at a governance level.

Discussion (Lead & Lag indicators)

Notifiable injuries

There were two contractor injuries that fell within the statutory reporting requirement to Worksafe for the period. Attachment 1 gives the basic details of the first event (in the form of the contractors incident alert) which occurred on 28 November 2017. Attachment 2 gives the details of the second notifiable event which occurred on the 5 December 2017.

The injuries fortunately have not contributed to any life changing permanent disablement or significant lost time. The concrete saw operator will have scarring, to what degree this disfigurement will impact his life will come down to healing success, follow up medical care and any other treatments that might be available to reduce any unsightliness.

Legislative Compliance

The Asbestos Regulations 2016

Following on from surveys for asbestos in Council owned buildings we also need to register any asbestos cement pipes for water reticulation and consider if management plans, required by the new legislation need to be produced.

Hazardous Substances Regulations 2017

Fire rating improvement work continues on the chlorine gas storage room for at the Maungaturoto water treatment plant.

A review of the use of hazardous substances in water supply operations will be conducted with the emphasis on ensuring that our contractors are managing the use of these substances appropriately.

Critical Risks

Emphasis continues to be placed on reducing driving speeds in Council fleet. Weekly over-speed reports through the SmartTrak GPS system enable early intervention where data provides a cause for concern. Council needs to formalize its approach to disciplining drivers who demonstrate a propensity to traffic law infringement.

Taharoa Domain

It's recognised that the activities in the domain present with a range of hazards/critical risks, which while managed are not well defined and the controls are not documented. The domain and associated staff are part of Council operation and must be covered by and working to Councils Safety Management System. IT connectivity has been greatly improved in recent times so this should help with access to systems and processes. Support is being provided and work is underway to catalogue the risks and identify the controls so that they can be added to the OHS risk register.

OHS events report

The reason that the number of near misses reported are significantly down is on account of redefining a near miss – contractors have been including unsafe conditions and non-conformances in their near miss reporting. The trend will steady as we go forward.

Also anomalous in the reporting is that notifiable events and Lost Time Incidents (LTI's) are synonymous. To avoid double counting, a lost time incident that is notifiable is recorded as "notifiable", if time was lost but the injury does not meet the threshold for statutory reporting it is coded as an LTI.

Options

The options are

Option A: Receive the Health and Safety Advisors report

Option B: Receive the report, but seek further information if required

Option C: Not receive the report

Assessment of Options

Council needs to be informed of any Health and Safety concerns or incidents and feel confident that transparent reporting of issues if they arise will be reported to the Committee.

Assessment of significance

Receiving the report is not significant in terms of Council's Significance and Engagement Policy

Recommended option

The recommended option is **Option A**

Attachments

- Attachment 1 - Health and Safety report

Occupational Safety & Health Events

Attachment 1

Statistics are shown for the 1st quarter and 2nd quarter of the 17/18 yr. The trend arrow is compared with the previous quarter.

Event Type	Staff	Contractors	Public	Last QTR	Staff	Contractors	Public	This QTR	Trend
Environmental Incident	0	0	0	0	0	1	0	1	↑
Notifiable Event	0	0	0	0	0	2	0	2	↑
Lost Time Injury	0	0	0	0	0	1	0	1	↑
Medical Treatment Injury	0	0	0	0	0	1	0	1	↑
First Aid Injury	0	3	0	3	0	6	0	6	↑
Occupational Illness	0	0	0	0	0	0	0	0	=
Pain or Discomfort	1	0	0	1	1	0	0	1	=
Property Damage	0	14	0	14	0	11	0	11	↓
Near Miss	1	25	1	27	1	3	0	4	↓

Table 1: KDC OHS Events – 31 December, 2017

Near Miss (NM) – An event that has occurred which had the potential to cause harm to a person(s) but didn't due to the narrowest of margins.

Property Damage – An incident where any asset belonging to a person or entity has received damage but no injury to any person has resulted.

Pain or Discomfort – The onset of pain or discomfort generally caused by awkward postures or repetitive movements.

Occupational Illness – A condition that results from exposure in a workplace to a physical, chemical or biological agent to the extent that the normal physiological mechanisms are affected and the health of the worker is impaired.

First Aid Injury (FAI) – The provision of initial care for an illness or injury, including diagnostic tests or advice, which does not lead to treatment.

Medical Treatment Injury (MTI) – The carrying out of, by or under the supervision of a registered medical practitioner, an operation, the administration of a drug or other like substance, or any other medical procedure (not including diagnostic tests or advice that do not lead to treatment).

Lost Time Injury (LTI) – An injury that is attributable to work (including the aggravation, exacerbation or recurrence of a prior work related injury) that resulted in permanent disability, a fatality or time lost from work (excluding the day of incident) of one day/shift or more.

Notifiable Event – Any event that meets the threshold of the statutory reporting obligations under the Health & Safety at Work Act 2015, namely; a death, a notifiable illness or injury, a

notifiable incident.

Environmental Incident – An incident that has or had the potential to cause harm (temporary or permanent) to any; natural receiving environment, flora or fauna and community or cultural value.

Training

Internal Training	External Provider
2 New Staff Safety Inductions	

Table 2: Summary of OHS training undertaken 30 September - 31 December 2017

Workplace Wellness Activity

- Council has contracted a single service provider for Employee Assistance
- Fruit is being supplied to lunchrooms as a healthy option and to promote the 5 + a day at work
- Some staff competed in the Hatea Loop Challenge

Monitoring Activity

Audit Type	Council Premises	Waters Contractors	Solid Waste Contractors	Roading Contractors	Regulatory Contractors	Parks & Reserves Contractors
Office audits						
Fixed Facility		0	0	0	0	1
Mobile works		0	0	25	0	1

Table 3: Summary of monitoring activity 30 September – 31 December 2017

Incident Alert



Incident Title:

Employee struck and knocked over by reversing plant

Date of Incident:

Tuesday 28th November 2017

Incident Description and Details:

An employee was assisting site with the completion of stabilised road patches by hand brooming where required. A truck with a mounted broom sweeper was clearing loose material from the carriageway and the patch. The truck operator has communicated by RT to all the traffic controllers and the other heavy plant operators to close the road as he was to undertake his sweeping runs. On the last pass he has reversed up and the ground crew employee has walked behind the truck to cross the road at which point he was struck and pushed under the tray of the truck. Employee received bruising and grazing injuries and was treated off site by medical centre

Recommendations / Lessons:

- Truck was fitted with working reversing camera, working audible reversing alarm recorded at 86dbh, fitted and clean mirrors and had no faults.
- Check all plant for working reversing cameras and ensure the view for the driver is clearly focused on the high risk blind spots .
- Both employees are long service employees and worked together for 10 years.
- Site risk assessment had identified reversing and communicated controls which had been signed by all on site .
- Operator had required licences and been assessed as competent.
- Never step into the path of reversing vehicles. Before approaching any vehicle / plant on foot obtain eye contact / verbal communication from the driver and seek approval that it is safe to do so .
- Isolate and ensure employees on foot around heavy plant are not in uncontrolled operating zones .
- Always ensure positive communications prior to entering travel path of heavy plant

Contact Person:

Tim Ward Roads Kaipara Branch Manager 027 4756835

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Date of Incident Alert issue: 29/11/2017

Alert Number: 29112017



Truck involved and strike point



Patch and locations marked

1

Incident Alert



Incident Title:

Employee struck in Upper Torso when Power Cut off Saw Kicked Back

Date of Incident:

Tuesday 5th December 2017

Incident Description and Details:

Employee has attempted to cut a 450 concrete culvert for extension on an existing line. The culvert was positioned in the water table and the employee has undertaken cuts with a Stihl 700 power saw fitted with a concrete cutting blade. During the cut and because of the location of the pipe the cut has closed as the pipe dropped in the centre resulting in the blade being trapped and thus kicking back and upwards with the motion of the spinning blade (kick back) and it struck the operator in the neck and lower face. Crew on site performed first aid and followed the emergency plan. The injured person was airlifted to hospital for surgery and site secured.

Recommendations / Lessons:

- All employees must be vigilant and remember to undertaken the START right process, STOP, THINK, ASSESS, REVIEW, TALK and complete the risk assessment on site for high risk operation, and wear correct PPE for the task, and use face shield on helmet and approved glasses, as set out in approved company procedures.
- Site risk assessment JHA/SWMS are approved and held with all operators that use concrete saws. This document must be referred to or signed onto as set out in approved company procedures.
- Operator had been assessed as competent but had not attended any approved training courses.
- Always ensure positive communications with all work crew to ensure safety observer and all team know what is occurring on site.
- Positive results with training employees on first aid and having good kits on site, having well practiced emergency drills so employees can respond with confidence in an emergency.

Contact Person:

Tim Ward Roads Kaipara Branch Manager 027 475 6835

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Date of Incident Alert issue: 05/12/2017

Alert Number: 05122017



Power Cut Off Saw



Pipe and saw at location of incident



Injury to employee

4 Public Excluded Committee Items 14 February 2018

Recommended

That the public be excluded from the following part of the proceedings of this meeting, namely

- *Risk Register*
- *Contract Monitoring and Reporting: Infrastructure, Community and Regulatory*

The general subject matter of each matter to be considered while the public is excluded, the reasons 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 are as follows:

General subject of each matter to be considered:	Reason for passing this resolution	Ground(s) under Section 48 (1) for the passing this resolution:
<i>Risk Register</i>	<p><i>Section 7(2)(g) maintain legal professional privilege</i></p> <p><i>Section 7(2)(i) enable any authority holding the information to carry on, without prejudice or disadvantage negotiations (including commercial and industrial negotiations).</i></p>	<p><i>Section 48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</i></p>
<p><i>Contract Monitoring and Reporting: Infrastructure, Community and Regulatory</i></p>	<p><i>Section 7(2)(i) enable any authority holding the information to carry on, without prejudice or disadvantage negotiations (including commercial and industrial negotiations).</i></p>	<p><i>Section 48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</i></p>

5 Open Agenda Audit, Risk and Finance Committee 14 February 2018

Recommended

That the public be re-admitted to the meeting and resolutions made whilst in Public Excluded, be confirmed in Open meeting.

6 Closure

Kaipara District Council
Dargaville