# FINANCE AND CORPORATE COMMITTEE AGENDA

## WEDNESDAY 20 MARCH 2019

## 9:00 am, Council Chamber
## Level 2 Philip Laing House, 144 Rattray Street, Dunedin

**Membership**

| | |
|---|---|
| Cr Doug Brown | *(Chairperson)* |
| Cr Andrew Noone | *(Deputy Chairperson)* |
| Cr Graeme Bell | |
| Cr Michael Deaker | |
| Cr Carmen Hope | |
| Cr Trevor Kempton | |
| Cr Michael Laws | |
| Cr Ella Lawton | |
| Cr Sam Neill | |
| Cr Gretchen Robertson | |
| Cr Bryan Scott | |
| Cr Stephen Woodhead | |

**Disclaimer**
Please note that there is an embargo on agenda items until 48 hours prior to the meeting. Reports and recommendations contained in this agenda are not to be considered as Council policy until adopted.

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# 1. APOLOGIES
Cr Andrew Noone

# 2. LEAVE OF ABSENCE

# 3. ATTENDANCE

# 4. CONFIRMATION OF AGENDA

Note: Any additions must be approved by resolution with an explanation as to why they cannot be delayed until a future meeting.

# 5. CONFLICT OF INTEREST

Members are reminded of the need to stand aside from decision-making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

# 6. PUBLIC FORUM
Loss of historical value to the community through building demolition and future alterations – Speaker Lana Oranje and Mary McFarlane

# 7. PRESENTATIONS
Port Otago Interim Report for the 6-month period ended 31 December 2018

# 8. CONFIRMATION OF MINUTES

**Recommendation**
*That the minutes of the (public portion of the) meeting held on 31 January 2019 be received and confirmed as a true and accurate record.*

**Attachments**
1. Finance & Corporate Minutes 31 January 2019 **[8.1.1]**

# 9. ACTIONS

**Status report on the resolutions of the Finance & Corporate Committee**

| | | | |
|---|---|---|---|
| 10.1 Director's Report | 31/01/2019 | That the November 2018 and December 2018 payments summarised and detailed in the payments schedule, totalling $15,189,848.05, are endorsed. | IN PROGRESS |
| 11.2 Resourcing | 31/01/2019 | *That the Chief Executive provides a further report on staff location, operation, profile raising and technology to the next Finance and Corporate Committee meeting.* | IN PROGRESS |

# 10. MATTERS FOR COUNCIL DECISION

## 10.1. Director's Report

| | |
|---|---|
| **Prepared for:** | Finance and Corporate Committee |
| **Report No:** | CS1883 |
| **Activity:** | Governance Report |
| **Endorsed by:** | Nick Donnelly, Director Corporate Services |
| **Date:** | 6 March 2019 |

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### PURPOSE

[1] This report informs the Finance and Corporate Committee of significant financial and corporate activity and presents account payments to the Committee for endorsement.

### RECOMMENDATION

*That the Finance and Corporate Committee:*

*1) Receive this report.*

*2) Endorse the January 2019 and February 2019 payments summarised and detailed in the payments schedule, totalling $13,278,785.41.*

### ACCOUNT PAYMENTS

[2] Schedules of payments made are referred to the Finance and Corporate Committee for endorsement. The financial commitments and payment authorisation are made in accordance with Council's financial delegations and internal control procedures.

| Payment Category | January 2019 | February 2019 | Total |
|---|---:|---:|---:|
| **Trade payments** | 5,803,236.72 | 5,870,863.34 | 11,674,100.06 |
| **Payroll** | 789,613.20 | 815,072.15 | 1,604,685.35 |
| **Total** | **6,592,849.92** | **6,685,935.49** | **13,278,785.41** |

**Attachments**

Nil

## 10.2. Port Ownership Review

| | |
|---|---|
| **Prepared for:** | Finance and Corporate Committee |
| **Report No.** | CS1885 |
| **Activity:** | Community: Governance & Community |
| **Endorsed by:** | Nick Donnelly, Director Corporate Services |
| **Date:** | 6 March 2019 |

### PURPOSE

[1] To consider the terms of reference and appointment process for a proposed review of Council's 100% ownership of Port Otago Limited.

### EXECUTIVE SUMMARY

[2] Council has previously indicated its 100% ownership of Port Otago Limited and the returns generated by that ownership should be independently reviewed. This was reiterated during the finalisation of the Long-Term Plan 2018-28 (LTP) and it was signalled that the review would be undertaken early in the LTP period to allow sufficient time for any proposed changes to be consulted on and incorporated in the next LTP.

[3] This paper outlines the proposed process for that review, engagement of a consultant to undertake the review and the terms of reference that the review should cover.

### STAFF RECOMMENDATION

*That the Council:*

*a)* ***Receives*** *this report.*

*b)* ***Notes*** *any amendments they require to the process and/or terms of reference.*

*c)* ***Approves*** *the proposed process and terms of reference.*

## BACKGROUND

[4] Council owns 100% of Port Otago Limited. This shareholding is a significant strategic asset for Council.

[5] Ownership originally vesting in Council as part of the Local Government reorganisation in 1989. At that time the Port had a valuation of $20M. That valuation has risen over the last 30 years and the latest valuation, as at 30 June 2018, is $489M. This forms a significant portion of Council's total assets of $650M.

[6] Over that time Port Otago has contributed dividends made up of ordinary and special (one-off) dividends. Ordinary dividends commenced at $1.2M in 1990 and have risen to $7.5M in 2018. Additional special dividends of $19.0M have been paid up to the year ended 30 June 2018 and total dividends of $165M have been paid to that date.

## OPTIONS

[7] A targeted request for proposal (RFP) is proposed to a select number of consultants who are experienced in this sector and type of review. Due to the significant level of financial analysis required in this review it is considered that the major accounting/consultancy firms will be best placed to undertake the assignment.

[8] The terms of reference will focus on:

a. A review of the historic returns received from Port Otago.
b. A review of the current dividend policy set out in the Statement of Corporate Intent (SCI).
c. An overview of ownership models that could be considered for Port Otago ranging from retaining 100% ownership (status quo) to a complete sell down of the entire shareholding and the various mixed ownership models in between those two scenarios.
d. Each ownership model should include:
   i. Expected returns generated under that model.
   ii. Risks associated with each model.
   iii. Advantages and disadvantages of each model.
   iv. Alignment of each model to the financial strategy ie. returns are used to subsidise general rates and therefore every ratepayer enjoys the benefit of that ownership.
   v. Appropriate investment strategy for any funds realised from any share sell down and returns expected from that investment.

## CONSIDERATIONS

### Policy Considerations

[9] Council's shareholding in Port Otago is a strategic asset under the Significance and Engagement Policy therefore any proposed change to that shareholding will require consultation with the community.

[10] Depending on the findings of review and if Council proposes a change to the ownership structure there may be implications for a number of policy areas including the financial strategy and revenue and financing policy contained within the LTP. Any changes to these policies will also require consultation.

**Financial Considerations**

[11] None at this stage noting there will be financial considerations should Council choose to amend the ownership structure following the review.

**Significance and Engagement**

[12] The review itself does not require consultation however any proposed changes as a result of the review will require consultation as the shareholding is a strategic asset and other financial policies will be impacted and also require consultation.

**Legislative Considerations**

[13] None at this stage.

**ATTACHMENTS**

Nil

## 10.3. Clean Heat Clean Air Review

| | |
|---|---|
| **Prepared for:** | Finance and Corporate Committee |
| **Report No.** | P&S1803 |
| **Activity:** | Environmental: Air<br>Regulatory: Policy Development |
| **Author:** | Sylvie Leduc, Senior Policy Analyst |
| **Endorsed by:** | Gavin Palmer, Director Engineering, Hazards & Science<br>Nick Donnelly, Director Corporate Services |
| **Date:** | 12 March 2019 |

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**PURPOSE**

[1] To align ORC's Clean Heat Clean Air programme to the Air Quality Strategy, in preparation for winter 2019.

**EXECUTIVE SUMMARY**

[2] ORC's new Air Quality Strategy, which was adopted in 27 June 2018, and the launch of a new heating subsidy by EECA (as part of Warmer Kiwi Homes), have created the need to review ORC's Clean Heat Clean Air programme.

[3] This review will be done in stages, with, in the short term, a strategic realignment of the subsidy, within the bounds of the Long-Term Plan provisions and ORC's operational systems. A more comprehensive review of alternative types of subsidies, and future funding sources, will be undertaken in a second stage.

[4] This report focuses on the changes that can be done to the subsidy programme in the short term. As a summary, it is proposed to:

a. Limit the subsidy to the replacement of inefficient burners with low impact heating (i.e. “ultra-low” emission wood burners, heatpumps, pellet fires and gas fires);

b. Offer a $2,500 subsidy to eligible applicants; or $750 where those applicants are also eligible to EECA's new home heating subsidy (which will cover 67% of the cost of buying and installing new heating, up to $2,500).

[5] The subsidy would be available to homeowners in Air Zone 1 and in Milton, and it would continue to be funded through the “Clean Heat Clean Air” reserve in 2019-2020.

[6] The purpose of the proposed changes is to incentivise low impact heating and make it the heating of choice, at least for some homeowners; and to have satisfied “early adopters” of new clean technologies.

**STAFF RECOMMENDATION**

*That the Council:*

1. ***Approves*** *the proposed changes to ORC's Clean Heat Clean Air programme for the period commencing April 2019 and ending June 2020.*

## BACKGROUND

[7] ORC's Air Quality Strategy seeks to achieve "clean air everywhere", with a particular focus on meeting the human health guidelines for ambient air quality in the whole region, including current "polluted" areas (Alexandra, Clyde, Cromwell, Arrowtown, Milton, Mosgiel and Balclutha).

[8] Scenario-analysis, based on the latest data on emissions and ambient air pollution in Otago, has concluded that the current Regional Plan: Air requirements for domestic heating are unlikely to achieve the national standards for air quality, unlike the modelled scenario where all solid fuel burners were emitting less than 1g/kg in real life conditions.

[9] In this report, appliances which emit, or are likely to emit, less than 1g/kg are referred to as "low impact heating". This category includes pellet fires, gas fires, heatpumps, and burners which are labelled "ultra-low emission burners" by Environment Canterbury.

[10] The Air Quality Strategy seeks to facilitate and accelerate transition towards such "low impact heating", especially in Arrowtown, Alexandra, Clyde, Cromwell, Milton, Balclutha and Mosgiel. Because the cost of low impact heating is higher than the cost of more traditional solid fuel burners, the air quality strategy implementation plan highlights the importance of offering appropriate financial assistance to support the strategy's effectiveness.

[11] As currently set up, ORC's "Clean Heat Clean Air" programme does not align with the strategy, especially as it subsidises solid fuel burners which are not "low impact heating". Moreover, the context in which the "Clean Heat Clean Air" programme operates is changing, with a new home heating subsidy being put in place by EECA from July 2019.

[12] This highlights the need to review ORC's "Clean Heat Clean Air" programme, and to re-consider the range of options available to ORC, both in terms of the type of scheme it can put in place (grant, or loan), and in terms of how the scheme can be funded (targeted or general rates, debt or reserve).

[13] It is critical that ORC's financial subsidy be aligned with the strategy when the strategy implementation is publicly launched in April 2019, with the start of Arrowtown's air quality programme. Because the launch of the new air quality programme for Arrowtown is soon, there is not enough time to put in place new administrative systems, as would be required for a loan scheme, or to put in place new funding sources under the Annual Plan 2019-2020 process.

[14] The review will therefore be done in 2 stages:

a. Stage 1: The details of the subsidy (eligibility criteria, list of eligible appliances and subsidy amounts) are reviewed to align with the strategy, without changes to funding and administrative arrangements
b. Stage 2: A comprehensive review is undertaken.

[15] The Stage 1 changes will apply from April 2019 to June 2020, and the stage 2 decision will apply from July 2020.

[16] This report outlines ORC's options for stage 1.

## DISCUSSION

### Aligning the Clean Heat Clean Air programme to the strategy

[17] Low impact heating generally has a higher purchase price than traditional woodburners, in the range of $1,000 to $2,000 more expensive. This higher price tag is undoubtedly a barrier to purchasing those appliances due either to unaffordability for some, or an unfavourable balance of costs and benefits relative to other appliances for others.

[18] Moreover, ultra-low emission burners are still a relatively new technology in New Zealand, with a limited number of models offered by suppliers, and a very small number of sales in Otago.

[19] In that context, it is important for ORC to create momentum in the adoption of low-impact heating by increasing the attractiveness of low impact heating; and ensuring that early-adopters are satisfied with their appliance.

[20] The Clean Heat Clean Air programme should contribute to achieving this outcome, in coordination with ORC's information and engagement campaign.

### Maintaining current funding and administrative arrangements

[21] As highlighted above, the stage 1 review will align the subsidy programme to the strategy within the current long-term annual plan constraints, and other operational constraints.

[22] This means that the "Clean Heat Clean Air" programme will:

a. Remain focused on the Air Zone 1 towns and Milton, and will not be extended to Mosgiel and Balclutha, or to the more recent residential developments on the outside margins of Air Zone 1 towns as mapped in the regional plan; and
b. Remain a subsidy, administered in liaison with approved suppliers

### Other matters for consideration

[23] It is important for this review not only to ensure that the subsidy programme aligns with the strategy, but also that:

a. It links with other financial support programmes available in Otago and
b. The expectations it may create for the stage 2 review are likely sustainable by council in the longer run.

[24] The other relevant (external) financial assistance programmes available to people in the "Clean Heat Clean Air" areas include:

a. **Warmer Kiwi Homes** (EECA): this programme offers financial subsidies to low- and moderate-income families for insulation and heating. It will cover 67% of the purchase price of new heating appliances (with a $2,500 cap), as long as the appliance is compliant with the regulations, the house was built before 2008, and insulation is installed. Owner-occupiers who either hold a community services card or live in an area with a high deprivation index (score of 9 or 10) are eligible for the subsidy. Milton is the only town amongst the Clean Heat Clean Air towns which has high-deprivation index areas.

b. **Clutha Warm Homes** (CDC): this programme is a voluntary targeted rates programme that allows Clutha Districts' homeowners to get a loan (capped at $5,000), repayable over 5 years, with a 3.98% interest rate (per annum). This loan must be used either for home insulation and/or the purchase and installation of a woodburner, pellet fire, gas heater or heatpump. This assistance is available for heating only if the house has floor and ceiling insulation, was built before 2000, and if the ratepayer is up-to-date with their rates payments and have a good rates payment history. Milton is the only town located in the Clutha district amongst the Clean Heat Clean Air towns.

**OPTIONS**

[25] Within the constraints outlined above, ORC can use its discretion over:

a. What appliances will qualify for the subsidy;
b. How much will be given to each successful applicant; and
c. Who will be eligible for the subsidy.

[26] Options on each of those matters are considered below as appropriate.

**What appliances will quality for the subsidy**

[27] As already stated, the purpose of the reviewed Clean Heat Clean Air programme is to contribute to accelerating the transition towards low impact heating within Otago's polluted towns.

[28] Low impact heating corresponds to: pellet fires, gas fires, heatpumps, and burners which are labelled "ultra-low emission burners" by Environment Canterbury.

[29] As a result, the subsidy should be limited to those appliances.

**How much will be given to each successful applicant**

[30] The higher price of low impact heating impacts the sales number either because is unaffordable to some, or because the added benefits may not seem to justify the price difference with other solid fuel burner.

[31] In that context, the Clean Heat Clean Air programme could either:

a. Focus on removing cost barriers to low impact heating, by making it affordable to all (Option 1); or
b. Focus on eliminating the price difference between low impact heating and more traditional woodburners (Option 2); or
c. Offer a significant financial incentive for low impact heating, to shift preferences on balance (Option 3).

[32] The table below explores the costs and benefits of those options:

| **OPTION 1: focusing on removing cost barriers to low impact heating** |
|---|

<table>
<tr><td colspan="2">In this option, the subsidy targets low-income homeowners (e.g. community services card holders, and owners of homes in high deprivation areas), and its amount is determined at a level which will make low impact heating affordable to all.<br><br>Expected outcome: everyone can consider low impact heating among the options available to them for home heating</td></tr>
<tr><th>BENEFITS</th><th>COSTS</th></tr>
<tr><td>[14] Allows low-income homeowners to anticipate possible changes to the Air Plan<br>[15] Removes the effect of income inequality on the affordability of low impact heating</td><td>[16] Does not alter the price difference between low impact heating and more traditional burners for non-eligible (higher income) homeowners.<br>[17] Risk of having homeowners choosing heating appliances which do not suit their particular needs and circumstances for financial reasons only.</td></tr>
<tr><th colspan="2">OPTION 2: focusing on removing the price difference between low impact heating and other traditional woodburners</th></tr>
<tr><td colspan="2">The subsidy targets either all homeowners, or those with inefficient[1] burners, irrespective of their incomes. The amount of the subsidy is based on the price difference between low impact heating and equivalent traditional woodburners.<br><br>Expected outcome: The price difference between low impact heating and traditional woodburners does not play a part in heating choices any longer.</td></tr>
<tr><th>BENEFITS</th><th>COSTS</th></tr>
<tr><td>[18] Allows a balanced consideration of the suitability of the heating options in view of the house and needs of the homeowners<br>[19] Removes costs as being the reason for not changing low impact heating<br>[20] Individual subsidy is lower than in Option 3</td><td>[21] Solely relies on engagement and information to promote the benefits of low impact heating as compared with other options</td></tr>
</table>

<table>
<tr><th colspan="2">OPTION 3: Offering a significant financial incentive for low impact heating</th></tr>
<tr><td colspan="2">The subsidy targets either all homeowners, or those with inefficient burners, irrespective of their incomes. Low impact heating is significantly cheaper than traditional woodburners as a result of the subsidy.<br><br>Expected outcome: homeowners are more likely to choose low impact heating over other forms of heating.</td></tr>
<tr><th>BENEFITS</th><th>COSTS</th></tr>
</table>

[1] In this report, "inefficient" burners are defined as:

*a)* Burners with an emission rate of less than 1.5g/kg – under AS/NZ standards' testing method - and thermal efficiency higher than 65% in Milton; and

*b)* Burners with an emission rate of less than 0.7g/kg – under AS/NZ standards' testing method - and thermal efficiency higher than 65% in Arrowtown, Clyde, Alexandra and Cromwell.

| | |
|---|---|
| *d)* Accelerates early adoption of low impact heating<br>[22] Encourages suppliers to stock and offer low impact heating | *e)* Higher cost option<br>*f)* Difficult to determine what amount would make low impact heating more attractive on balance<br>*g)* Risk of having homeowners choosing heating appliances which do not suit their particular needs and circumstances for financial reasons only<br>[23] Creates expectations over the future long-term financial programme, which will be put in place for winter 2020-2021 |

[33] Options 1 and 2 rely heavily on engagement and communication to promote low impact heating. The effectiveness of such engagement and communication is uncertain, especially considering that environmental performance is not a primary factor in homeowners' choice of heating source (Home Heating Survey, 2016).

[34] On balance, Option 3 is the option that would be most effective in achieving ORC's strategic purpose. In particular, it would allow the development of a community of early-adopters who could share their experience with low impact heating with the rest of the community.

[35] With that in view, it is imperative that when choosing low impact heating, homeowners select an appliance which fits their needs, not only in terms of warmth and running costs, but also in terms of convenience of use, aesthetics etc. The subsidy must be designed in a way that mitigates the risk of unfit low impact heating to be installed.

[36] The determination of the subsidy amount for Option 3 is not straightforward. The price difference between traditional woodburners and low impact heating is between $1,000 and $2,000.

[37] Generally, a $2,500 subsidy is likely to increase homeowners' appetite for low impact heating. The homeowners eligible to Warmer Kiwi Homes will contribute 33% of the cost of new heating. This will lower the cost of low impact heating to $1,000-$1,500; and of traditional woodburners to $500-$1,300 (excl. installation). Offering $2,000 would ensure that those homeowners can afford low impact heating; while offering $750 would likely be sufficient to make low impact heating attractive.

**Who will be eligible for the subsidy**

[38] As mentioned above, because the current reserve was built from targeted rates, only homeowners within the targeted areas can be eligible for the subsidy. Eligibility for a wider area (including newly developed areas in the margins of Air Zone 1 towns) will be considered as part of the comprehensive review of the Clean Heat Clean Air programme.

[39] The subsidy could be offered to:

a. Low income families[1] only, regardless of the type of their current appliance (Option 1)
b. All homeowners with inefficient burners[2] (Option 2); or
c. All homeowners (Option 3).

[40] Eligibility can also be restricted to owner-occupiers only.

[41] Those options are assessed below:

| OPTION 1: Focusing on low-income families | |
|---|---|
| **BENEFITS** | **COSTS** |
| [24] Complements Warmer Kiwi Homes<br>[25] Allows low-income homeowners to anticipate possible changes to the Air Plan<br>[26] Reduces the effect of income inequality on the affordability of low impact heating<br>[27] Lower cost than option 3 is probably more sustainable for ORC in the long run. | [28] Uncertainty over the proportion of eligible people among all purchases of home heating appliances<br>[29] Not designed to ensure that oldest burners are replaced as a priority |
| **OPTION 2: Focusing on the upgrade of inefficient burners** | |
| **BENEFITS** | **COSTS** |
| [30] Cost-effective in that assumedly targets worst emissions<br>[31] Supports compliance and education activities in Arrowtown | [32] Uncertainty over the proportion of eligible people among all purchases of home heating appliances<br>[33] Risks for low income families not to anticipate potential change to Air Plan rules and buy a new burner likely to become non-compliant within its lifetime. |
| **OPTION 3: Opening to all homeowners** | |
| **BENEFITS** | **COSTS** |
| [34] Likely to achieve a higher proportion of low impact heating among all burner replacements in targeted areas.<br>[35] Supports the compliance and education activities in Arrowtown | [36] More costly than the other options, and potentially unsustainable for ORC in the long run<br>[37] Not designed to ensure that oldest burners are replaced as a priority |

[42] Opening the subsidy to all homeowners would probably result in the most replacement of burners with low impact heating.

[1] For the purpose of the subsidy, "low income families" will be defined as community services card holders and owners of homes in high deprivation areas, to align with EECA's working definition
[2] There are an estimated 1,250 inefficient burners in Arrowtown, Cromwell, Clyde, Alexandra and Milton

[43] However, such an advantageous scheme would create high expectations for the later years, where the full review of the scheme is completed. The full scheme review will probably require the reinstatement of new funding sources. The expectations created by Option 3 may not be sustainable in the long run for Council.

[44] **It is recommended** to limit the eligibility for the grant to a smaller section of the community:

a. Targeting the replacement of inefficient burners would be the most cost-effective;

b. Targeting low income families would not be as cost-effective. However, because they are eligible to a grant for replacing their heating with appliances complying with the rules (through Warmer Kiwi Homes), they should be offered a further incentive to choose a low impact heating source.

[45] There are therefore three different categories of potential beneficiaries:

a. Homeowners with a general income who are replacing an inefficient solid fuel burner;

b. Homeowners who are replacing an inefficient solid fuel burner and are eligible to Warmer Kiwi Homes; and

c. Homeowners who are replacing a compliant solid fuel burner and are eligible to Warmer Kiwi Homes.

[46] The latter category is the category which has not been eligible to Clean Heat Clean Air so far. Including them now would ensure that new heating installed by lower income homeowners are more likely to comply with regional rules in the longer term.

[47] Lastly, given issues on the state and fitness of rental properties, it is recommended to extend the eligibility to all homeowners, whether they occupy or rent such property.

**Managing the risk of unintended consequences**

[48] The grant's scheme depends on beneficiaries installing an appliance which fully meets their needs and expectations.

[49] Generally speaking, heating appliance suppliers assess their clients' needs and advise them on what would suit them. However, price is undoubtedly an important driver to homeowners' choice which requires ORC to carefully administer its grant to ensure it does not direct homeowners towards buying an unsuitable heating source.

[50] For the time being, no organisation offers free home consultations from an Eco-Design Advisor in Queenstown Lakes, Central Otago or Clutha District; and ORC does not have the resources to offer such a service in 2019.

[51] In this context, ORC could set specific conditions to the grant:

a. It could require a declaration by the supplier that the appliance is fit for the client's needs; or

b. It could require that the appliance will achieve a temperature of at least 18 degrees Celsius in the living area, as calculated based on a formula adopted by the Ministry of Housing and Urban Development.

[52] Alternatively, ORC could offer a "guarantee programme", whereby dis-satisfied beneficiaries receive help to either change their appliance or make other changes to their homes (additional appliance, home insulation etc.).

[53] The suitability of an appliance goes beyond whether it delivers enough heat: the appliance must also be user-friendly; have a sustainable running costs etc. Applying a formula would give a very limited assessment of whether an appliance is indeed suitable.

[54] A "guarantee programme" would probably be administratively cumbersome and may be mis-used.

[55] Even though suppliers have a vested interest in increasing their sales, relying on their expertise is the most realistic and balanced option. To mitigate as much as possible the risk of sellers signing a declaration that the heating source is suitable where it may not be, ORC could require feedback from some beneficiaries to identify any issue with suppliers.

[56] Moreover, ORC could consider waiving some non-compliance for a short period of time, where suppliers advise the homeowner against a low impact heating source given their particular circumstances.

## CONSIDERATIONS

### Policy Considerations

[57] The proposed changes to ORC's Clean Heat Clean Air programme are aligned with ORC's policies in that:

a. They are part of the implementation of ORC's air quality strategy;
b. The focus on inefficient woodburners supports compliance with the Air Plan rules
c. The focus on low impact heating supports the achievement of Otago's air quality objectives, as supported by the latest emission scenarios.

[58] Over the past 3 years, ORC has contributed to the replacement of 43 solid fuel burners every year on average. Assuming that the program's uptake remains stable, then, under the proposed changes, ORC can expect to spend $103,5001 in 2019-2020 on the Clean Heat Clean Air programme.

[59] The proposed changes will apply until June 2020 and will be funded through the current Clean Heat Clean Air reserve. As of December 2018, the reserve amounted to approx. $210,000, of which $120,000 will be dedicated to the subsidy programme.

[60] The current long-term plan provides for the reserve's full utilisation by the end of 2019-2020. This would amount to 48 burner replacements (based on a $2,500 subsidy).

[61] ORC could cap the programme to $120,000 to prevent over-subscriptions, with a "first in first serve" principle.

[62] Assuming the current reserve is fully utilised by June 2020, ORC will have to consider how a new programme will be funded as part of the Stage 2 review.

### Significance and Engagement

1 34 replacements for general income beneficiaries, and 8 for community services card holders who replace an inefficient solid fuel burner.

[63] The proposed changes are within the bounds of ORC's commitments through the LTP, and within the terms of the clean heat reserve. As such, those changes do not require specific public consultation.

**Legislative Considerations**

[64] The proposed changes do not have legislative impact.

**PROPOSED SUBSIDY – SUMMARY TABLES**

[65] Below is a summary table of the subsidy:

<u>Summary table</u>

| | |
|---|---|
| **Who is eligible to the subsidy** | Homeowners whose properties are in Air Zone 1 or in Milton's Air Zone 2 boundary, and who:<br>**1.** Are eligible to Warmer Kiwi Homes or<br>**2.** Are replacing an inefficient solid fuel burner – which is appropriately disposed of or decommissioned |
| **What is funded** | [66] Heatpumps<br>[67] Gas fires<br>[68] Any solid fuel burner that is labelled as Ultra Low Emission Burner by Environment Canterbury (this includes pellet fires) |
| **How much is the grant** | *a)* $2,500 for homeowners who are not eligible to Warmer Kiwi Homes<br>*b)* $2,000 for homeowners eligible to Warmer Kiwi Homes, who are replacing an inefficient solid fuel burner<br>*c)* $750 for homeowners eligible to Warmer Kiwi Homes who are not replacing an inefficient solid fuel burners |
| **Other conditions** | • The heating appliance is installed in the main living area<br>• The supplier must:<br>  o Provide the certificate of compliance for the new heating<br>  o Declare that the burner is suitable for the needs of the seller<br>  o Ensure that the removed burner is appropriately decommissioned |
| **AIR ZONE 1** | |
| Low income families | • 100% grant for ceiling and underfloor insulation and (EECA)<br>• 67% grant for the installation of a compliant heating source, capped at $2,500 (EECA)<br>• An additional $2000 grant for the installation of a low impact heating source (ORC) if they are replacing an inefficient burner, or $750 otherwise<br>Providing they are owner-occupiers and their home was built before 2008 |
| Owners of homes with inefficient burners | A $2,500 grant for the installation of a low impact heating source (ORC) |
| **MILTON** | |

| | |
|---|---|
| Low income families; and owners of home in deprived areas | • 100% grant for ceiling and underfloor insulation and (EECA)<br>• 67% grant for the installation of a compliant heating source, capped at $2,500 (EECA)<br>• An additional $2000 grant for the installation of a low impact heating source (ORC) if they are replacing an inefficient burner, or $750 otherwise<br>Providing they are owner-occupiers and their home was built before 2008Providing they are owner-occupiers and their home was built before 2008<br>• A 3.98% interest rate loan (capped at $5,000), repayable over 5 years, to cover any of the remaining costs for insulation and the purchase and installation of a compliant heating source, providing that the homeowner is up to date with its district council's rate and has a good rate payment history; and providing the home was built before 2000 (CDC). |
| Owners of homes with inefficient burners | • A $2,500 grant for the installation of a low impact heating source (ORC)<br>• A 3.98% interest rate loan (capped at $5,000), repayable over 5 years, to cover any of the remaining costs for insulation and the purchase and installation of a compliant heating source, providing that the homeowner is up to date with its district council's rate and has a good rate payment history; and providing the home was built before 2000 (CDC). |
| Others | A 3.98% interest rate loan (capped at $5,000), repayable over 5 years, to cover any of the remaining costs for insulation and the purchase and installation of a compliant heating source, providing that the homeowner is up to date with its district council's rate and has a good rate payment history; and providing the home was built before 2000 (CDC). |

[69] As a result of this subsidy, the following help would be available in Air Zone 1 and Milton:

**ATTACHMENTS**

Nil

# 11. MATTERS FOR NOTING

## 11.1. Financial Report for the six months to 31 December 2018

| | |
|---|---|
| **Prepared for:** | Finance and Corporate Committee |
| **Report No.** | CS1836 |
| **Activity:** | Financial Report 6 months to 31 December 2018 |
| **Author:** | Stuart Lanham, Finance Manager |
| **Authoriser:** | Nick Donnelly, Director Corporate Services |
| **Date:** | 4 March 2019 |

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### PURPOSE

[1] This report provides a summary of the Council's financial performance for the six months ended 31 December 2018 and a summary of the financial position as at that date.

### EXECUTIVE SUMMARY

[2] This report includes two financial statements:

- A Statement of Comprehensive Revenue and Expense.
- A Statement of Financial Position.

[3] Reporting on project expenditure is excluded from this report as that information is included in the activity review which is reported separately to the Committee.

**Statement of Comprehensive Revenue and Expense:**

[4] The statement shows the year to date deficit after tax of $3,984,000 to be $2,439,000 higher than the budgeted deficit of $1,545,000.

[5] This variance is the net result of expenditure being up by $2,771,000 (9.34%) on the budget of $29,655,000 and revenue being up by $341,000 (1.21%) on the budget of $28,052,000.

**Statement of Financial Position:**

[6] The Statement of Financial Position shows the balance sheet position at 31 December 2018 as well as the comparative amounts as at June 2018 and the budgeted position for June 2019.

[7] Significant variances from the 30 June 2018 position and the estimated 30 June 2019 position arise from two key items:

- *Valuation of the shares in Port Otago Limited*
  The current year budget projects a valuation of $456,037,000, being $32,471,000 lower than the June 2018 valuation of $488,508,000. This is due to the June 2018 valuation increase of $49,471,000 being unknown at the time the June 2019 budget was set.

- *Revenue in advance*
  Liabilities at December 2018 include Revenue in Advance of $12,854,000, with no comparative amounts at June 2018 nor projected for June 2019.

  Rate revenue in advance of $11,646,000 comprises the major element of this item, reflecting rate revenue that will be allocated to the remaining six months of the financial year.

  Rate invoices are issued during the first quarter of the financial year, and the revenue is accrued evenly over the twelve-month period – consequently there is no revenue in advance at the end of the financial year.

**RECOMMENDATION**

*a) That this report is received.*

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES

[8] The following Statement of Comprehensive Revenue and Expenses shows income from all external revenue sources, and all external operating expenditure for the period of the report.

**Otago Regional Council**
**Statement of Comprehensive Revenue and Expense**
**For the six months ended 31 December 2018**

| | | | *$000's* *Six months ended 31 December 2018* | | |
|---|---|---|---|---|---|
| **Description** | **Note** | **Annual Budget** | **Budget** | **Actual** | **Variance** |
| **Revenue:** | | | | | |
| Rate revenue | 8.1 | 23,173 | 11,587 | 11,636 | 49 |
| Government subsidies | 8.2 | 9,790 | 4,895 | 6,552 | 1,657 |
| Other revenue | 8.3 | 12,217 | 6,107 | 5,519 | (588) |
| Dividend from Port Otago Ltd | 8.4 | 8,450 | 4,225 | 4,225 | - |
| Interest & investment income | 8.5 | 1,512 | 756 | (49) | (805) |
| Rental income | | 964 | 482 | 510 | 28 |
| Investment property revaluation gain | 8.6 | 335 | - | - | - |
| | | **56,441** | **28,052** | **28,393** | **341** |
| **Less expenses:** | | | | | |
| Operating expenses | 8.7 | 40,721 | 20,023 | 23,830 | (3,807) |
| Employee benefits expense | 8.8 | 16,861 | 8,430 | 7,474 | 956 |
| Depreciation & amortisation | | 2,402 | 1,201 | 1,121 | 80 |
| Finance expenses | | 2 | 1 | 1 | - |
| | | **59,986** | **29,655** | **32,426** | **(2,771)** |
| **Surplus/(deficit)** | | **(3,545)** | **(1,603)** | **(4,033)** | **(2,430)** |
| Income tax benefit | 8.9 | 115 | 58 | 49 | (9) |
| **Surplus/(deficit) after tax** | | **(3,430)** | **(1,545)** | **(3,984)** | **(2,439)** |
| **Other comprehensive revenue and expense:** | | | | | |
| Revaluation gain on POL shares | 8.10 | 7,000 | - | - | - |
| **Net Comprehensive Revenue and Expense** | | **3,570** | **(1,545)** | **(3,984)** | **(2,439)** |

[9] In the statement above, bracketed variances indicate revenue less than the budgeted level, and expenditure in excess of the budgeted level.

### Note 8.1 – Rate revenue

Annual rate assessments amounting to $26,786,277 for the July 2018 to June 2019 rating year were issued during the month of September 2018, with the due date for payment being 31 October 2018.

Rate revenue is reported as income in the Statement of Comprehensive Revenue and Expense evenly throughout the year, with the "unearned" portion reflected as "revenue received in advance" in the Statement of Financial Position.

**Note 8.2 – Government subsidies**

Council receives subsidies from Government agencies on eligible expenditure. In most instances the level of subsidy income is directly related to the level of eligible expenditure incurred.

Overall subsidy income is up $1,657,000 on the budget of $4,895,000, with the most significant individual variances being within the transport activity.

The bus hub project and the stock truck effluent disposal sites (STEDS) projects are both up on the budgeted income level due to the related expenditure being budgeted in previous years but only now coming to charge in the current year, as the projects progress. The bus hub and STEDS variances are $1,424,000 and $398,000 respectively.

**Note 8.3 – Other revenue**

The amount of other revenue earned of $5,519,000 is $588,000 less than the budgeted amount of $6,107,000.

The budgeted other revenue income category largely comprises revenue that is directly related to the level of activity undertaken. The projects contributing significantly to the lower revenue variance, and being largely due to lower levels of activity, are:

- resource consents with a variance of $128,000 (budgeted at $647,000),
- compliance monitoring with a variance of $284,000 (budgeted at $502,000), and
- enforcement with a variance of $189,000 (budgeted at $255,000).

**Note 8.4 – Dividend income from Port Otago Limited**

The total dividend budgeted to be received during the year to June 2019 amounts to $8,450,000, including a special dividend of $750,000.

Dividend income of $4,225,000 has been accrued in the six months to 31 December 2018. Interim dividends are expected to be received in February 2019 and June 2019 followed by a final dividend in September 2019.

**Note 8.5 – Interest and investment income**

This revenue line comprises interest earned on term deposits and bank accounts of $351,000. Offsetting interest revenue is a decrease in fair value of the managed fund portfolio for the six months of $400,000, resulting in a net deficit of $49,000.

The net change in fair value of the managed fund incorporates income received, and changes in the market value of investments due to price changes, and foreign exchange rates where applicable. The overall change in fair value is subject to monthly fluctuations due to movements in the market valuation factors. The first quarter in the six month period showed an increase in value – with a decrease being recorded in the second quarter.

**Note 8.6 – Investment property revaluation gain**

Investment property is revalued by an external valuer annually as at 30 June, with the next revaluation date being 30 June 2019. Consequently, the budget and actual amounts to 31 December 2018 reflect nil values.

**Note 8.7 – Operating expenses**

Operating expenses comprising expenditure on activity projects and internal cost centres, exceeds the budget of $20,023,000 by $3,807,000 (19.0%). Activity project expenditure is covered in detail in the six-monthly activity review reported separately to the Finance and Corporate Committee. The overspend in operating expenses is partially offset by an underspend in the employee benefits expense as noted below in note 8.8.

**Note 8.8 – Employee benefits expense**

The employee benefits expense of $7,474,000 is $956,000 (11.3%) less than the budgeted amount of $8,430,000. However, where there are employee vacancies and additional resource requirements, the Council may engage temporary contracted resource to achieve required work targets. The cost of contracted resource is included in operating expenses, not employee benefits expense and results in a corresponding over and under spend in each expense category.

The combined Employee Benefits expense and Casual Labour expense shows a net underspend of $300,000 against a budget of $8,457,000.

The most significant variances are attributable to vacancies in the Stakeholder Engagement and Policy Planning and Resource Management directorates.

**Note 8.9 – Income tax benefit**

The Council obtains a tax benefit from the tax-deductible donation made to support the Otago Rescue Helicopter operation. The tax benefit is able to be realised as the Council and Port Otago Limited entities are regarded as a group for financial reporting and tax purposes.

**Note 8.10 – Revaluation gain on Port Otago Limited shares**

The Council's 100% shareholding in Port Otago Limited is externally revalued annually as at 30 June. Consequently, the budget and actual amounts to 31 December 2018 reflect nil values.

It is noted that the valuation comprises Port Otago Limited and all entities in which the company has an interest, including Chalmers Properties Limited.

**STATEMENT OF FINANCIAL POSITION**

[10] This shows Council's financial position as at 31 December 2018, along with budgeted amounts for the financial position at 30 June 2019, and comparative amounts as at 30 June 2018.

## Otago Regional Council
## Statement of Financial Position
## as at 31 December 2018

| Description | Note | Budget 30 June 2019 | $000's Actual 31 December 2018 | Actual 30 June 2018 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Other financial assets | 10.1 | 43,557 | 45,370 | 40,311 |
| Cash and cash equivalents | 10.1 | 148 | 4,346 | 8,125 |
| Trade and other receivables | 10.2 | 3,556 | 9,661 | 8,709 |
| Dividends receivable | 10.3 | - | 3,725 | - |
| Property held for sale | | 1,093 | 214 | 214 |
| Other current assets | | 261 | 386 | 231 |
| | | **48,615** | **63,702** | **57,590** |
| **Non-current assets** | | | | |
| Shares in Port Otago Ltd | 10.4 | 456,037 | 488,508 | 488,508 |
| Property plant and equipment | | 93,452 | 91,228 | 90,212 |
| Investment property | 10.5 | 11,493 | 11,137 | 11,137 |
| Intangible assets | | 4,233 | 3,242 | 2,724 |
| Deferred tax asset | | 98 | 147 | 98 |
| | | **565,313** | **594,262** | **592,679** |
| **Total assets** | | **613,928** | **657,964** | **650,269** |
| | | | | |
| **Liabilities – all current** | | | | |
| Trade and other payables | | 7,159 | 8,290 | 9,019 |
| Employee entitlements | | 1,665 | 1,256 | 1,701 |
| Revenue in advance | 10.6 | - | 12,854 | - |
| | | **8,824** | **22,400** | **10,720** |
| **Net assets** | | **605,104** | **635,564** | **639,549** |
| | | | | |
| **Public equity and reserves** | | | | |
| Public equity | | 129,712 | 126,569 | 130,499 |
| Available-for-sale revaluation reserve | 10.4 | 436,037 | 468,508 | 468,508 |
| Asset revaluation reserve | 10.5 | 9,432 | 9,076 | 9,076 |
| | | **575,181** | **604,153** | **608,083** |
| **Other reserves** | | | | |
| Building reserve | | 14,499 | 13,089 | 13,248 |
| Kuriwao endowment reserve | | 6,391 | 6,449 | 6,432 |
| Asset replacement reserve | | 3,979 | 5,909 | 6,070 |
| Emergency response reserve | | 4,320 | 4,254 | 4,182 |
| Water management reserve | | 403 | 1,017 | 1,039 |
| ECO fund | | 331 | 693 | 495 |
| | | **29,923** | **31,411** | **31,466** |
| | | | | |
| **Total equity and reserves** | | **605,104** | **635,564** | **639,549** |

**Note 10.1 – Other financial assets, cash and cash equivalents**

Funds surplus to Council's immediate and short-term requirements are managed on Council's behalf by the BNZ.

Other financial assets comprise an investment portfolio of $20,870,000 and term deposits of $24,500,000 with durations of 4-12 months.

Cash and cash equivalents of $4,346,000 includes current bank balances and term deposits with durations of less than four months.

**Note 10.2 – Trade and other receivables**

The receivables amount of $9,661,000 includes rate debtors of $2,578,000 and transport related debtors and receivables of $4,544,000.

As noted earlier in this report, rate assessments for the current year of $26,786,277 were issued in September 2018, with the due date being 31 October 2018.

**Note 10.3 – Dividends receivable**

Dividend income of $4,225,000 has been accrued for the six months to 31 December 2018. The dividend receivable amount in the Statement of Financial Position of $3,725,000 comprises the income accrual of $4,225,000 less the final dividend of $500,000 for the June 2018 year received in September 2018.

**Note 10.4 – Shares in Port Otago Limited and available-for-sale revaluation reserve**

The shares in Port Otago Limited are revalued annually for financial reporting purposes and were last revalued to $488,508,000 as at 30 June 2018. The budgeted value at June 2019 of $456,037,000 is significantly less than the June 2018 valuation, and was set prior to the June 2018 valuation increase of $49,471,000 being known.

**Note 10.5 – Investment property and asset revaluation reserve**

Investment property is revalued annually and was last revalued at June 2018. All revaluation gains on investment property are transferred to the property revaluation reserve.

**Note 10.6 – Revenue in advance**

Revenue in advance of $12,854,000 includes rates revenue of $11,646,000, which will be released as revenue in the Statement of Revenue and Expense in the months of January through to June 2019.

**ATTACHMENTS**

Nil

## 11.2. Public Transport Update

| | |
|---|---|
| **Prepared for:** | Finance and Corporate Committee |
| **Report No.** | CS1884 |
| **Activity:** | Transport: Public Passenger Transport |
| **Author:** | Gerard Collings, Manager Support Services<br>Stephen Patience, Senior Public Transport Officer<br>Julian Philips, Team Leader Public Transport Dunedin |
| **Endorsed by:** | Nick Donnelly, Director Corporate Services |
| **Date:** | 5 March 2019 |

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### PURPOSE

[1] To provide the Finance and Corporate Committee with an update on the Queenstown and Dunedin Network performance and the Dunedin Central City Bus Hub.

### EXECUTIVE SUMMARY

[2] Queenstown Network continues with the strong performance experienced since the commencement of the new network in November 2017.

[3] Dunedin Network is still experiencing positive growth with a 10 % increase in patronage for the corresponding period of the previous year.

[4] The Bus Hub is nearing completion and is scheduled to commence becoming operational on 21 March.

### STAFF RECOMMENDATION

*That the Committee:*

*1)* ***Receives** this report.*

## QUEENSTOWN NETWORK PERFORMANCE

[5] Queenstown fare revenue and patronage continues to rise compared to the previous year (Appendix 2). January continues to show an increase in revenue and patronage compared to the previous month. Fare revenue from the 2018/19 financial year to date shows an increase of 18%. Patronage for the financial year to date is showing a 120% increase. January 2019 patronage is up by 36% from the previous year.

[6] While the continued positive trend in the network is pleasing the general traffic congestion at peak times has a significant impact on bus timetable performance. This is likely to continue for some time as staff continue to work with NZTA and QLDC through the wider transport programme to identify what if any modifications to the road network can be achieved to support improved priority for the operation of public transport in the Wakatipu basin.

## PUBLIC WATER FERRY SERVICE BUSINESS CASE

[7] Our consultant is well underway with the development of a detailed business case for the Lake Wakatipu public water ferry service. The business case will determine the economic viability to establish a service along with the benefits and options. Two workshops have since been held with stakeholders. We are on track to complete the business case in late April for reporting back to Council. The business case forms part of the 'Wakatipu Way to Go' collaborative partnership between the ORC, QLDC and the NZTA.

## DUNEDIN NETWORK PERFORMANCE

[8] Dunedin fare revenue and patronage continues to rise compared to the previous year (Appendix 1). January continues to show an increase in revenue and patronage compared to the previous year. Fare revenue from the 2018/19 financial year to date shows an increase of 9%. Patronage for the financial year to date is showing a 10% increase. January 2019 patronage is up by 5% from the previous year.

## DUNEDIN BUS HUB

[9] Construction of Dunedin Central Bus Hub is nearing completion. Shelter structures are in place, much of the street furniture has been installed and the toilets are in place. The remaining activities include glazing of the shelters, completion of paving around street furniture and the toilet area and installation and commissioning of electronic signage and communications technology.

| Key Project Area | Status | Comment |
|---|---|---|
| Overall | | Construction has been delayed by water main replacements and will be delayed further by poor ground conditions in the carriageway. Additional costs will continue to be incurred for carriageway construction due to unforeseen poor ground conditions. |
| Schedule (Timeline) | | Contract award: 5 July 2018<br>Site works commenced: 16 July 2018<br>Contract competition date: 20 Nov 2018<br>Forecast completion date: 10 Mar 2019 |

| | | |
|---|---|---|
| | | Construction has been delayed by several unforeseen issues with Utilities, including water mains and electrical services. Construction restarted on the 7th January.<br>Construction is expected to be completed by the 10th March, followed by approximately 10 days of connecting, commissioning and testing electrical kit. This 10 day period will also be used for driver familiarisation and to refresh driver training. |
| Financial | | Total Current Contract: $5.3m (incl Third-Party Costs $0.44m)<br>Third Party Costs (E.g. water main) $0.44m<br>Actual claimed to date: $3.1m<br>Variations to date: $0.9m<br>$0.44m of variations are related to water main works which will be paid for by DCC.<br>The revised Carriageway construction due to unforeseen ground conditions will add $0.4m to the contract value.<br>The December shutdown will result in additional costs of approx. $0.2m. |
| Scope | | The scope of the project is defined in the construction contract with Fulton Hogan Limited. Variations claimed to date predominantly relate to water main works, unforeseen ground conditions, underground structures and the close down for the Christmas period. Additional costs have been incurred for reinforcing of the carriageway construction and the Christmas shut down. Procurement of on ground IT equipment sits outside the construction Contract. Real time data information will be introduced in conjunction with the ticketing project. |
| Key Risks | | • Below ground infrastructure – as with many parts of the City the definition of key underground infrastructure has been mapped. That said the specific detail can vary from that shown. The site engineer undertook an extensive review of all underground services prior to the letting of the contract however, until the excavation is complete ground conditions and unexpected services will continue to remain a risk.<br>• Weather – remains a risk outside of Contractors control.<br>• Business owners – the impact of the works on business owners is of critical concern to Council and the contractor. The contractor is using its best endeavours in keeping business owners informed of progress and issues as they arise. Maintaining customer access through the site is a contract requirement for the Contractor.<br>• Health and Safety – an increased emphasis on site safety is a key focus of the Contractor and Council's consultants and staff with particular regard given to maintaining safe public access both to and through the site. This requires the contractor to constantly review and monitor public access. Arrangements put in place over the Christmas shut down period were monitored daily.<br>• Timescales – construction has been delayed by water main replacements and will be delayed further by poor ground conditions in the carriageway. |

| | | |
|---|---|---|
| Issues | | H&S incidents – two incidents have occurred where electrical cables have been compromised and there has been a risk of electrocution. Additional precautions have been undertaken and incident investigations are under way.<br>Construction has been delayed by water main replacements and will be delayed further by poor ground conditions in the carriageway. |

**ATTACHMENTS**

1. Dunedin and Wakatipu Transport Network Performance Jan 2018 **[11.2.1]**

## 11.3. Q2 :Activity Review 1 October to 31 December 2018

| | |
|---|---|
| **Prepared for:** | Finance and Corporate Committee |
| **Report No.** | CS1881 |
| **Activity:** | Governance Report |
| **Prepared by:** | Mike Roesler, Manager Corporate Planning and Reporting |
| **Date:** | 20 March 2019 |

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### 1. Purpose

The purpose of this report is to present the Council's review of activity performance for the second quarter of the 2018/19 financial year, being 1 July to 31 December 2018.

### 2. Background

Council has reporting requirements under the Local Government Act with a key one being the preparation and adoption of an annual report each financial year.

The Council has some flexibility in how it reports ongoing progress throughout the year. A frequency of quarterly reporting has been implemented for this financial year with Council receiving Activity Review Reports for the 3, 6, 9, and 12 month periods. These reports are provided to either Finance and Corporate Committee or Council. This represents an increase in reporting frequency compared to the 2017/18 year. Other changes have also been made that mark an ongoing effort to improve the quality of reporting – this includes the reporting format.

Ultimately the purpose of reporting is:

- compare actual activities and the actual performance of Council in the year with the intended activities and the intended level of performance as set out in the LTP
- promote accountability to the community.

### 3. Proposal

The attached report, Activity Review Q2, shows the Council's progress compared with the levels of service and specific areas of work defined in the LTP. It also provides an overview of variations between actual and budgeted expenditure.

While this report relates to progress made during the period 1 July to 31 December 2018, consideration is also given to the forecasted situation at 30 June 2019, year end.

The 'Activity Review Q2' can be considered in conjunction with the 'Financial Report for the 6 months to 31 December 2018' also reported to this committee meeting.

## 4. Recommendation

*That the Activity Review Q2 report be received.*

**Endorsed by:** Nick Donnelly, Director Corporate Services

**Attachments**

Activity Review Q2 - incorporating performance commentary for 1 July - 31 December 2018

## 11.4. Treasury Report - December 2018

| | |
|---|---|
| **Prepared for:** | Audit and Risk Sub-Committee |
| **Activity:** | Treasury Report |
| **Author:** | Stuart Lanham, Finance Manager |
| **Authoriser:** | Nick Donnelly, Director Corporate Services |
| **Date:** | 5 March 2019 |

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**PURPOSE**

[1] This report provides information on the management and performance of the Council's short-term deposits and the managed fund, for the six months ended 31 December 2018

**EXCUTIVE SUMMARY**

[2] Short term investments held by the Council are in the form of term deposits held with banking institutions and managed on the Council's behalf by a separate investment arm of the BNZ under a multi-bank arrangement.

[3] Council also has a Managed Fund portfolio. The portfolio has been managed externally by the Bank of New Zealand and is currently being transitioned to the management of JBWere.

**STAFF RECOMMENDATION**

*That the Audit and Risk Sub-Committee:*

*a) Receive this report.*

**SHORT TERM INVESTMENTS**

***General Comments***

[4] The day-to-day working capital cash requirement of the Council, including forecasting cash movements in the short term based on forecast revenues and expenditure, is managed by finance staff.

[5] Council's cash-flow in terms of receipts and payments fluctuates significantly during the year, particularly with significant revenue streams such as rates and dividends coming in at particular times, and large payments such as GST output tax collected on rates income, becoming payable at one time.

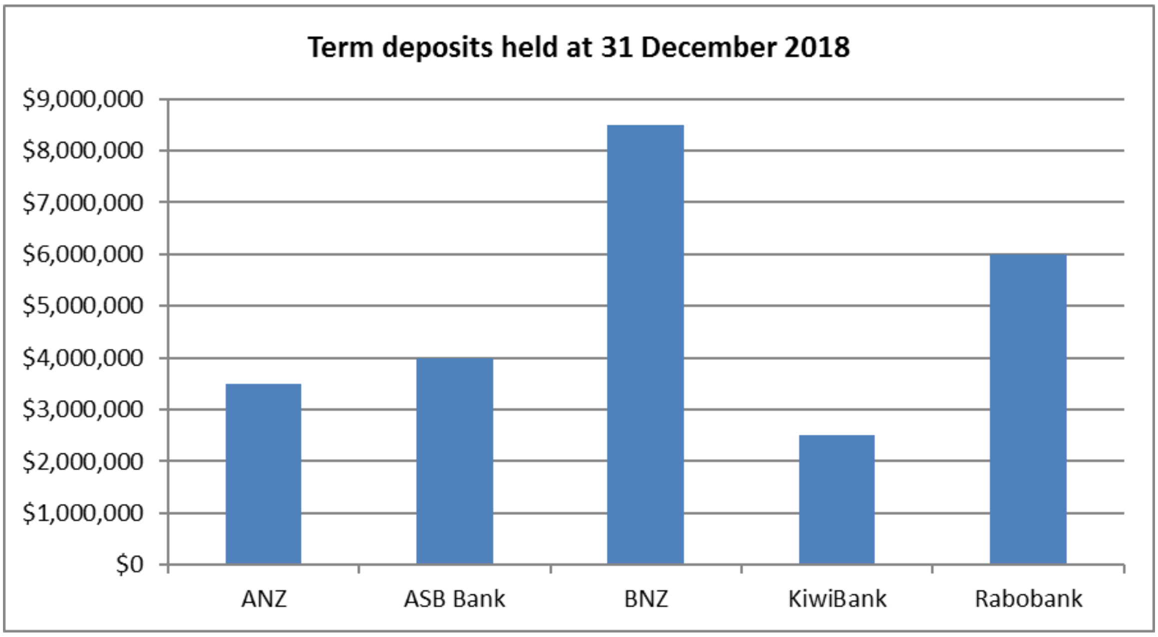
[6] Funds surplus to immediate cash requirements are deposited into the term deposit portfolio. The BNZ seeks competitive quotes from participating banks for new deposits and places new funds accordingly, based on the quotes received and other factors to ensure the portfolio is maintained within agreed parameters.

[7] BNZ provides monthly reports on the composition and performance of the term deposit portfolio.

***Term Deposits - Portfolio Composition***

[8] The amount held on term deposit at 31 December 2018 was $24,500,000 comprising 18 individual deposits – ranging from $500,000 to $3,000,000 each.

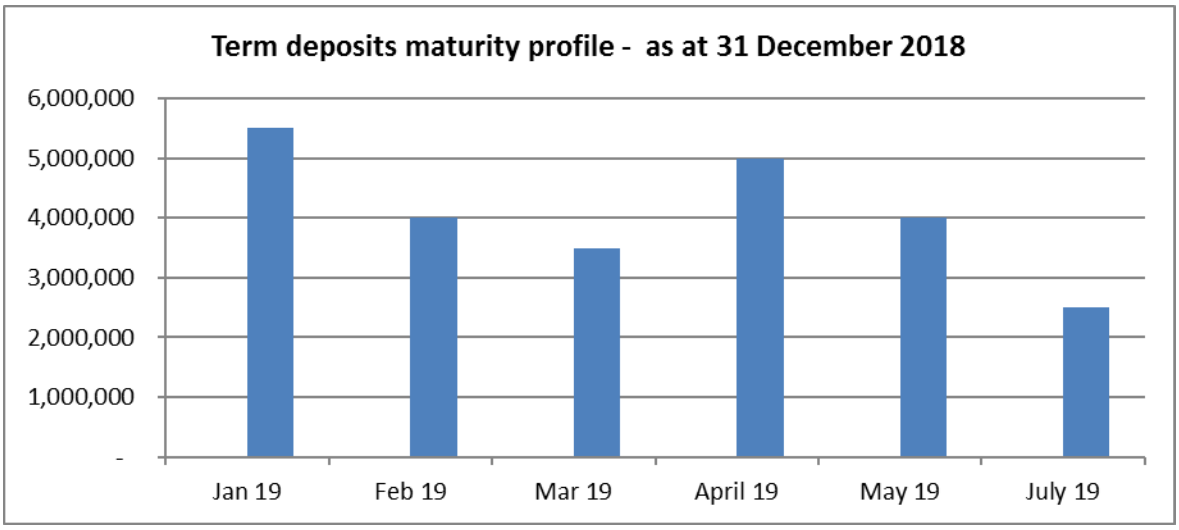
[9] The following chart shows the total amount held with each institution at 31 December 2018.




***Term Deposits – Maturity Profile***

[10] The maturity profile chart below shows the maturity dates of term deposits by the month of maturity.

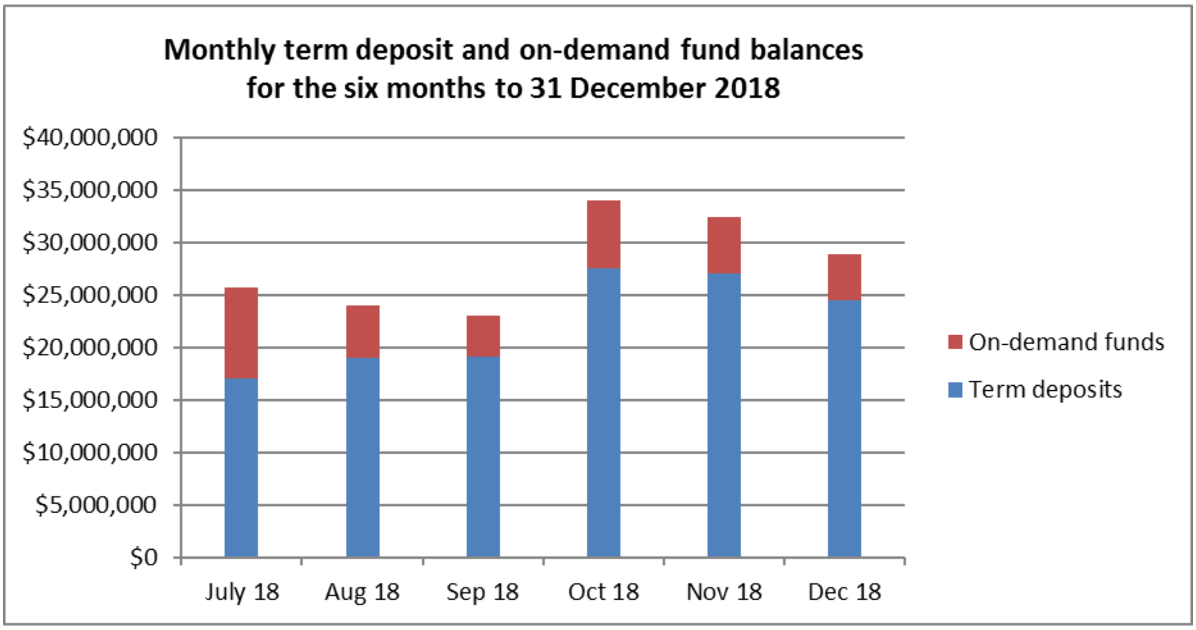
[11] The arrangement with the BNZ ensures that amounts maturing on a monthly basis, together with other cash movements, provide sufficient funds to meet ongoing operational requirements of the Council.



*Term Deposits and On-Call Funds*

[12] A sufficient amount of funds is held on-demand to meet the operational day-to-day requirements of the Council. The timing of term deposit transactions and significant cash transactions necessarily results in fluctuations in both the term deposit element of total funds held and the amount held on-demand.

[13] The chart below shows the amount held at the end of each month during the six months to 31 December 2018, identifying the term deposit amount and the amount held on-demand with the BNZ.

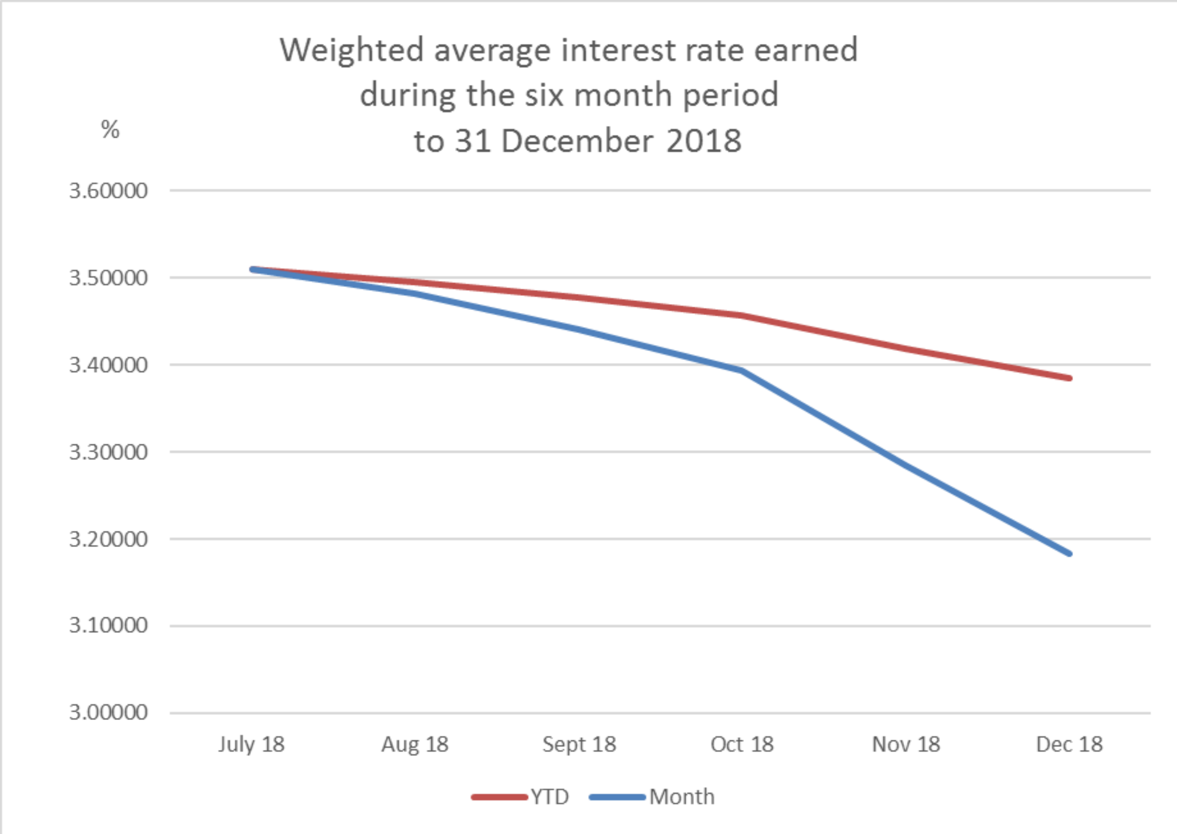



[14] During the six-month period, total funds held peaked at $34,000,000 at 31 October 2018 due to a large amount of rate monies received leading up to the due date of 31 October.

**INTEREST EARNED AND INTEREST RATES**

[15] Interest earned on bank balances and term deposits during the six months to 31 December 2018 amounted to $351,000.

[16] The following graph shows the monthly and year-to-date weighted average interest rates earned on term deposits during the six-month period.




[17] The graph shows that the monthly rates steadily decreased from 3.51% in July 2018 to 3.18% in December 2018.

[18] The monthly fluctuations are reflected in the year-to-date line which also reflects a declining average over the six-month period, from 3.51% in July to 3.38% for the six-months to 31 December 2018.

[19] The Official Cash Rate set by the Reserve Bank began the year at 1.75% and remained at that level throughout the six-month period to 31 December 2018. The OCR rate has remained unchanged since it was reduced to 1.75% from 2.00% on 10 November 2016.

**MANAGED FUND PORTFOLIO**

[20] The Council's managed fund comprises a portfolio of financial instruments managed externally by the Bank of New Zealand. The BNZ provides quarterly reports on the performance and composition of the fund.

[21] The following information is summarised from the BNZ portfolio reviews for the quarters ended 30 September and 31 December 2018.

***Portfolio Performance – six months to 31 December 2018***

[22] The BNZ quarterly portfolio reports for the six-month period refer to returns achieved net of portfolio management fees and amount to a net decrease in fair value of $412,327 (1.93%) before tax, and a net decrease of $440,610 (2.07%) after tax.

[23] It is noted that in regular financial reporting to Council during the year, the net after tax increase/(decrease) in fair value is reported within the revenue section of reports, with the portfolio management fee being included within expenditure.

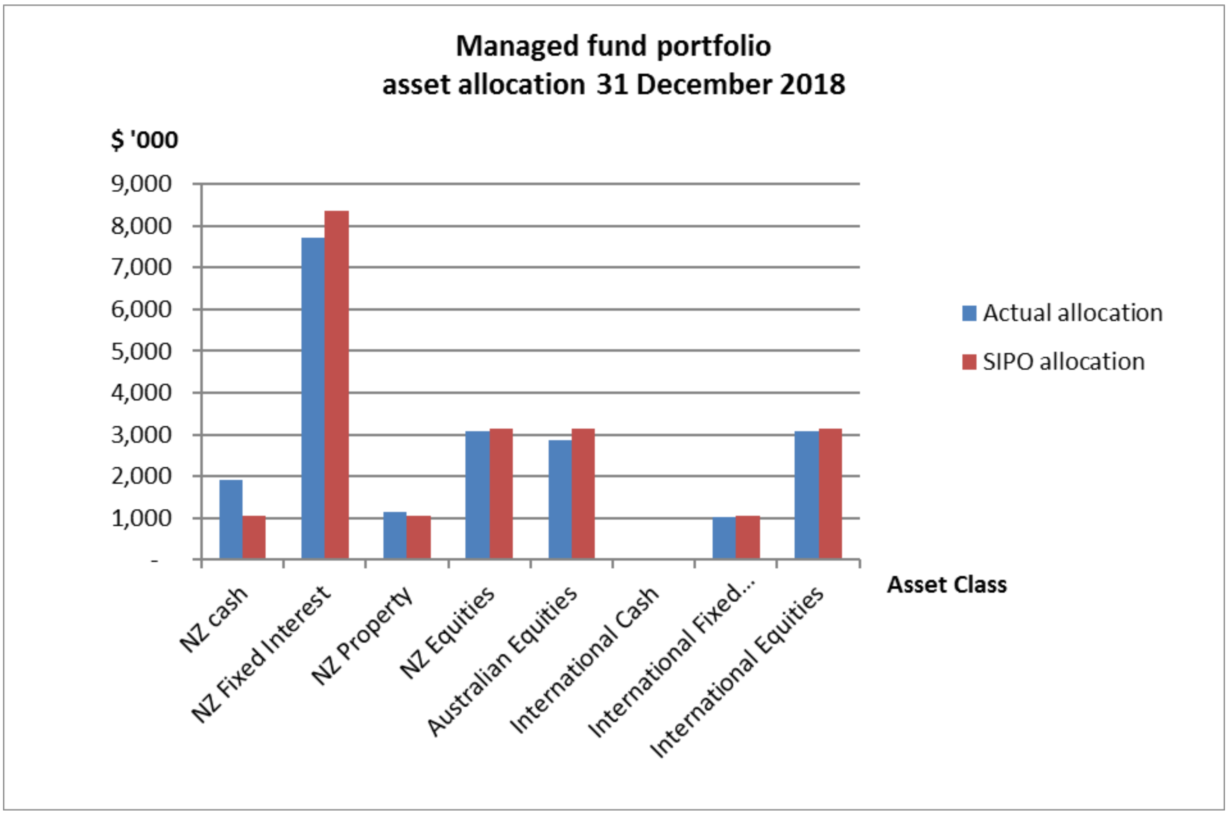
***Portfolio Summary as at 31 December 2018***

[24] The following table, extracted from the BNZ report, shows the valuation of the fund by asset class as at 31 December 2018 and the percentage of each asset class held. The table compares the percentage of each asset class held with the asset allocation percentage specified in the Statement of Investment Policies and Objectives (SIPO).

[25] The variance columns show the actual variances from the SIPO allocation – in terms of the percentage and the effect on the valuation.

| Managed Fund Portfolio Summary<br>As at 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|
| | Actual Allocation | | *SIPO Allocation* | | Variance over / (under) | |
| **Asset class** | **Amount $** | **%** | ***Amount $*** | ***%*** | **Amount $** | **%** |
| NZ cash | 1,904,574 | 9.13 | *1,043,506* | *5.00* | 861,068 | 4.13 |
| NZ Fixed Interest | 7,720,011 | 36.99 | *8,348,049* | *40.00* | (628,038) | (3.01) |
| NZ Property | 1,149,120 | 5.50 | *1,043,506* | *5.00* | 105,614 | 0.50 |
| NZ Equities | 3,078,104 | 14.75 | *3,130,519* | *15.00* | (52,415) | (0.25) |
| Australian Equities | 2,866,895 | 13.74 | *3,130,519* | *15.00* | (263,624) | (1.26) |
| International Cash | 39,982 | 0.19 | - | *0.00* | 39,982 | 0.19 |
| International Fixed Interest | 1,019,857 | 4.89 | *1,043,506* | *5.00* | (23,649) | (0.11) |
| International Equities | 3,091,581 | 14.81 | *3,130,519* | *15.00* | (38,938) | (0.19) |
| | **20,870,124** | **100.00** | ***20,870,124*** | ***100.00*** | | |

[26] The following chart graphically represents the actual asset allocation within the managed fund compared with the SIPO allocation.




**Attachments**

Nil

# 12. NOTICES OF MOTION

# 13. RECOMMENDATIONS OF MEETINGS

## 13.1. Recommendations of the Audit and Risk Subcommittee - 14 March 2019

Recommendations of the public portion of the Audit and Risk Subcommittee meeting held on 14 March 2019, for adoption.

### 1.1. Treasury Report - December 2018

**Resolution**

*That this report is received and noted.*

Moved: David Benham
Seconded: Cr Woodhead
CARRIED

### 1.2. Risk Report - October 2018

**Resolution**

*That this report is received and noted and,*

1. *That staff provide at the next Audit and Risk Subcommittee meeting:*
    a. *An updated risk report*
    b. *A summary of top operational risks currently facing the Council*
    c. *An outline showing the process of cascading the risks through the Council to those responsible for mitigating those risks*
    d. *Specific areas of risk for the subcommittee to review in greater depth*
2. *That a section be added to the standard Council/Committee report template to include a section on risk.*

Moved: Cr Laws
Seconded: Cr Kempton
CARRIED

### 1.3. Health & Safety Report

**Resolution**

*That this report is received and noted.*

Moved: Cr Woodhead
Seconded: Cr Brown
CARRIED

### 1.4 Legislative Compliance

**Resolution**

*That this report is received and noted.*

Moved: Cr Robertson
Seconded: Cr Woodhead
CARRIED

### 1.5. Audit and Risk Work Programme

**Resolution**

*That this report is received, and the work programme for the Audit and Risk Subcommittee is endorsed.*

Moved: David Benham

Seconded: Cr Robertson

CARRIED

## 14. RESOLUTION TO EXCLUDE THE PUBLIC

*That the public be excluded from the following parts of the proceedings of this meeting, namely:*

*Adoption of the minutes of the public excluded portion of the Finance and Corporate Committee meeting held on 31 January 2019.*

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

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Ground(s) under section 48(1) for the passing of this resolution |
|---|---|---|
| Adoption of the minutes of the Public Excluded Finance and Corporate Meeting of 31 January 2019. | Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds:<br><br>(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,<br><br>Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on one or more of the following grounds:(d) that the exclusion of the public from the whole or the relevant part of the proceedings of the meeting is necessary to enable the local authority to deliberate in private on its decision or recommendation in any proceedings to which this paragraph applies. | Section 48(1)(a);<br>Section 48(1)(d)<br>7(2)(h)<br>7(2)(i) |

| | | |
|---|---|---|
| | To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)<br>To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) – Section 7(2)(i) | |

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act or section 6 or section 7 or section 9 of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public are as follows:

*Adoption of the minutes of the Public Excluded Finance and Corporate Meeting of 31 January 2019.*

Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds:

(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,

Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on one or more of the following grounds:(d) that the exclusion of the public from the whole or the relevant part of the proceedings of the meeting is necessary to enable the local authority to deliberate in private on its decision or recommendation in any proceedings to which this paragraph applies.
To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)
To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) – Section 7(2)(i)(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.

## 15. CLOSURE