



Unconfirmed

MINUTES OF A MEETING OF THE FINANCE AUDIT & RISK SUB-COMMITTEE

Date: Wednesday 22 May 2019

Time: 9.00am

Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Present: N Kirton - Chairman
P Bailey
R Barker
A J Dick
R Dinwoodie

In Attendance: J Palmer – Chief Executive
J Ellerm – Group Manager Corporate Services
L Lambert – Group Manager Regulations
J Lawrence – Group Manager Office of the CE & Chair
K Campbell – Senior Project Manager
M des Landes – Acting Chief Financial Officer
M Heaney – Client Services Manager
T Kilkolly – Principal Accountant Rates and Revenue
M Sharpe – Project Manager
A Roets – Governance Administration Assistant

1. Welcome/Apologies/Notices

The Chairman welcomed everyone to the meeting.

The Chair advised that the Late Item received was too late for consideration, and an update on Fund returns will be provided to the 5 June Corporate and Strategic Committee meeting.

2. Conflict of Interest Declarations

There were no conflict of interest declarations.

3. Confirmation of Minutes of the Finance Audit & Risk Sub-Committee meeting held on 12 February 2019

FIN110/19 Resolution

Minutes of the Finance Audit & Risk Sub-committee held on Tuesday, 12 February 2019, a copy having been circulated prior to the meeting, were taken as read and confirmed as a true and correct record.

**Dinwoodie/Bailey
CARRIED**

4. Follow-ups from Previous Finance Audit & Risk Sub-Committee Meetings

The item was taken as read, with Melissa des Landes highlighting:

- A review of the Risk Management framework is scheduled for the third quarter (Q3) of 2019-20
- Melissa is currently acting Chief Financial Officer until an appointment is made
- an option suggested – for residents of Hawke's Bay, who are highly qualified but don't have the specific local government skills, to be considered for training to obtain the necessary skills to work in local government
- HR review of the staff learning and development strategy is underway and will identify clearer pathways for staff professional development for roll out early July 2019
- Recruitment difficulties are being addressed through the current HR review and expect recommendations to the Executive Leadership Team towards end of June.

FIN111/19 Resolution

That the Finance, Audit and Risk Sub-committee receives and notes the "*Follow-ups from Previous Finance Audit and Risk Sub-committee Meetings*".

**Barker/Bailey
CARRIED**

5. Rating Invoice – Proposed Issue, Due and Penalty Date Changes

Jessica Ellerm introduced the item, which proposes to change the rates invoicing and penalty dates. Discussions traversed:

- The objective of moving the rating invoices is to improve Council's cash flow and recover Council income earlier as well as remove the payment pressure on ratepayers
- Opportunity to improve HBRC's cash flow through changing the date rates invoices are sent out and the date payment is due
- Currently rate invoices are sent out mid-September and due 1 October each year, however Council allows ratepayers until 31 January to pay before penalty is applied
- Proposed to have one payment date only so that the due date and final date for payment are the same.
- Intention is for ratepayers to receive their invoice 4-6 weeks before payment is due
- changing rates invoice date previously raised through efficiency review
- Concern raised that the earlier due date will add extra burden on the ratepayer
- Legislation requires that the ratepayer receives the invoice at least 14 days before

the due date

- previous suggestion to send out interim/part invoices for on-time payments is not in the item
- engagement to be done with 200 highest ratepayers in each district and can allow two payment periods and/or flexibility around payment options and potential remission of penalties for the implementation year
- A communications plan will be developed and implemented once the Council adopts the proposal to allow plenty of lead in time for ratepayers
- changes to be implemented in the 2020-21 financial year

FIN112/19 Resolutions

1. That the Finance, Audit and Risk Sub-committee receives and considers the *“Rating Invoice – Proposed Issue, Due and Penalty Date Changes”* staff report.
2. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee:
 - 2.1. Agrees that the decisions to be made are not significant under the criteria contained in Council’s adopted Significance and Engagement Policy, and that the Committee can exercise its discretion and make decisions on this issue without conferring directly with the community.
 - 2.2. Recommends that Hawke’s Bay Regional Council approves the proposed rates issue, due and penalty dates following, for implementation 1 July 2020.
 - 2.2.1. Invoices issued – early to mid-August
 - 2.2.2. Rate assessment/invoice date – 20 September
 - 2.2.3. Payment due date – 20 September
 - 2.2.4. Penalty date – 21 September.

**Bailey/Barker
CARRIED**

6. Proposed Schedule of 2019-2020 Internal Audits

Melissa des Landes introduced the item which proposes a schedule of Internal Audits for the next financial year. Discussions covered:

- Based on HBRC’s risk register, staff recommend that internal audits are carried out on IT Security, Data Analytics, Risk Management and Asset Management during the 2019-20 financial year
- Cyber security is an emerging risk for organisations and councillors previously expressed an interest
- Risk Management has evolved and developed over the past two years and an internal audit will benchmark how effective HBRC’s risk management processes are, along with areas for improvement
- Review of Asset Management would include areas such as the maturity of asset management controls, decision making, asset performance and condition.
- performance monitoring of climate change was suggested for addition to the schedule and proposed to have a brief item on monitoring HBRC’s current performance and progression, options and opportunities
- Initial discussions held with Crown Horwarth who will benchmark with their Australian partners and bring back a proposed initial scope to the next Sub-committee meeting.
- HR Practices listed as a low risk and will be updated to the correct value as Melissa continues to engage with the Group Manager Office of the Chair and Chief Executive to discuss changes required prior to the next risk assessment update
- scope of work for IT Security to include assessing external vendors in relation to

cyber security

FIN113/19 Resolutions

1. That the Finance, Audit and Risk Sub-committee:
 - 1.1. receives and considers the “*Proposed Schedule of 2019-2020 Internal Audits*” staff report.
 - 1.2. Agrees to the 2019-20 schedule of Internal Audits, including associated budget allocations, being:
 - 1.2.1. IT Security
 - 1.2.2. Data Analytics
 - 1.2.3. Risk Management
 - 1.2.4. Asset Management
2. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee takes note of the agreed 2019-20 schedule of Internal Audits within associated budget allocations.

**Dick/Barker
CARRIED**

7. Water Management Follow-up Internal Audit Report

Liz Lambert introduced the item, providing background on the initial Water Management Audit undertaken. Discussions traversed:

- The audit focused on HBRC’s Water Management and compliance processes and provided twelve recommendations
- Based on the recommendations from the review, Council has completed various tasks including development of a protocol of responsibilities for TLAs and the District Health Board around drinking water.
- Uncertainty as to where the Drinking Water Group Joint Committee reports as currently no mechanism for the Joint Committee to report to Regional Council
- A further follow-up audit will formalise Joint Committee report back as most appropriate, including frequency
- the Executive Leadership Group receives reports from the staff level Joint Working Group, where operational activities are discussed and resolved
- Many “partially implemented” recommendations are reflective of the IRIS implementation, which went live end November 2018 with some issues still requiring resolution through further software implementation.
- Council carries out compliance checks on TLA drinking, storm and waste water consents and findings are reported back to the respective TLA
- Compliance reporting to Council is through the Annual Compliance report, the quarterly Organisational Performance reports and Significant Activities monthly reports to Council.
- Three Waters Review remains a focus
- significant discussions, decisions and activities of the joint Drinking Water Group are reported to the HB Drinking Water Governance Joint Committee
- In relation to risk monitoring, the Compliance Team is now resourced with one additional FTE allocated in 2018-19.
- Concern raised that annual reporting from the Drinking Water Group is too infrequent and suggested quarterly instead
- Crowe Horwath to carry out a further audit of issues not “closed”
- Objection raised on restrictions and limitations on Council set out in the Crowe Horwath document, and because Council paid for the report it is up to Council how the report and the information contained in it are used.

FIN114/19 Resolution

That the Finance, Audit and Risk Sub-committee receives and notes the “*Water Management Follow-up Internal Audit Report*” staff report and that Crowe Horwath be engaged for a further follow-up audit to be undertaken within 6 months.

**Kirton/Dick
CARRIED**

8. Draft 2019-20 Annual Plan

The item was taken as read, with discussions highlighting:

- Staff seeking feedback on the draft plan.
- Financial reporting is subject to change with carry forward requests going to the Corporate and Strategic Committee meeting on 5 June.
- Draft content of sections 1 and 2 was presented to Council in an early March workshop, with a media release on 18 April signalling Council’s non-consultation approach
- proposed that a Schedule of variations to budgets, as presented in the Long Term Plan feature in annual plan, similar to the table on page 17 of the Agenda
- suggested that some expenditure figures be added to the more focussed areas to make the Financials easier to understand
- A detailed two page spread of key highlights, focus areas and rates and expenditure will be published through newspapers, social media and Council’s web page following the Corporate and Strategic Committee meeting
- Proposed that a more structural review be added to the Annual Report stating who we are and what we do with highlights on Council’s vision, an overview, current and future projects and Napier Port.

The meeting adjourned at 10.33am and reconvened at 10.48am.

- Climate change will be a more prominent focus in the next Long Term Plan.
- A draft updated 2 page highlighting key focus areas will be circulated with the C&S agenda

FIN115/19 Resolution

That the Finance, Audit and Risk Sub-committee receives and considers the Draft 2019-20 Annual Plan and provides feedback to staff.

**Barker/Bailey
CARRIED**

9. Living Wage Update

The item was taken as read, with discussions traversing:

- At the last FARS Committee meeting, Councillors requested a cost analysis of implementing or referencing living wage suppliers and how it could be implemented in the procurement policy
- Staff conducted a sample survey of direct suppliers to determine likely impacts of requiring them to pay the Living Wage, with feedback received disappointing
- summary of the surveys is not enough to make accurate enough assumptions or estimates to inform decision making
- The Minister of Transport, Phil Twyford announced 21 May that the Public Transport Operating Model Review (PTOM), which the GoBus contract falls under, is now being reformed.
- Highlights from the review and research recognise that chronic understaffing in the bus industry is likely caused by poor wages and working conditions
- Staff will continue to monitor progress of the reform and report to this committee
- Council currently engaging with all five local authorities to progress a discussion on determining a living wage for Hawke’s Bay

- Central Government has lifted minimum wage to \$17.70 per hour from 1 April 2019 and intends to increase it to \$20/ hour by 2021.
- an option may be to encourage the payment of the living wage as opposed to making it a minimum requirement
- Staff are not recommending a set weighting and believe that each contract should be considered on a case by case basis
- current Living Wage weighting contained in the Policy under the Evaluation of the contract
- once the HB living wage has been determined, Council can determine whether to proceed with a more formal policy
- Council pays Living Wage to all staff except students.
- Proposed that Council give preference to suppliers who pay the Living Wage

FIN116/19 Resolutions

1. That the Finance, Audit and Risk Sub-committee:
 - 1.1. Receives and notes the "*Living Wage Update*" staff report
 - 1.2. Notes that considerations of living wage related procurement policy decisions are addressed in a separate "*Procurement and Contract Management*" item.
 - 1.3. Continues to await the feedback of the Public Transport Operating Model reform.
2. The Finance, Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee recommends that Hawke's Bay Regional Council:
 - 2.1. Considers the addition of a statement in the Procurement Policy that "*Council gives preference to suppliers who pay employees the Living Wage*"
 - 2.2. Recommends that if the inclusion of a weighting for payment of the Living Wage in a contract decision is to be considered, that the decision will be determined based on the type and value of the contract, and should also weigh up other best business practices.

**Barker/Bailey
Against Dick
CARRIED**

10. Procurement and Contract Management Update

Jessica Ellerm introduced the item and Mark Heaney updated the meeting on progress made in response to the 2018 internal audit recommendations to review and amend the Regional Council's Procurement Policy and Manual. Discussions traversed:

- Procurement Policy and Procurement Manual approved in 2015 and 2016 respectively, with the intent to review within three years.
- HBRC commissioned a review in 2018 to evaluate the existing policy against recommendations from the Auditor General and Ministry of Business and Innovation and Employment to align with current best practice guidelines
- The draft policy and manual reflect HBRC's progress toward achieving best practice, and are consistent with national procurement principles and guidelines and compliant with relevant legislation.
- Four staff members attended the MBIE training
- Training will be cascaded through the organisation for those with procurement responsibilities including training videos for reference and "refresher" presentations on request.
- Contract reporting will be provided to the sub-committee on a quarterly basis with effect from 1 July 2019.
- Proposed to review the revised policy and manual in June 2020 to check adherence

and completeness.

FIN117/19 Resolutions

1. That the Finance, Audit and Risk Sub-committee Receives and considers the “*Procurement and Contract Management Update*” staff report and provides feedback to staff on the Procurement Policy and Procurement Manual documents.
2. The Finance Audit and Risk Sub-committee recommends that the Corporate and Strategic Committee:
 - 2.1. Agrees support for the proposed Hawke’s Bay Regional Council Procurement Policy May 2019 and Procurement Manual as revised to reflect the feedback provided by FARS.
 - 2.2. Recommends that Hawke’s Bay Regional Council agrees support for the Hawke’s Bay Regional Council Procurement Policy May 2019 and Procurement Manual as revised, including that Policy 5.9 reads “HBRC will give preference to suppliers who have adopted the living wage and will consider this as part of the procurement evaluation process”.

**Bailey/Barker
CARRIED**

11. May 2019 Sub-committee Work Programme Update

This item was taken as read

FIN118/19 Resolution

That the Finance, Audit and Risk Sub-committee receives and notes the “*May 2019 Sub-committee Work Programme Update*” staff report.

**Barker/Dinwoodie
CARRIED**

13. Treasury Report

The Chair advised that the late item arrived too late to be considered and Jessica Ellerm gave a brief update on returns received, advising that the full report will be provided to the Corporate & Strategic Committee meeting.

12. Proposed 2019-20 Council Insurance Programme

FIN119/19 Resolution

That Council excludes the public from this section of the meeting, being Agenda Item 12 Proposed 2019-20 Council Insurance Programme with the general subject of the item to be considered while the public is excluded; the reasons for passing the resolution and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution being:

GENERAL SUBJECT OF THE ITEM TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION	GROUND UNDER SECTION 48(1) FOR THE PASSING OF THE RESOLUTION
Proposed 2019-20 Council Insurance Programme	7(2)(i) That the public conduct of this agenda item would be likely to result in the disclosure of information where the withholding of the information is necessary to enable the local authority holding the information to carry out, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	The Council is specified, in the First Schedule to this Act, as a body to which the Act applies.

**Bailey/Barker
CARRIED**

The meeting went into public excluded session at 11.36am and out of public excluded session at 11.41am

Closure:

There being no further business the Chairman declared the meeting closed at 11.41am on Wednesday 22 May 2019.

Signed as a true and correct record.

DATE:

CHAIRMAN: