

Chairperson and Subcommittee Members
AUDIT AND RISK SUBCOMMITTEE

16 DECEMBER 2014

Meeting Status: **Public**

Purpose of Report: For Information

COUNCIL CONTROLLED ORGANISATIONS 2013/14 ANNUAL REPORTS

PURPOSE OF REPORT

- 1 This report provides the Audit and Risk Subcommittee with a review of its Council Controlled Organisations' 2013/14 Annual Reports, in compliance with the Local Government Act (LGA) 2002 and Council reporting requirements.

DELEGATION

- 2 The Audit and Risk Subcommittee may make a decision under the following delegation in the Governance Structure, Section C.4:
Without limiting the generality of this delegation the Subcommittee has the following functions, duties and powers:
Risk Management
6.9 *Ensure that Council has in place a current and comprehensive risk management framework and associated procedures for effective identification and management of Council's significant risks.*

BACKGROUND

- 3 Council currently has three Council Controlled Organisations (CCOs) – the New Zealand Local Government Funding Agency (LGFA), the Wellington Rural Fire Authority (WRFA) and the Te Newhanga Kapiti Community Centre.

The LGFA

- 4 On 30 November 2012, Council became a Principal Shareholding Local Authority in the LGFA. The LGFA was incorporated on 1 December 2011 with the primary objective of optimising the debt funding terms and conditions for participating local authorities. This includes providing savings in annual interest costs, making longer-term borrowings available and enhancing the certainty of access to debt markets.
- 5 The LGFA issues bonds to wholesale and retail investors and on-lends the funds raised to participating local authorities with borrowing needs. The quality of the LGFA's credit rating, and the liquidity created by issuing homogenous local authority paper, ensures that participating councils can raise funds on better terms than if they were issuing in their own name.

The WRFA

- 6 The WRFA's role is to manage an Enlarged Rural Fire District across the Wellington region, excluding the Wairarapa. Specifically this means working to reduce the risk of fire, being better prepared in the event that fire occurs,

responding to fires more effectively and enabling the community to recover from the effects of fire with greater ease.

- 7 The WRFA is governed by a seven member Committee which was established on 1 October 2013. There are three council members - Kapiti Coast District Council/Porirua City Council, Hutt City Council/Upper Hutt City Council and Wellington City Council. The other members are the Department Of Conservation, the New Zealand Fire Service, the New Zealand Forest Owners and an Independent Member.
- 8 On 27 November 2014 the Council granted the WRFA exemption from the definition of a CCO under the LGA 2002. The WRFA believes that the existing reporting and accountability methods in the Forest and Rural Fires Regulations 2005 to which it is subject constitute a satisfactory monitoring framework for an operation of its scale and type.
- 9 While the WRFA is exempt as a CCO, officers consider it appropriate to continue to monitor it, and to report its performance to the Subcommittee from a risk management perspective, due to the critical nature of the services it provides.

The Te Newhanga Kapiti Community Centre

- 10 The Community Centre is a venue for community groups to hold their educational, recreational, supportive and social events. It is owned and subsidised by Council and is operated under a management agreement between the Community Centre and Council.
- 11 In 2002 the Auditor-General agreed to exempt the Community Centre from the requirement to be audited by its office as long as it continued to have its accounts reviewed rather than audited. The accounts are currently prepared and reviewed by Council at no charge.
- 12 The Community Centre has elected to have its annual report for the year ending 30 June 2014 audited and the audited report will be tabled at the Council meeting of 11 December.

CONSIDERATIONS

LGFA 2013/14 Annual Report

- 13 The LGFA has performed satisfactorily in 2014, increasing its lending to participating councils to \$3.7 billion (2013: \$2.5 billion) and increasing the number of participating councils from 37 to 43. It also continues to increase the range of lending services provided to councils, adding another long dated maturity (April 2023) during the year.
- 14 As previously reported, in September 2013 the LGFA's base margin was cut to 15 basis points (bps), meaning that the LGFA has halved the base margin in the 30 months that it has been lending to councils.
- 15 While all participating councils are undoubtedly benefitting from lower borrowing costs since the LGFA was established, the LGFA did not achieve its annual interest cost savings target of 30bps. The LGFA estimates that councils are saving 20bps (or 0.2%) per annum through their borrowings from the LGFA. For Council, with its \$115 million loans as at 30 June 2014 (2013: \$100 million) this equates to an annual saving of \$230,000.

- 16 On 7 November 2013 Standard and Poor's and Fitch both affirmed the LGFA's local currency credit rating as AA+ and foreign currency rating as AA. The outlook for both ratings is stable. This rating is the same as the New Zealand government rating.
- 17 In 2014, non-resident investment grew to 15% (2013: 0%) of the LGFA's investor register. The LGFA considers that growing this overseas support will increase the liquidity of LGFA bonds and lead to further margin reduction.

WRFA 2013/14 Annual Report

- 18 Since its establishment on 1 October 2013 the WRFA has been busy setting up its operations as well as managing its core functions of undertaking fire investigations and fire claims, issuing permits and education and training.
- 19 The WRFA received 252 fire notifications during the year, and all the WRFA fire claims have been successful, either through direct cost recovery or through a claim on the National Rural Fire Authority fund. The WRFA issued 739 permits during the year with 44% of these permits being issued in the Kapiti Coast district. Additional temporary resource has been secured for the peak permit issuing period of October to January.
- 20 Other key achievements during the year include establishing a management structure, getting the WRFA website up and running, establishing a stakeholder operations advisory group and developing a fire plan which has been accepted by the National Rural Fire Authority.
- 21 A health and safety manual and committee have been developed and a significant amount of internal and volunteer training and community education has taken place. Good progress is also being made on the major task of developing an asset management plan.

Financial Considerations

LGFA

- 22 As at 30 June 2014, Council has invested \$100,000 in paid up ordinary shares in the LGFA. As a Principal Shareholding Local Authority, Council has also been required to subscribe for \$100,000 uncalled capital which would have to be paid up in the event that the LGFA required more capital.
- 23 The risk to Council as a result of its being a shareholder is that there is a joint liability (based on rates income) to pay debt costs in the event of another council defaulting on its debt repayments. In addition Council, along with other shareholders and guarantors is also a guarantor of all LGFA's borrowings, \$3.7 billion at 30 June 2014.
- 24 As at 30 June 2014, Council has borrowings of \$115 million with the LGFA. Each local authority that borrows from the LGFA has to hold borrower notes in an amount equal to 1.6% of the aggregate borrowings by that local authority. Accordingly Council holds borrower notes with a face value of \$1.84 million.
- 25 The LGFA reported a net operating profit of \$6.9 million for the year (\$2.6 million in 2013) from which a dividend to shareholders of \$1.765 million (or 7.06%) has been declared. With its shareholding of \$100,000 this will mean a dividend of \$7,060 to Council.

WRFA

- 26 The WRFA receives an annual cash contribution from each Member Agency. Kapiti Coast District Council provides annual funding to the WRFA of \$97,000 and also provides them with a leased vehicle. In addition, a one-off contribution to establishment costs of \$17,000 was made by all councils.
- 27 The WRFA is managing its funding appropriately with sufficient funds to address all its on-going obligations. It had budgeted to break even in the 2014 year but in fact made a surplus of \$187,000. The principal positive budget variations were \$83k income left over from establishment costs funding, vehicle costs being \$32,000 under budget, contracted and legal services being \$14,000 under budget and insurance costs being \$12,000 under budget.

Legal Considerations

- 28 There are no legal considerations arising from the matters in this report.

Consultation

- 29 There is no need to consult on the matters discussed in this report.

Policy Implications

- 30 Council has started the process of drafting its 2015 Long Term Plan (LTP) which, in accordance with the LGA 2002 must provide information on all of its CCOs. Specifically the LTP must, in relation to each CCO:
- a) name the CCO, identify any of its subsidiaries, and identify:
 - i. the local authority's significant policies and objectives in relation to ownership and control of the CCO; and
 - ii. the nature and scope of the activities to be provided by the CCO, and
 - iii. the key performance targets and other measures by which performance is to be judged.

Tāngata Whenua

- 31 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

- 32 This matter has a low level of significance under the Council Policy.

Publicity Considerations

- 33 There are no publicity considerations.

RECOMMENDATIONS

- 34 That the Audit and Risk Subcommittee notes the performance of the LGFA and the WRFA in their respective 2014 Annual Reports.

Report prepared by:

Approved for submission by:

Mark de Haast
Acting Group Manager Corporate
Services

Tamsin Evans
Group Manager Community Services

ATTACHMENTS:

- Appendix 1 – LGFA 2014 Annual Report
Appendix 2 – WRFA 2014 Annual Report