

OTAGO REGIONAL COUNCIL

Agenda for a meeting of the Audit and Risk Subcommittee to be held in the Council Chamber, 70 Stafford Street, Dunedin on Wednesday 8 March 2017, commencing at 1:00pm

Membership: **Mr David Benham** (Chair)
 Cr Stephen Woodhead (ORC Chairperson)
 Cr Gretchen Robertson (ORC Deputy Chairperson)
 Cr Doug Brown (Chair, Finance & Corporate Committee)
 Cr Trevor Kempton
 Cr Michael Laws

Apologies:

In attendance:

*Please note that there is an embargo on agenda items until 1:00pm on
Monday, 6 March 2017.*

CONFIRMATION OF AGENDA

CONFLICT OF INTEREST

PUBLIC FORUM

PART A - RECOMMENDATIONS

	Page Nos.
Item 1 2017/0680 Health and Safety Report. Human Resources Manager, 03/03/17-	5 - 11
The report summarises health and safety activities and incident statistics for the period since September 2016.	
Item 2 2017/0640 Legislative Compliance. Legal Counsel, 28/02/17	12 - 14
The report reviews Council's performance in regard to the responsibilities, functions and duties of Council in relation to Acts, Regulations, Bylaws and other Government directives.	

- Item 3
2017/0673 **Section 17A Reviews**. Manager Projects, 01/03/17 15 - 20

The purpose of this report is to provide information on work completed to date, along with a programme of work to be completed on Section 17A reviews for the Otago Regional Council.

- Item 4
2017/0608 **Financial Report to 31 January 2017**. Finance Manager, 02/03/17 21 - 29

The report provides information in respect of the overall Council finances for the seven months ended 31 January 2017.

PART C - RESOLUTION TO EXCLUDE THE PUBLIC

I move that the public be excluded from the following parts of the proceedings of this meeting (pursuant to the provisions of the Local Government Official Information and Meetings Act 1987), namely:

- Item 5
2017/0676 **BNZ Managed Fund Report to 31 December 2016**. DCS, 03/03/17
The covering report summarises the details of the full BNZ Managed Fund Report. The full report *BNZ Managed Fund Report to 31 December 2016* is circulated with the agenda.

- Item 6
2017/0681 **Audit Management Letter Report**, Finance Manager, 03/03/17
The report provides an update on the action taken in respect of the auditors recommendations made in the mangement letter of 2015/16.

- Item 7
2017/0677 **Director's Report**, DCS, 03/03/2017
The report details the BNZ Controls Report, Statement of Investment Policies and Objectives (SIPO), Audit contract and risk reporting.

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
Item 5 – BNZ Managed Fund Report to 31 December 2016	Section 7 (2) (h) to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities.	Section 48 (1) (a) Section 7 (2)(h)
Item 6 – Audit Management Letter – June 2016	Section 7 (2) (c) (i) to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— (i) would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.	Section 48(1) (a) Section 7 (2) (c) (i)
Item 7 – Director’s Report including: BNZ Controls Report; Statement of Investment Policies and Objectives; Audit contract; Risk Reporting.	<p>Section S7(2) (b) (ii) to protect information where the making available of the information - (ii) would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information; and</p> <p>Section 7 (2) (c) (i) to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— (i) would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.</p>	Section 48 (1) (a) Section S7(2) (b) (ii) Section 7 (2) (c) (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:

Item 5 Section 7 (2) (h) to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities

Item 6 Section 7 (2) (c) (i) to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— (i) would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

Item 7 Section S7(2) (b) (ii) to protect information where the making available of the information - (ii) would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information; and

 Section 7 (2) (c) (i) to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— (i) would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied

I also move that staff be permitted to remain in this meeting, after the public has been excluded, because of their knowledge of the BNZ Managed Fund, Audit Management letter and BNZ Controls Report and SIPO.

REPORT

Document Id: A984459

Report Number: 2017/0680
Prepared For: Audit and Risk Subcommittee
Prepared By: Human Resources Manager
Date: 03/03/2017

Subject: **Health & Safety Report to Audit & Risk Subcommittee - 8 March 2017**

1. Précis

This report summarises health and safety activities and incident statistics for the period since September 2016.

2. Staff Health & Safety Committee

The first meeting of the Staff Committee for 2017 is to be held on 3 March. An update on staff committee activities will be provided to the next Audit and Risk Subcommittee meeting.

3. Health & Safety Reporting

The Council asked the Chief Executive to provide more comprehensive health and safety reporting in his reports to the full Council and this is now in place. Without duplicating the detail which most of the subcommittee will have seen, some key points from the Chief Executive's most recent reports are:

- CE engagement on health and safety with staff teams and individuals.
- Role of the Health and Safety Advisor.
- Development work on SOP's (Standard Operating Procedures) and a hazards/risk register.
- Staff induction focus on health and safety.
- Staff participation in health and safety – role of the Staff Committee.

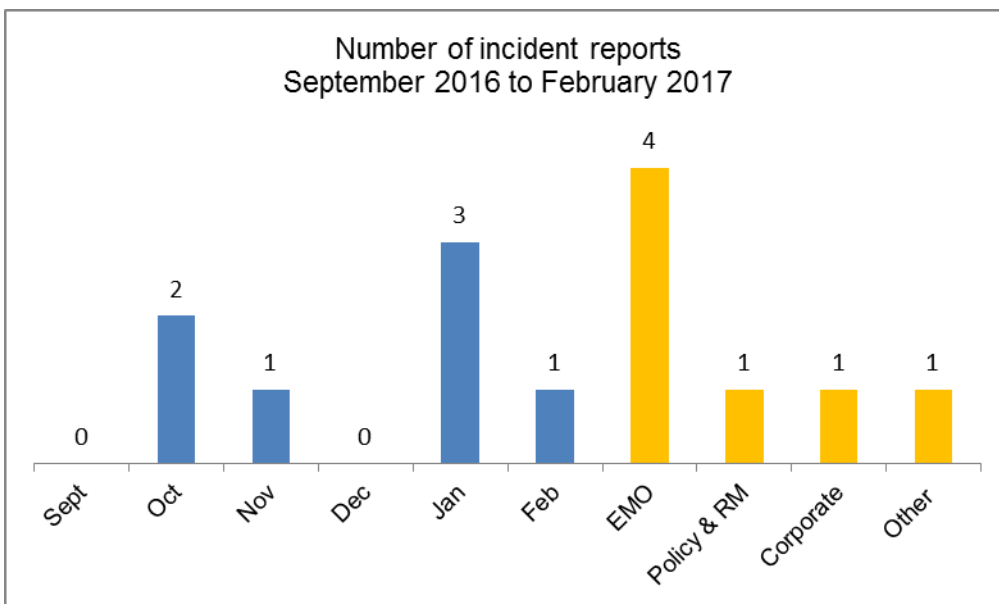
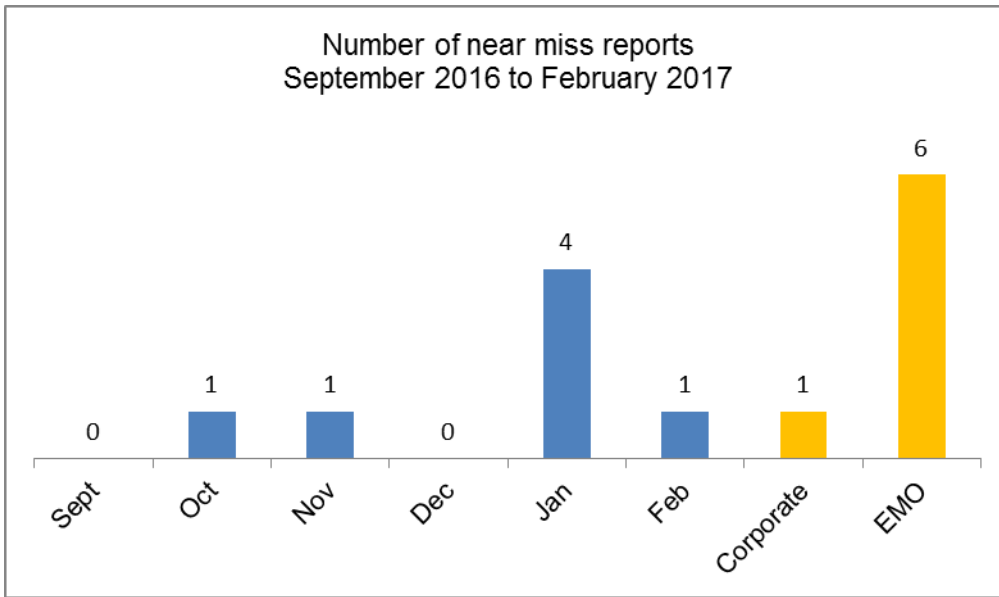
4. Accident & Incident Reporting

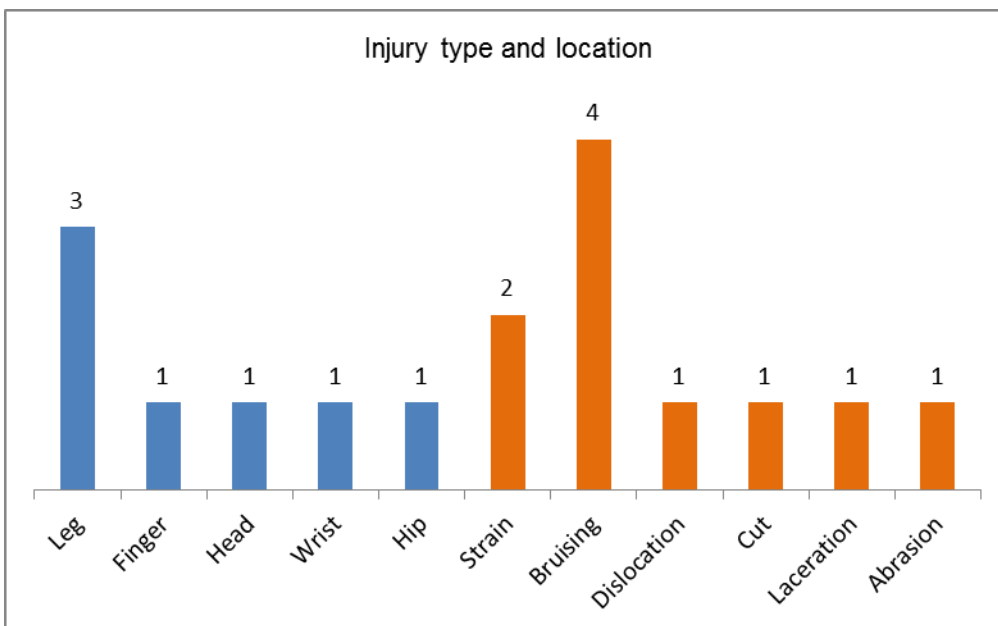
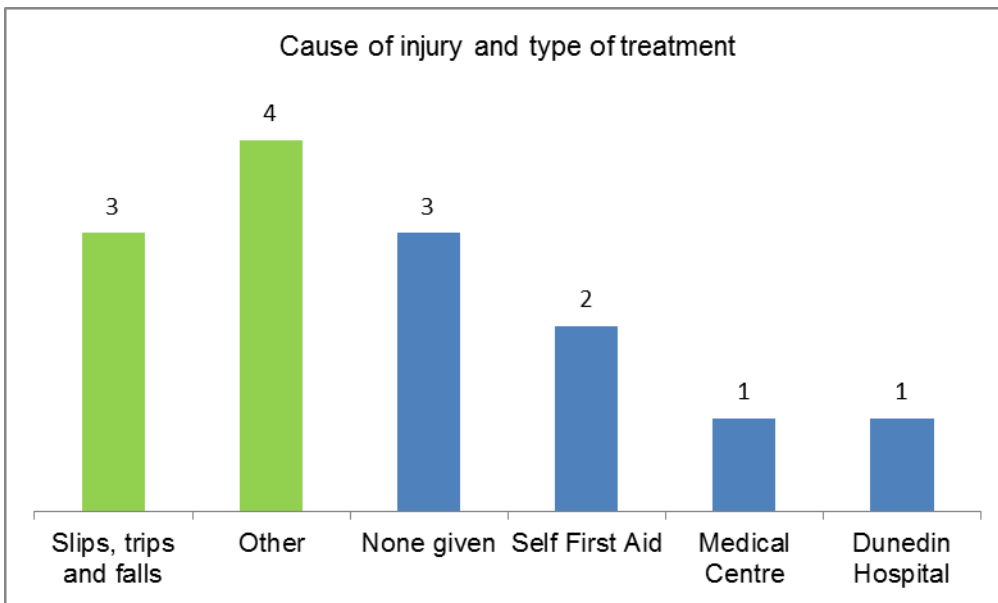
The following graphs show accident and incident data from September 2016 to February 2017, the period since the last report to subcommittee.

The first two graphs show the number of reports received over the period.

The second two graphs show the injury cause, treatment and type of injury sustained.

Of the near-miss incidents reported over the period, six required minor remedial action. One required more detailed follow-up regarding the incorrect installation of a tow-bar. Of the incidents reported, five required only minor follow-up. One resulted in further training in conflict and situational awareness for some field staff, a slip on the Dunedin Office driveway resulted in additional cleaning of the driveway surface and discussions are continuing with a training facilitator over a recent incident where a staff member was injured during water safety training.





5. Health & Safety Work

Having an experienced Health and Safety Advisor on staff is proving a real benefit to improving the procedures, systems and focus that goes into health and safety across Council activities, and contributes to sound health and safety thinking and culture. A lot of “on the ground” work is being carried out, including in our workplaces around the region.

The format of the hazard register has been reviewed and includes summarised control factors. A documented risk model is required to meet the legislative requirements. All operational activities have been identified and SOP’s are being developed for each activity, which includes

risks and controls. This information leads to documented protocols for in the field, provides training material for staff and is used as a basis for auditing. This project should be completed by the end of July and will enable the Executive Management Team to “flag” our highest risk areas and define lead principles to reduce these risks further.

This and other current activity is also mentioned in the report to the Subcommittee from our Legal Counsel.

An example from the Hazard/Risk Register is shown below, as an example of an SOP.

Lesley Laing
Human Resources Manager

HAZARD/RISK REGISTER - Appendix 3 Health & Safety Manual

This register records key significant hazards with core controls. In recognition that specific areas of Council work requires more detailed controls, these are represented in separate specific task SOP (Standard Operating Procedure) documents. The SOP documents are appendices to this Hazard/Risk Register and are to apply for the specified work area and particular tasks or activity. The relevant SOP is stated in the individual hazard.



HAZARD 10: Working in or near Water - Data Collection			
Status:	Version: 1	Issued: November 2016	Review Date: November 2017
Relevant SOP: 12		Category: Activity & Task	Applicable to: Staff in the field Engineering, Contractors

HAZARD	Raw Risk	No	Residual Risk	No
Drowning due to fast flowing water, submerged hazards, holes in the river bed, or due to falling into water	Almost Certain & Critical = Extreme	25	Unlikely and Critical = High	10
Slips, trips, falls, sprains or strains	Almost Certain and Major = Extreme	20	Rare and major = High	4
Exposure to contaminated water, parasites or <i>Leptospira</i> bacteria	Unlikely and moderate = Moderate	6	Rare and Moderate = Low	3
Hypothermia	Almost Certain & Critical = Extreme	25	Rare and Major = High	4
Contact with fast-moving water, including contact with fast moving items in water (e.g. logs or boats)	Likely and Major = Extreme	16	Rare and Major = High	4
Heat stroke and/or sunburn	Almost certain and Moderate=High	15	Rare and Minor = Low	2

CONTROLS - REFER TO RELEVANT SOP FOR MORE DETAILS
Induction Programme – new staff and planned revision for existing staff
Water related training – internal and external (wading, in water craft)
Pre work planning - check weather and site conditions
Carry out site assessment when arrive – checking for any hazards
Continual check and assessing environment and weather
Safety physical self-assessment: know your limits and monitor fatigue and cease work if feel unsafe
Identified PPE equipment used and competency training completed as necessary
Wear provided PPE equipment and trained in its use
ORC Policy: Lone Worker & Out of Office Travel Policy
ORC SOP 12: Working in and around Water
COP: Safe Working Code of Practice for the Acquisition of Field Data in and Around Fresh Water
COP: Best Practice for Acoustic Flood Gauging with an Acoustic Profiler Including Heli Gauging
WorkSafe: Working in Adverse Weather Conditions
Support Safety Tools: SmartTrak vehicle tracking system, PLB and Satellite phone (as applicable)

SOP 20: DRIVING ON ROAD	Implementation Date: December 2016	Version No.: One
	Last Reviewed:	Next Review: December 2016
	SOP Owner: H&S Team	Hazard Register ID #: 11

STANDARD OPERATING PROCEDURE
1. Purpose

- Defines identified health and safety controls to carry out particular tasks safely – activity comes from identified significant hazards (see Hazard Register)
- Provides consistent safe work methods for identified tasks
- To be used for staff induction and on-the-job training
- Reference point for internal or team audits

These procedures will improve the following;

- Health and safety: minimises identified risks in carrying out tasks
- Efficiency: consistent practice and process to ensure best practice and effective outcomes
- Peace of Mind: staff know what is required and that ORC supports best practice

2. Scope

- Applicable to all team members who carry out this task
- Reference document for decision making and planning; i.e. changes to procedure, considering new or changing equipment

3. References

- External industry COPs
- WorkSafe NZ Good Practice Guidelines
- ORC Hazard Register
- Statutory obligations

4. Explanation

Red	No controls in place	15-25 Unacceptable Risk – senior manager attention required to reduce risk
Yellow	Controls identified and applied	Risk 4-12 Moderate to High – a significant hazard

5. Procedures / Tasks /

NOTE: This SOP relates to travel on primary and secondary roads – refer to SOP 12 for Off Road Driving

Assessed Risk	CONTROLS	Raw Risk	Residual Risk
Collision with other vehicles, crashing into another person, animal or inanimate object, or general loss of control causing an accident	1. Drivers to obey all road rules and drive to the road conditions and adhere to ORC Policy – Vehicles. 2. Drivers will attend driver training as appropriate to their role (Driver Safety and Off road/4WD training (as applicable)) 3. Induction - all drivers to view the Safer Journeys- Safer System Approach initiative.	15 Extreme	5 High
Poor condition of vehicles or roads	4. Council vehicles have programmed both maintenance and road registration requirements. 5. Drivers are responsible for checking general condition of the vehicle and WOF and diesel km's (if applicable). Any issues or repairs required to notify Support Services for instruction 6. Check road conditions prior to travel; particularly in winter, unexpected or severe weather events (storms, flooding etc.)	15 Extreme	4 High
Driver fatigue, poor weather conditions or sudden light strike Driving erratically, unsafely or at excessive speeds (e.g. road rage, drag racing, encountering an inexperienced road user)	7. Monitoring fatigue and pull off the road and rest if required. 8. Drive to the road and weather conditions. 9. Drive within the road rules, the traffic conditions at the time and do not engage in unsafe manoeuvres.	25 Extreme	10 High

OTHER APPLICABLE CONTROLS

Control 1	Staff have approved access to vehicles after producing evidence that they are appropriately licensed. Drivers to have licence with them at all times.
Control 2	<u>Licence changes</u> ; Staff are required to advise ORC of any changes to their licence; for example restrictions, convictions, or loss of licence. Drivers to ensure licences are renewed as applicable.
Control 3	<u>Vehicle use</u> : induction process. Driver Safety training is provided to staff that use a vehicle on average once or more a week. Internal flat tyre and chains training sessions (winter) are organised annually.
Control 4	<u>Vehicle safety tools</u> ; Smartrak software tracks the path of the vehicle and an ELB is located in each work vehicle in the event of the driver requiring an emergency response. ORC vehicle keychains have a window breaking tool that can be used to escape the vehicle. ORC is working towards having reversing cameras installed in Council vehicles – vehicle replacement programme.
Control 5	<u>Working Alone Policy</u> : notify manager and timings; select buddy – advise travel details and agree on check-in's; update info if changes. Follow up if person has not notified; call for 1 hour, then check nearest office for physical check to happen; after 2.5 hours notify manager and police.

Reference Documents:

- Intranet/Human Resources/Vehicle Policy
- Intranet/Health & Safety/Working Alone Procedures: Regional Services Operations, Environmental and Taieri; Hotline; Resource Science; Environmental Engineering & Natural Hazards; Consents; Corporate; Policy & Transport; Land Resources; and Alexandra Office

REPORT

Document Id: A979726

Report Number: 2017/0640
Prepared For: Audit and Risk Subcommittee
Prepared By: Peter Kelliher, Legal Counsel
Date: 28 February 2017

Subject: **Legislative Compliance**

1. Précis

The Otago Regional Council ("Council") is a creature of Statute and derives its functions, duties and responsibilities from a range of Acts, Regulations, Bylaws and other Government directives.

Council must ensure it is compliant with these instruments in all respects. In order to do so, it must periodically review its performance against these instruments to ensure ongoing compliance.

2. Building Act 2004

From 31 March 2009, only registered Building Consent Authorities ("BCA"s) have been permitted to perform building consenting and certifying functions in terms of the Building Act 2004.

The Council is registered as a BCA and is responsible for building control for dams and their associated structures in Otago, West Coast and Southland regions.

Accreditation

BCA's are audited by IANZ every three years to determine their conformance with the requirements of the Building (Accreditation of Building Consent Authorities) Regulations 2006 (Regulations 4 – 18 inclusive) and applicable technical and procedural criteria.

The Council was audited by IANZ in October 2016 and successfully achieved reaccreditation.

3. Resource Management Act 1991

In December 2016, a full independent audit of Council's resource consent processes under the Resource Management Act 1991 was undertaken by Telarc.

As a result of this audit, Council was assessed as being fully compliant with legislative requirements in this area. Accordingly, Council's ISO accreditation was renewed with no conditions.

4. Navigational Safety Responsibilities

In 2016, Council undertook a review of its role in navigational safety in the Otago region, including Council's functions and powers under Part 3A of the Maritime Transport Act 1994.

Included in Part 3A of the Act are the powers to:

- 4.1 Regulate ports, harbours and waters in the region.

- 4.2 Regulate maritime-related activities in the region; “marine-related” means any activity (including the use of land, buildings, equipment or other property) that is likely to affect maritime safety.
- 4.3 Appoint harbourmasters.
- 4.4 Appoint enforcement officers and honorary enforcement officers.
- 4.5 Carry out harbour works for the purposes of ensuring maritime safety; within this function, the Council may erect and maintain navigational aids, remove obstructions and impediments to navigation and carry out works which it considers likely to improve navigation. This power is subject to the Resource Management Act 1991 and the Marine and Coastal Area (Takutai Moana) Act 2011.
- 4.6 Remove wrecks.
- 4.7 Remove and dispose of abandoned ships.
- 4.8 Make navigational bylaws.
- 4.9 Enforce navigation bylaws.

It is important to note the Maritime Transport Act confers powers, not duties. The Act does not require the Council to exercise any of its functions in Part 3A of the Act. The only power which the Council must exercise is to appoint a harbourmaster, if, and only if, directed to do so by the Director of Maritime New Zealand.

However, if navigation safety is unregulated or inadequately regulated, the Council may have liability in negligence.

The review identified a number of risks from the current arrangements (as at May 2016). These risks included:

- Resourcing;
- Risk management;
- Over-involvement; and
- Lack of legal mandate.

The Council has engaged external maritime expertise to work through the risks identified. Positive outcomes from this engagement (to date) include:

- Engaging with the maritime community – this has provided Council with an understanding of maritime issues in Otago;
- Stakeholders are more satisfied with the maritime service provided by Council;
- Working with Port Otago on emergency response risk management;
- Reviewing policies and processes of Port Otago activities;
- Addressing maritime concerns/ risks with appropriate signage/markings;
- Risk based approach to hot work permits/ activity permits and authorities;
- Responding appropriately to maritime incidents; and
- Enforcement.

5. Health and Safety

In 2016, Council appointed a full-time Health and Safety Officer. The primary focus of this role is to review existing process and resources, ensure that work is in accord with current accepted “good practice” standards and that it is undertaken in a manner that is consistent with the Health and Safety at Work Act 2015 (“HSWA”) and relevant regulations.

Initiatives which are or have been undertaken include:

- External structural assessment of Council owned Hydro Monitoring structures;
- Reviewing systems and procedures to meet the ‘demonstrable’ and ‘evidence’ requirements – initial focus is operational activity;
- Defined Risk Model which is; creating Standard Operating Procedures (“SOP”) for all operational activity and defining the level of risk and controls. These documents will provide operational protocol and training material for staff and will become the basis for auditing. This is an extensive project and currently SOP’s are being created;
- Pre-approved contractors (for health and safety) – in progress. The means Council works with contractors that have compliant health and safety management systems;
- Developing Safety Work Permit procedures;
- Landowner/Land Occupiers Project – PCBU¹ responsibilities and defining effective process of meeting the ‘co-operate, co-ordinate, communicate’ requirements of the HSWA; and
- Advisory for ORC projects e.g. Wilding Pine Funding.

6. Recommendations

- 6.1 That this report be received.

Nick Donnelly
Director Corporate Services

¹ A PCBU is a person conducting a business or undertaking – section 17 HSWA

REPORT

Document Id: A983774

Report Number: 2017/0673
Prepared For: Audit and Risk Subcommittee
Prepared By: Manager Projects
Date: 3 March 2017

Subject: **Section 17A Reviews**

1. Précis

Section 17A of the Local Government Act 2002 (LGA) requires Councils to periodically review the cost effectiveness of current arrangements for service delivery in meeting the needs of communities within their district or region, including the governance, funding, and delivery of infrastructure, services and regulatory functions.

The purpose of this report is to provide information on work completed to date, along with a programme of work to be completed on Section 17A reviews for the Otago Regional Council.

2. Background

The LGA was amended in August 2014, to bring in the Government's second phase of legislative reform to improve the operation, efficiency and effectiveness of local government. One of the new provisions in the amendment was the introduction of Section 17A – Delivery of Services.

This section requires Council to undertake reviews of the cost effectiveness of current arrangements for undertaking its activities, specifically looking at governance arrangements, funding arrangements and how each service is delivered, for example, contracted out, shared service, in house etc. A copy of the full section is attached at Appendix 1.

A review must be undertaken:

- In conjunction with consideration of any significant change to relevant service levels; and
- Within 2 years before the expiry of any contract or other binding agreement relating to the delivery of that infrastructure, service, or regulatory function; and
- At such other times as the local authority considers desirable, but not later than 6 years following the last review under subsection 1 of Section 17A.

Regardless of the above, the LGA has a transitional provision that requires that all services must be reviewed by 8 August 2017.

There are two exceptions where a review is not necessary, as follows:

- There is a contract or other agreement in place that cannot reasonably be changed within two years, or
- The local authority is satisfied that the costs of doing a review outweigh the benefits of doing a review.

3. Work completed to date

3.1 Otago local authorities project team

The Otago Mayoral Forum expressed support for a joint Otago review process to be undertaken, and in January 2016, the Otago Chief Executive Forum convened a project team to scope this work. The project team consists of a representative from each council, and its purpose has been:

- to consider the activities of each council and determine if there is an opportunity to undertake joint reviews, and
- to develop a two stage programme of work.

A paper from the Project Team detailing a proposed two stage programme of work and methodology was presented to the Mayoral Forum in May 2016. The two stage work programme consisted of:

- Stage 1 – a high level review of all activities.
- Stage 2 – a detailed review of those activities which represent the best opportunities in Otago for more cost-effective service provision.

It was also recommended that the detailed reviews be conducted using an adapted Better Business Case (BBC) five-case methodology. This methodology requires:

- a clear statement of the rationale for change (strategic case);
- rigorous analysis of options to select a preferred option (economic case);
- analysis of options to optimise the benefits of existing supply markets (commercial case);
- a clear understanding of financial costs, funding and who pays (financial case); and
- sound management of all the risks associated with delivery to ensure the benefits are realised (management case).

The Mayoral Forum supported the recommendations made and resolved to allocate \$25,000 for the high level service review, and a further \$125,000 for any identified detailed regional reviews in 2016/17.

During 2016, the Project Team completed stage 1 of the work, reviewing all activities undertaken by each council, and combining these into 27 'regional activity groups'. For each group, data was gathered including current and forecast operating and capital costs; activity specific revenue; staffing levels; and the consistency of current service arrangements.

A high-level BBC strategic case assessment was the applied to the activity groups, which considered:

- efficiency and effectiveness gaps at a regional level;
- the degree of change needed to realise benefits;
- how benefits might be shared;
- any risks to realising benefits; and
- any other constraints or dependencies.

In addition, the Section 17A requirements to consider options for the governance, funding and delivery of services were also looked at for each group. The potential for a detailed review of each option to realise benefits exceeding the total costs of review was assessed and each activity was categorised as having strong, uncertain or limited potential.

In November 2016, recommendations were made to the Otago Mayoral Forum to complete stage 2 detailed reviews of three regional activities:

- solid waste,
- regulatory services, and
- waterways and harbour management.

The regional benefits of these reviews have the strong potential to exceed the costs of those reviews.

It was also recommended at that meeting that further assessments of the potential benefits for the three waters and land transport (roading) activities be undertaken. The Mayoral Forum accepted these recommendations. It is now for each council to confirm or decline to participate in these regional reviews.

Because ORC has different responsibilities to those undertaken by the Otago territorial authorities, the number of joint reviews that ORC will participate in is limited. Note is also made that a joint review may not involve all councils, but may consist, for example, of only two councils that believe there may be some benefit in considering a shared service.

Of the joint reviews discussed above to be undertaken, ORC will participate in the waterways and harbour management review only. Certain ORC harbour management responsibilities were transferred to Central Otago District Council and Queenstown Lakes District Council some years ago, so a review is timely, to consider if those transfers are still the best model for service delivery, along with the governance and funding considerations.

ORC has no role in solid waste, or the regulatory review which is focused on territorial authority functions including building control, animal control, liquor licensing and parking enforcement. The land transport review is focusing on roading, and three waters covers water supply, waste water and storm water disposal.

A meeting of the project group is being held on Friday 3 March 2017 to review draft project plans for the five activities discussed above, and confirm the way forward.

Section 17A reviews will be undertaken prior to August 2017, but note is made that for some activities, those reviews may recommend further investigation into governance, funding or delivery methods that are different to the status quo. The implementation of any change for an activity may take months or even years to implement.

3.2 Emergency management for Otago

A Section 17A review has been completed by ORC on behalf of the Otago local authorities for Emergency Management for Otago, and its recommendations for a new structure have been implemented.

3.3 ORC programme of work

ORC undertakes many activities not undertaken by the other Otago territorial authorities, and these are listed in the table below:

Activities	Comments
Resource consent processing	Both RMA and Building Act (dams).
Compliance monitoring and enforcement	Include looking at how much monitoring work should be done and why.
State of the Environment monitoring	Includes air quality, water quality and quantity.
Policy planning and development	Strategies, regional plans etc., across all areas of Council.
Flood and drainage schemes, and river management	Both operational work (maintaining the schemes) and engineering planning and capital works.
Biosecurity	Pest plant and animal control
Natural hazards	Includes flood risk management

Over the next 6 months, the following process will be undertaken for these activities:

- Determine the cost effectiveness of undertaking Section 17A reviews for each.
- Where appropriate, undertake high level reviews that comply with Section 17A. The reviews should identify if there are any feasible options for other ways to provide these services etc. that may need to be investigated further. If so, establish a priority list for review, and the resources needed to undertake those investigations.
- Present findings and recommendations to Council.

4. Recommendation

1. That this report be noted.

Nick Donnelly
Director Corporate Services

Appendix 1 Section 17A – Delivery of services

- (1) A local authority must review the cost – effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions.
- (2) Subject to subsection (3), a review under subsection (1) must be undertaken –
 - (a) In conjunction with consideration of any significant change to relevant service levels; and
 - (b) Within 2 years before the expiry of any contract or other binding agreement relating to the delivery of that infrastructure, service, or regulatory function ; and
 - (c) As such other times as the local authority considers desirable, but not later than 6 years following the last review under subsection (1).
- (3) Despite subsection (2)(c), a local authority is not required to undertake a review under subsection (1) in relation to the governance, funding and delivery of any infrastructure, service or regulatory function-
 - (a) To the extent that the delivery of that infrastructure, service, or regulatory function is governed by legislation, contract, or other binding agreement such that it cannot reasonably be altered within the following 2 years; or
 - (b) If the local authority is satisfied that the potential benefits of undertaking a review in relation to that infrastructure, service or regulatory function do not justify the costs of undertaking the review.
- (4) A review under subsection (1) must consider options for the governance, funding, and delivery of infrastructure, services, and regulatory functions, including but not limited to, the following options:
 - (a) Responsibility for governance, funding and delivery is exercised by the local authority:
 - (b) Responsibility for governance and funding is exercised by the local authority, and responsibility for deliver is exercised by –
 - (i) A council-controlled organisation of the local authority; or
 - (ii) A council-controlled organisation in which the local authority is one of several shareholders; or
 - (iii) Another local authority; or
 - (iv) Another person or agency:
 - (c) Responsibility for governance and funding is delegated to a joint committee or other shared governance arrangement, and responsibility for delivery is exercised by an entity or a person listed in paragraph (b)(i) to (iv).
- (5) If responsibility for delivery of infrastructure, services, or regulatory function sis to be undertaken by a different entity from that responsible for governance, the entity that is responsible for governance must ensure that there is a contract or other binding agreement that clearly specifies-
 - (a) The required service levels; and
 - (b) The performance measures and targets to be used to assess compliance with the required service levels; and
 - (c) How performance is to be assessed and reported; and
 - (d) How the costs of delivery are to be met; and
 - (e) How any risks are to be managed; and
 - (f) What penalties for non-performance may be applied; and
 - (g) How accountability is to be enforced.

- (6) Subsection (5) does not apply to an arrangement to the extent that any of the matters specified in paragraphs (a) to (g) are-
- (a) Governed by any provision in an enactment; or
 - (b) Specified in the constitution or statement of intent of a council-controlled organisation.
- (7) Subsection (5) does not apply to an arrangement if the entity that is responsible for governance is satisfied that –
- (a) The entity responsible for delivery is a community group or a not-for-profit organisation; and
 - (b) The arrangement does not involve significant cost or risk to any local authority.
- (8) The entity that is responsible for governance must ensure that any agreement under subsection (5) is made publicly available.
- (9) Nothing in this section requires the entity that is responsible for governance to make publicly accessible any information that may be properly withheld if a request for that information were made under the Local Government Official Information and Meetings Act 1987.

REPORT

Document Id: A975062

Report Number: 2017/0608
 Prepared For: Audit and Risk Committee
 Prepared By: Finance Manager
 Date: 2 March 2017

Subject: **Financial Report to 31 January 2017**

The following information is provided in respect of the overall Council finances for the seven months ended 31 January 2017.

1. Statement of Comprehensive Revenue and Expense, Statement of Financial Position and Activity Expenditure Summary

**Otago Regional Council
 Statement of Comprehensive Revenue and Expense
 For the seven months to 31 January 2017**

	Note Ref.	\$000s			
		Annual Budget	Year to date to 31 January 2017		
			Budget	Actual	Variance Note *
Revenue:					
Rate revenue		15,940	9,300	9,307	7
Government subsidies	Note 1	9,575	4,375	3,924	(451)
Other revenue	Note 2	3,892	2,364	3,014	650
Dividend income from Port Otago Ltd	Note 3	7,400	4,317	4,317	-
Interest and investment income	Note 4	2,150	1,254	1,077	(177)
Rental income	Note 5	1,111	648	596	(52)
Gain in value of investment Property	Note 6	313	-	-	-
Total Revenue		40,381	22,258	22,235	(23)
Less Expenses:					
Operating expenses		30,034	14,763	13,883	880
Employee benefits expense		12,133	7,000	6,945	55
Depreciation/Amortization charge	Note 7	1,761	1,027	1,101	(74)
Total Expenses		43,928	22,790	21,929	861
Surplus/(deficit)		(3,547)	(532)	306	838
Income tax benefit		115	57	57	-
Surplus/(deficit) after tax		(3,432)	(475)	363	838
Revaluation gain – shares in subsidiary	Note 8	10,000	-	-	-
Net comprehensive revenue		6,568	(475)	363	838

Note *

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

Note 1 – Government Subsidies

The Council receives subsidies from Government agencies on eligible expenditure. The level of subsidy income is therefore directly related to the level of eligible expenditure.

Subsidy income from the Public Passenger Transport project is down \$340,000 on the budget of \$4,152,000.

The major individual variances where the subsidy income is less than budgeted, are the Dunedin Bus Contracts activity with a variance of \$280,000, the Electronic Ticketing System Replacement project with a variance of \$171,000, and the Real-time Information Dunedin project with a variance of \$106,000.

The net variance on the remaining projects within the Public Passenger Transport activity amounts to \$218,000 in excess of the budgeted subsidy level.

Subsidy income related to the Stock Truck Effluent Disposal Site capital expenditure in Central Otago is budgeted at \$147,000. The project is currently in the initial planning phase with the consequential effect that the budgeted subsidy income is not yet claimable.

Note 2 – Other Revenue

The amount of other revenue earned of \$3,014,000 exceeds the budgeted amount of \$2,364,000 by \$650,000.

The major reason for revenue exceeding budget is the receipt of unbudgeted gross contract bus fare revenue of \$761,000. Bus contracts were fully budgeted on a net contract basis where the Council makes payments to operators net of fare revenue. Some contractual arrangements are now on a gross basis, where Council pays the gross amount to operators and receives fare revenue from the operators. This change in arrangement results in higher than budgeted expenditure and revenue, in respect of the gross contracts.

Note 3 – Dividend Income from Port Otago Limited

Dividend income is accrued during the year based on the budgeted dividend level set in the Annual Plan.

The timing of dividend payments expected to be received are interim dividends in the months of February and June 2017, with a final dividend expected in September 2017.

Note 4 – Interest and Investment Income

This revenue line comprises interest earned on term deposits and bank accounts of \$783,000 and an increase in fair value of the managed fund portfolio of \$294,000.

Interest earned on the term deposit portfolio for the seven months to 31 January 2017, amounts to a weighted average interest rate of 3.49%.

The increase 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.

Note 5 – Rental Income

The prime reason for rental income being less than budget is that the budget provided for income on property that has been disposed of subsequent to formulation of the budget. This includes properties formerly held for the Leith Flood Protection Scheme and sub-lease income on the Queenstown office, formerly leased by Council.

Note 6 – Gain in Value of Investment Property

Investment Property is revalued annually, with the next revaluation date being 30 June 2017. Accordingly the year to date budget and actual amounts reflect nil values.

Note 7 – Depreciation and Amortization

The total of the depreciation and amortization charge of \$1,101,000 exceeds the budgeted amount by \$74,000.

A significant factor in this variance is additional depreciation on flood protection and drainage scheme assets – with the Leith scheme accounting for \$36,000 of the overall variance, and the Lower Clutha Scheme \$13,000. Additional depreciation charges on computer hardware, and amortization charges on consents and compliance and general software systems, accounts for a further \$16,000 of the variance.

Depreciation and amortization charges are a non-cash charge, and may vary from budget due to several factors including cost and timing of acquisition.

Note 8 – Revaluation Gain – Shares in Subsidiary

The annual budget makes provision for an increase in the valuation of the Council's 100% shareholding in Port Otago Limited. The shares are valued annually, with the next revaluation date being 30 June 2017. Accordingly, the year to date budget and actual amounts reflect nil values.

Otago Regional Council
Statement of Financial Position as at 31 January 2017

		31 January 2017 \$000's	30 June 2016 \$000's
Current Assets			
Cash and cash equivalents	Note 1	4,081	2,540
Other financial assets	Note 1	57,047	56,198
Trade and other receivables	Note 2	4,576	3,298
Other current assets		307	207
Property held for sale and inventory		1,284	1,284
Dividends Receivable	Note 3	3,517	-
		70,812	63,527
Non-Current Assets			
Property plant and equipment		84,709	84,138
Intangible assets (computer software)		1,692	1,800
Investment Property	Note 4	10,785	10,785
Deferred tax asset		155	98
Shares in subsidiary Port Otago Ltd	Note 5	418,239	418,239
		515,580	515,060
Total Assets		586,392	578,587
Current Liabilities			
Trade and other payables		4,001	4,134
Employee entitlements		1,062	1,483
Revenue in advance	Note 2	7,999	-
		13,062	5,617
Non-current Liabilities			
		-	-
Total Liabilities		13,062	5,617
Net Assets		573,330	572,970
Total Equity and Reserves			
Public equity		134,637	137,205
Reserves			
Available-for-sale revaluation reserve	Note 5	398,239	398,239
Asset revaluation reserve	Note 4	8,724	8,724
Building reserve	Note 6	13,777	10,997
Asset replacement reserve		6,127	5,987
Emergency response reserve		3,973	3,891
Water management reserve		1,463	1,433
Kuriwao endowment reserve		6,323	6,271
Environmental Enhancement Reserve	Note 7	67	223
		438,693	435,765
Total Equity and Reserves		573,330	572,970

Note 1 – Cash and Cash Equivalents and Other Financial Assets

Funds surplus to the Council's immediate and short term requirements are managed on Council's behalf by the BNZ. An Investment Portfolio and term deposits with durations of 4-12 months are included in the classification Other Financial Assets. Current bank balances and term deposits with durations of less than 4 months are included in Cash and Cash Equivalents.

Note 2 – Trade and other Receivables and Revenue in Advance

The following two items have a significant affect on the above two Statement of Financial Position line items.

Rates Revenue and Receivables

The receivables amount of \$4,576,000 includes rates outstanding of \$1,308,000. This is the remaining balance outstanding following issue of the Council's rate assessments of \$18,385,000 in September and subsequent payments.

The portion of rate revenue that will be released to the Statement of Revenue and Expenses in the following months amounting to \$6,662,000 is included in the Revenue in Advance amount of \$7,999,000.

Ministry of Primary Industries Funding

The Council has received funding of \$1,171,000 (excl GST) from MPI in respect of funding related to Wilding Conifer Control work in the Otago region.

The funding will be released to revenue when work is performed and the parties participating in the arrangement become eligible to receive the funding.

Until this eventuates, the net funding of \$1,171,000 is reflected in the Revenue in Advance amount of \$7,999,000.

Note 3 – Dividends Receivable

The dividend receivable amount reflects the accrual of expected dividends from Port Otago Limited for the period of this report, less the final dividend for the June 2016 year of \$800,000 received in September 2016.

Note 4 – Investment Property and Asset Revaluation Reserve

Investment property is revalued annually and is included at the 30 June 2016 valuation. The asset revaluation reserve reflects the revaluation amount of the investment property at 30 June 2016.

Note 5 – Shares in Port Otago Ltd and Available-for-Sale Revaluation Reserve

The shares in Port Otago Ltd are included at the 30 June 2016 valuation, and the Available-for-Sale Revaluation Reserve reflects the revaluation amount of the shares. The shares will next be revalued as at 30 June 2017.

Note 6 – Building Reserve

The 2016/17 Annual Plan provides for the transfer to the reserve of \$2,500,000 from public equity. The transfer is fully reflected in the reserve balance to 31 January 2017, along with interest earned to date.

Note 7 – Environmental Enhancement Reserve

Note is made that three grants amounting to \$159,000 were made to organisations in November/December in support of community projects contributing to the enhancement of the local environment, the purpose for which the reserve was established.

Activity Expenditure Summary

		Annual Budget 30 June 2017 \$000's	Budget January 2017 \$000's	Actual January 2017 \$000's	Variance * Actual vs Budget \$000's
Environment	Note 1				
Air		451	259	240	19
Environmental Incident Response		1,263	767	684	83
Land		1,982	1,175	1,122	53
Rivers and Waterway Management		1,822	941	769	172
Water		7,654	4,494	3,910	584
		13,172	7,636	6,725	911
Community	Note 2				
Public Information and Awareness		1,937	1,113	1,291	(178)
Democracy		1,548	831	866	(35)
Financial Contributions		350	204	204	-
Regional Economic Development		100	58	3	55
		3,935	2,206	2,364	(158)
Regulatory	Note 3				
Policy Development		176	103	237	(134)
Consents and Compliance		2,712	1,567	1,570	(3)
Harbour Management		273	110	370	(260)
		3,161	1,780	2,177	(397)
Flood Protection & Control Works	Note 4				
Leith Scheme		5,020	679	1,143	(464)
Taieri Schemes		2,034	1,186	734	452
Clutha Schemes		1,810	1,042	595	447
Other projects		267	156	171	(15)
		9,131	3,063	2,643	420
Safety and Hazards	Note 5				
Natural Hazards		1,261	745	787	(42)
Emergency Management		702	404	791	(387)
		1,963	1,149	1,578	(429)
Transport	Note 6				
Regional Land Transport Planning		167	97	188	(91)
Public Passenger Transport		16,320	7,479	7,572	(93)
Stock Truck Effluent Disposal Sites		495	288	18	270
		16,982	7,864	7,778	86
		48,344	23,698	23,265	433

* Variances – bracketed variances denote expenditure in excess of budget.

Activity Expenditure captures operating expenditure (external and internal) and capital expenditure.

Activity Expenditure is reported upon in detail in the Four, Eight and Twelve Month Review reports. In the periods between these reports, including this report to 31 January, brief comment only is provided on significant activity expenditure variances.

Accordingly, the following notes identify the projects that have significantly contributed to the major overall activity variances to 31 January 2017, as shown in the above table.

Note 1 – Environment

The Environmental Incident Response projects show net under-expenditure of \$83,000 against a budget of \$767,000. Incident response and enforcement action is dependent on the number of incidents/cases and actual costs will fluctuate compared to budget.

The Rivers and Waterway Management projects are under-expended by \$172,000 against a budget of \$941,000.

The Dunedin district is over-expended by \$80,000 against a budget of \$149,000 whereas the other districts currently record under-expenditure. Variances are largely due to the timing of actual work performed varying in comparison to the phasing of the annual budget.

The Water related projects with expenditure of \$3,910,000 are \$584,000 under budget. Projects showing significant variances shown below:

Rural Water Quality Implementation

This project is under-expended by \$260,000 against the budget of \$1,274,000. A large number of sub-projects are underway within this overall project, but a number of variations to planned activities has resulted in delays and/or reduced expenditure.

Implementation of Regional Plan Water (1C)

This project is under-expended by \$220,000 against the budget of \$444,000, mainly due to the re-organisation of staff groupings that has resulted in fewer staff performing this work than was provided for in the budget.

Coastal Strategy

This project is under-expended by \$189,000 against the budget of \$267,000 mainly due to the diversion of policy staff to higher priority project work, primarily the RPS.

Bulk Rural Water Fund

The budget provided for applications of \$143,000 to be paid by 31 January, however there were no applications received and paid in this 7 month period.

Minimum Flows and Allocation Units project

Additional expenditure of \$163,000 against the budget of \$709,000 was recorded, arising mainly from accelerated work programmes (timing) and an increase in monitoring requirements, resulting in increased work.

Water Quality and Quantity SOE project

This project is over-expended by \$136,000 against a budget of \$1,223,000, partly due to timing issues and unbudgeted expenditure incurred in respect of trophic lake monitoring.

Note 2 - Community

The Public Information and Awareness group of projects shows net over-expenditure of \$178,000 against a budget of \$1,113,000.

The primary cause of the variance is a change in the way the LAWA project is administered and accounted for, with expenditure of \$278,000 being recorded against the budget of \$9,000.

The Public Information project shows under-expenditure of \$71,000 against a budget of \$796,000, primarily due to the timing of the website upgrade planned for later in the year and some labour costs being diverted to other more specific projects.

The Regional Economic Development project is under-expended by \$56,000 against the budget of \$58,000. A consultant is underway with the preparation of a report, and expenditure will be recorded as invoices come to hand.

Note 3 – Regulatory

The Regional Policy Statement project was budgeted to be completed prior to this financial year, however, completion took longer than anticipated and the RPS was released in late September 2016.

The current year budget provides for annual expenditure of \$176,000 with \$103,000 anticipated to have been spent to 31 January. Actual expenditure incurred in the seven months to 31 January has amounted to \$237,000 resulting in over-expenditure of \$134,000.

The Harbour Management project is over-expended by \$260,000 against a budget of \$110,000. Harbourmaster services are currently being contracted out while permanent resourcing is pursued. The market rate of harbourmaster services is significantly higher than the cost anticipated when budgets were prepared.

Note 4 – Flood Protection and Control Works

The Flood Protection and Control activity overall is under-expended by \$420,000 against the budget of \$3,063,000.

The Taieri and Clutha schemes are under-expended by \$452,000 (budget \$1,186,000) and \$447,000 (budget \$1,042,000) respectively.

These variances comprise both timing issues in terms of work phasing and permanent savings on budget.

In respect of permanent savings, at the time of budget preparation there was uncertainty regarding the nature and extent of water quality improvement work necessary for the consenting of pumping stations. The budgets allowed for infrastructure improvement work – however it has transpired that changes to operational procedures at minimal cost will be sufficient.

The infrastructural improvement work allowed for in the year to date budgets amounts to \$118,000 in the Lower Clutha scheme, \$71,000 in the West Taieri scheme and \$73,000 in the East Taieri scheme.

The Leith Scheme is over-expended by \$464,000 against the budget of \$679,000. This is largely a result of capital expenditure being incurred earlier in the year than provided for in the budget phasing, and completing work that was provided for in the previous year budget.

Note 5 – Safety and Hazards

The Emergency Management project is over-expended by \$387,000 against the budget of \$404,000. The additional expenditure relates to the establishment of Emergency Management Otago, creation of a new EMO website and additional costs over that budgeted with the transition to an integrated staff structure, and other associated costs.

Note 6 – Transport

The Regional Land Transport Planning project is over-expended by \$91,000 against the budget of \$97,000, largely reflecting the fact that the work entailed in this project is significantly more comprehensive and costly than was provided for in the budget.

The Stock Truck Effluent Disposal Sites project is under-expended by \$270,000 against the budget of \$288,000. The project is currently in the initial planning phase whereas the budgeted timing anticipated a greater level of progression through the project at this point.

2. Recommendation

That this report be received.

Nick Donnelly
Director Corporate Services