chatham islands council

Performance Audit & Risk Committee

MEETING PACK

for

PARC Meeting

Monday, 24 June 2024

9:00 am (+1245)

Held at:

Chatham Islands Council

13 Tuku Road, Chatham Islands

Generated: 2024-06-19 15:38:30

INDEX

AGENDA

PARC MEETING

Name:	Performance Audit & Risk Committee
Date:	Monday, 24 June 2024
Time:	9:00 am to 11:00 am (+1245)
Location:	Chatham Islands Council, 13 Tuku Road, Chatham Islands
Committee Members:	Mr Philip Jones (Committee Chair), Mayor Monique Croon, Cr Keri Day, Cr Greg Horler, Cr Steve Joyce
Attendees:	Ms Jo Guise, Ms Colette Peni, Ms Mereraina Hemara, Ms Tanya Clifford, Mr Paul Eagle

1. Opening Meeting

1.1 Apologies

1.2 Interests Register

1.3 Action List

2. Confirm Minutes

2.1 PARC Minutes 20 May 2024

To confirm the minutes from the previous meeting.

Supporting Documents:

2.1.a	Public PARC Minutes 20 May 2024 .pdf	5

3. Financial Report

3.1 Financial Report

Ms Tanya Clifford

For the PARC to receive the financial report for February 2024.

Supporting Documents:

3.1.a	3.1 Financial Report.pdf	7

3.2 Credit Card Summary

Ms Mereraina Hemara

For the PARC to receive the quarterly credit card summary.

Supporting Documents:

3.3 Riskpool Letter

Mr Paul Eagle

For Information

Supporting Documents:

4. Move to Public Excluded

4.1 Public Excluded Agenda

5. Confirm PE Minutes

5.1 PE Minutes 20 May 2024

For the PARC to receive and approve the minutes from the public excluded part of the previous meeting.

Supporting Documents:

6. Close Meeting

6.1 Close the meeting

Next meeting: PARC Meeting - 29 Jul 2024, 9:00 am

MINUTES (in Review)

PARC MEETING

Name:	Performance Audit & Risk Committee
Date:	Monday, 20 May 2024
Time:	9:00 am to 9:36 am (+1245)
Location:	Chatham Islands Council, 13 Tuku Road, Chatham Islands
Committee Members:	Mr Philip Jones (Committee Chair), Mayor Monique Croon, Cr Keri Day, Cr Greg Horler
Attendees:	Ms Jo Guise, Paul Eagle, Ms Tanya Clifford, Ms Colette Peni, Ms Mereraina Hemara
Apologies:	Cr Steve Joyce

1. Opening Meeting

1.1 Apologies

Apologies

THAT the apologies be accepted.

Decision Date: 20 May 2024
Mover: Cr Keri Day
Seconder: Mayor Monique Croon

Apologies for lateness from Cr Steve Joyce.

1.2 Interests Register

1.3 Action List

2. Confirm Minutes

2.1 Confirm Minutes 25 March 2024

Minutes of Meeting 25 March 2024

THAT the minutes of the Performance, Audit & Risk Committee meeting held on 25 March 2024 be a true and accurate record.

Decision Date: 20 May 2024
Mover: Mayor Monique Croon
Seconder: Mr Philip Jones

3. Financial Report

3.1 Financial Report

Financial Report

THAT the Performance, Audit & Risk Committee receive the report.

Decision Date:	20 May 2024
Mover:	Cr Keri Day
Seconder:	Cr Greg Horler

Ms Tanya Clifford explained they would create a separate GL code for petrol as petrol expenditure was currently sitting under Community Development and Community Response. Chair Jones wanted assurance that while Council was supplying petrol for the community, it wasn't costing the ratepayer. A monthly stocktake would be undertaken in the future.

A separate GL code would be set up for rent as well.

3.2 Credit Card Summary

Credit Card Summary

THAT the Performance, Audit & Risk Committee receive the report.

Decision Date:	20 May 2024
Mover:	Mr Philip Jones
Seconder:	Mayor Monique Croon

The Chair requested a little more information in the summary. Chair Jones to contact Mereraina to discuss.

4. Move to Public Excluded

4.1 Public Excluded Agenda

Move to Public Excluded

THAT the meeting move to public excluded.

Decision Date:	20 May 2024
Mover:	Cr Keri Day
Seconder:	Cr Greg Horler
Outcome:	Approved

6. Close Meeting

6.1 Close the meeting

Next meeting: PARC Meeting - 24 Jun 2024, 9:00 am

Signature: ______________________ **Date:** ______________________

Performance, Audit & Risk Committee

3.1 Financial Report

Date of meeting	24 June 2024
Agenda item number	3.1
Author/s	Tanya Clifford, ECan

Purpose

To present to the Performance, Audit & Risk Committee the financial report for May 2024.

Recommendations

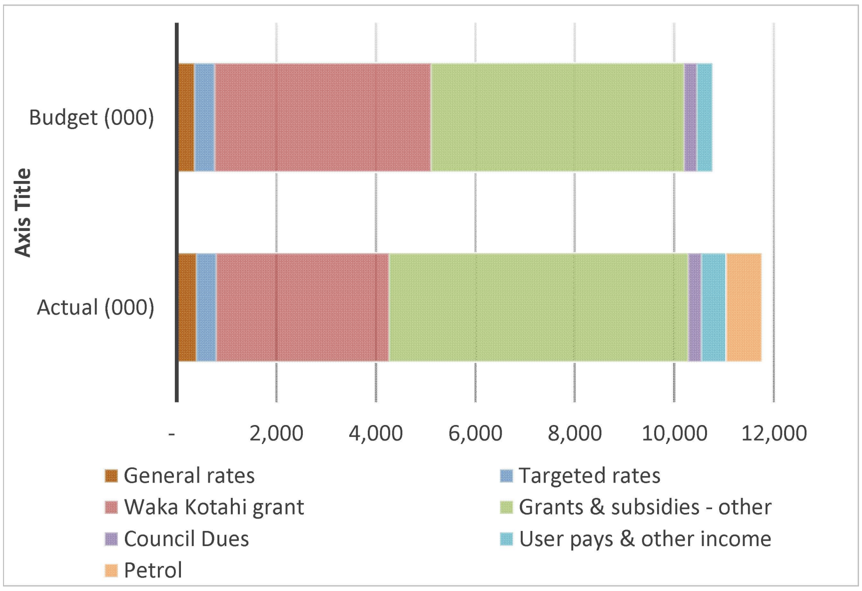
That the Performance, Audit & Risk Committee receives the report.

Graphical Financial Information

as at 31 May 2024

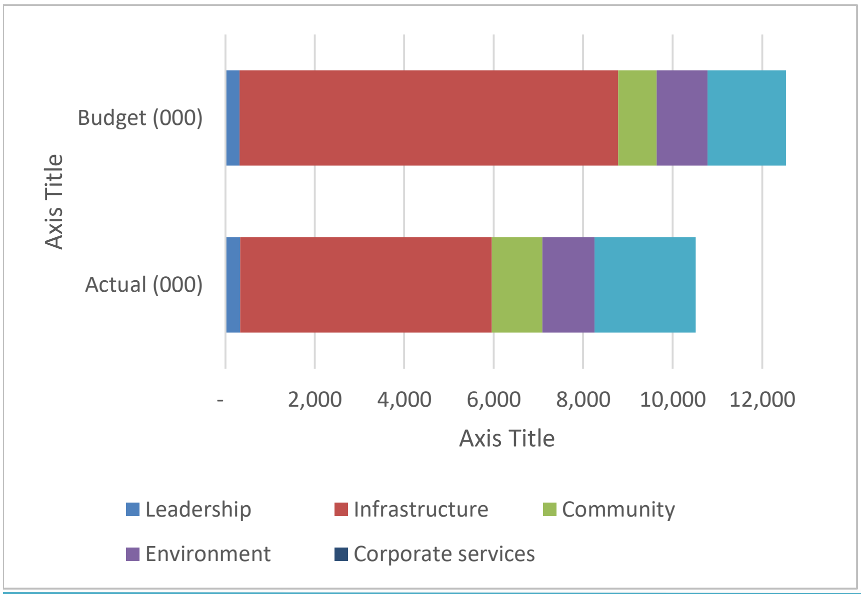
chatham islands council

Revenue



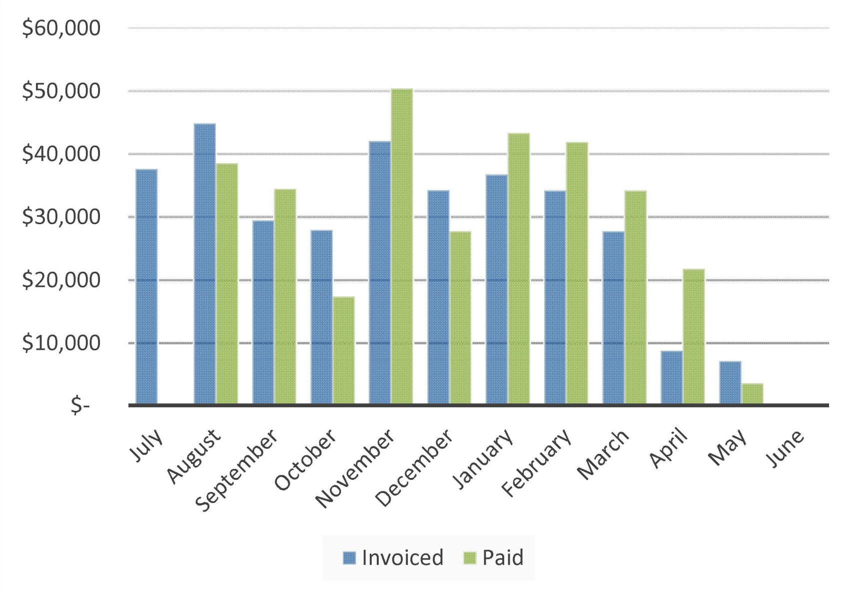
No significant items of concern related to revenue items. However, it is worth noting:
* Waka Kotahi, NZTA subsidy is driven by actual expenditure on roading works. The grant includes capital and operating expenditure.
* Remaining other variances relate to timing differences between actual revenue, which has received a number of large up-front payments early in the year; such an approach may have future impacts on the Council's ability to manage cashflow, with Council having received funds and therefore committed to complete these works, where there is a risk cash may not be available to meet this obligation.

Operating & Capital Expenditure



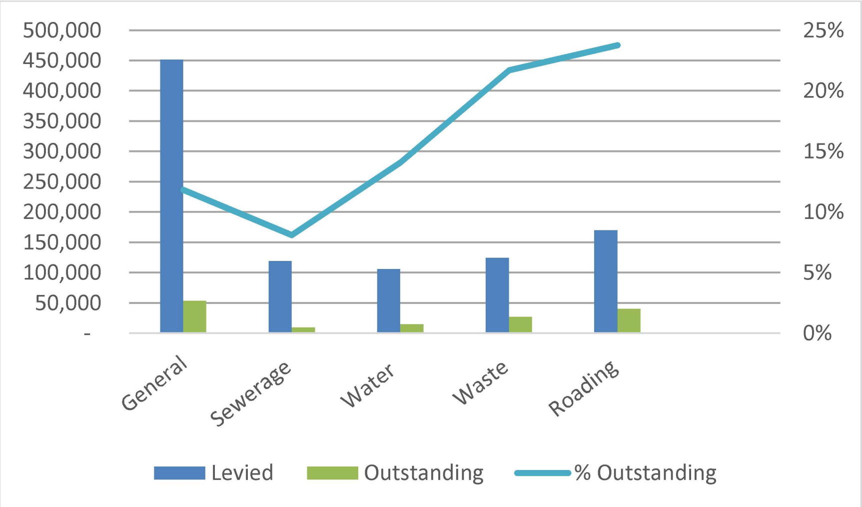
No significant items of variance related to expenditure.
* Waka Kotahi/NZTA funded roading projects are slightly behind budget due to issues sourcing material and other logistical challenges, expenditure is unlikely to meet budget, with some costs now incorporated into the next NZTA funding application.
* Community expenditure costs are high, due to the purchase and supply of petrol (unbudgeted) to the island and other one-off grant funded projects, such as water tanks installation and track works at tourist sites (TIF funded).
For more information refer to the more detailed report.

Revenue Council dues collectability



Note: The current outstanding Council Dues balance for May is $17k. Council dues payments trends have indicated payments are not always on a timely basis. Council officers have been proactive in following up outstanding dues payments with the applicable organisations. Delays in collecting Council Dues, increases the risk of funds not being collected.

Revenue rates collectability



Council has four rate instalment dates for the 2024 financial year; with no instalments outstanding. The overall level of rates outstanding is currently 17%, with larger variability within the targeted rates classification. While difficult to collate reasons behind this, a reassessment of target rate qualification criteria has recently occurred, where some rating units were added to targeted rate charges. The financial volatility within the community, may also have an impact on the ability for certain land owners to pay rates. Where this is the case, promotion of the rating remissions process could be further highlighted. Currently, $145,000 in rates remain outstanding.

Statement of Comprehensive Revenue and Expense
as at 31 May 2024

	Actual (000) $000	Budget (000) $000	Variance	Note Reference
Revenue				
General rates	392	358	34	**1**
Targeted rates	398	400	(2)	**1**
Grants & subsidies - Waka Kotahi NZTA	3,474	4,351	(877)	**2**
Grants & subsidies - other	6,017	5,088	929	**2**
Council Dues	263	258	5	
Petrol	*715*	-	*715*	**3**
User pays, fees & charges and other income	501	317	184	**4**
Total revenue	**11,760**	**10,771**	**989**	
Expenditure				
Leadership and community partnerships	331	319	12	
Transportation, roading and coastal networks	2,037	3,342	(1,305)	**5**
Three waters - water	444	369	75	**5**
Three waters - wastewater & stormwater	192	689	(497)	**5**
Waste management and minimisation	687	725	(38)	**5**
Community development & emergency response	1,163	862	301	**6**
- petrol	*621*	-	621	**3**
Environmental management, protection and monitoring	1,133	1,134	(1)	
Corporate services	2,265	1,753	511	**7**
Total expenditure by activity	**8,873**	**9,194**	**(321)**	
Total surplus/(loss)	**2,887**	**1,577**	**1,310**	

Depreciation expenditure of $1.9 million has been excluded, with the financial report focusing primarily on cash.
Whilst the overall financial position of the Council currently appears healthy, with a positive financial surplus of $2,887k recognised. The 'cash' movement (including capital purchases made) is approximately $622k, this includes future 'committed' expenditure, where grant funds have been received in advance, with Council yet to pay for these works - such as the water tank project and some better off funded projects. ***The impact of this approach, means Council may face cashflow pressures in the future, therefore a conservative approach with other expenditure is encouraged. Closing cash balance 31 May 2024 was an overdraft of $95k.***

Variance explanations:

1 Rates are invoiced based on the Council approved rates strike. A minor difference has occurred, with recognition of penalty payments and repayment of outstanding rates.

2 Roading subsidy based on 88% of actual expenditure (operational and capital). The negative variance in revenue is matched against the negative variance with roading capital and operational expenditure. Some roading projects have been deferred - primarily Owenga Wharf, this has been incorporated into the next NZTA funding bid.
For the remaining grants, the budget difference primarily relates to timing differences with better off funding projects (relating to projects in 2023 or 2025 financial years - this may have detrimental impacts on future cashflows in 2025). Some uncertainty has been indicated from the Department of Internal Affairs, related to better off funding projects that are funded retrospectively, Council may wish to seek confirmation on grant projects, before further cash is committed to these works.

3 The Council has recently facilitated the supply of petrol on the island and has been separately disclosed (in revenue and expenditure) to show greater transparency. Petrol is an unbudgeted item, with a large start up cost recognised in 2023, overall balance remains operating at a surplus. Petrol expenditure is currently higher than previous monthly trends due to the Council purchasing higher fuel volumes on the expectation that the shipping service to the island will temporarily be unavailable.

4 No significant variances of note or other comments related to other income.

5 Infrastructure projects - primarily relate to the Stantec/Fulton Hogan roading, water, wastewater and waste management contracts. Roading has been impacted with various logistical challenges, resulting in some projects being deferred. Three waters work has been limited with funding restrictions, impacting levels of service Council is able to provide, lack of investment in critical asset maintenance increases the risk of asset failure. There remains a significant level of uncertainty related to how the Local Water Done Well plan will apply to Council and how the expected work will be funded. No other significant areas of variance to note, with contract for services operating within agreed deliverables.

6 Community service expenditure includes the cost of the Council supplying petrol for the island (separately disclosed). This area recognises approximately $145k in expenditure related to the installation of water tanks as part of a resilience project - funded by way of grant in 2023, and TIF funding projects related to the creation of improved walkways at certain tourist sites.

7 Insurance costs, audit fees (including LTP audit) and IT upgrade works incurred large one-off payments. Labour costs also higher than budgeted with the crossover payments for two CE's and final pay for leaving CE.

Capital expenditure summary	Actual $000	Budget $000	Variance	Note Reference
Sources of capital funding				
Subsidies and grants for capital expenditure	1,461	3,038	(1,577)	**a**
Total sources of capital funding	**1,461**	**3,038**	**(1,577)**	
Application of capital funding				
Roading works	1,660	3,339	(1,679)	**a**
Other - including community works (TIF/better off funding)	605	550	55	**b**
Three waters - critical infrastructure*	-	4,398	(4,398)	
Total application of capital funding	**2,265**	**3,889**	**(1,623)**	
Movement in reserves	**(805)**	**(850)**	**46**	

***** Desired projects in the 2023/24 budget, removed due to lack of funding support

Variance explanations:

a The grant figure relates to the Waka Kotahi budget, which is reflective of 88% of actual costs incurred. Actual expenditure behind expected budgeted levels.

b Other work includes: $490k buildings, $60k office equipment and $50k heartlands vehicle.

Note, budget figures are allocated on an equal monthly apportionment

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Performance, Audit & Risk Committee
3.2 Credit Card Summary

Date of meeting	24 June 2024
Agenda item number	3.2
Author/s	Mereraina Hemara, Finance Technical Lead

Purpose

To present to the Performance, Audit & Risk Committee the Credit Card Expenditure Summary for February, March and April 2024.

Recommendations

That the Performance, Audit & Risk Committee receives the Credit Card Expenditure summary for February, March, April 2024.

Key Comments

- Expenditure summary for February & March are for one card, April is an accumulation of all three.
- Sensitive Expenditure:
  April 2024
  - Gift basket for Colette Peni (Get Well Gift).

FEBRUARY 2024	**$5,081.50**	***Notes***
Travel Breakdown:	$1,251.73	
Airfares	$ -	
Accommodation	$ 656.20	*CE, Mayor*
Taxis	$ 97.92	*CE, Mayor*
Food & Beverages	$ 397.61	*CE, Mayor*
Parking	$ 100.00	*CE*
CEO House Purchases Breakdown:	$3,829.77	
Materials	$ 656.49	*CE*
Capital	$3,173.28	*CE*

MARCH 2024	**$1,040.80**	***Notes***
Travel Breakdown:	$ 996.92	
Airfares	$ -	
Accommodation	$ -	
Taxis	$ 85.80	*CE, Mayor*
Food & Beverages	$ 792.12	*CE, Mayor, CR Kamo*
Parking	$ 119.00	*CE*
CEO House Purchases Breakdown:	$ 43.88	
Materials	$ 43.88	*CE*
Capital	$ -	

APRIL 2024	**$ 3,604.22**	***Notes***
Travel Breakdown:	$ 955.21	
Airfares	$ -	
Accommodation	$ -	
Taxis	$ 196.80	*CE*
Food & Beverages	$ 391.27	*CE, Mayor, EM Manager*
Parking	$ 55.60	*CE , EM Manager*
Rental Car	$ 311.54	*EM Manager*
CEO House Purchases Breakdown:	$ 822.51	
Materials	$ 822.51	*CE*
Capital	$ -	
IT Related Costs Breakdown:	$ 899.91	
IT Subscriptions	$ 156.41	*Microsoft, Zoom, Adobe*
Internet Connections	$ 743.50	*Starlink for CIC, EM, Home connections as per contract*
Misc Breakdown:	$ 926.59	
Sensitive	$ 155.00	*Get Well Basket for Klicky*
ANZAC Kai	$ 771.59	

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Performance, Audit & Risk Committee

3.3 Riskpool Letter

Date of meeting	24 June 2024
Agenda item number	3.3
Author/s	Paul Eagle, Chief Executive

Purpose

Update for Performance, Audit & Risk Committee on the position of Riskpool.

Recommendations

That the Performance, Audit & Risk Committee receives the report.

Riskpool
NEW ZEALAND MUTUAL
LIABILITY RISKPOOL

17 June 2024

Paul Eagle
Chatham Islands Council
PO Box 24
CHATHAM ISLANDS 8942

paul.eagle@cic.govt.nz

Dear Paul

Riskpool: Update on Winding Up

We would like to thank you for your Council's payment from the call requested in November 2023. Riskpool appreciates that all members paid, and we apologise for not acknowledging that sooner.

Riskpool's wind-down remains a very dynamic situation and we have decided, moving forward, to commit to a quarterly update for members in this format. We understand that you need to be across key developments, and we know it is an area that we can improve upon.

Engagement of Nathan Speir as Riskpool's "General Counsel"

Riskpool has recently engaged Nathan Speir to perform the role of "General Counsel".

Nathan might be familiar to you, having acted for many councils over the past decade in a variety of challenging legal environments. Given the variety of complex issues Riskpool is facing and wanting to ensure a connection with and an accountability to its members, the board decided that having a local government law specialist in this pivotal role was paramount.

Nathan has made good progress since coming on board and his primary responsibilities include:

- Advancing Riskpool's reinsurance claims in the UK, including working with Riskpool's reinsurance brokers in London (Marsh UK).
- Providing instructions to Riskpool's solicitors on record (Young Hunter).
- Assisting Riskpool's CEO and CFO with the provision of information for Riskpool's auditors.
- Advising the board, preparing reports and attending monthly meetings.

Nathan's contact number is 021 621 226 and his email is nathan@speir.co.nz. If you have any questions that you are looking to have answered, please don't hesitate to contact him.

Pursuit of reinsurance for the accepted mixed-defect claims

As you know, on 1 August 2023 the Supreme Court dismissed Riskpool's final appeal in *LGMFT v Napier City Council* [2023] NZSC 97. This created an immediate liability for Riskpool, which necessitated a call on members in December 2023.

Following the Supreme Court's decision, Riskpool accepted two other claims for a different member (with quantification still to occur). Both of these claims were notified in time but declined due to the weathertight exclusion (something the Supreme Court decided was incorrect).

In other words, since the Supreme Court's decision was released last year, Riskpool has accepted three claims for two separate members and is now seeking reinsurance in London for these claims.

We are advised by our insurance brokers, Marsh, that these three claims fall into the 2014 year of accounts.

Nathan Speir is managing this aspect for us, alongside our recently appointed reinsurance brokers in London (Marsh UK).

We are doing our best to obtain an answer from reinsurers on these three claims and have commenced a productive dialogue with the markets. However, the reinsurers still have many questions, and we are working with Marsh New Zealand to get the answers needed.

As soon as we have a better idea of a timeline for this decision, we will let you know.

An update on several declined mixed-defect claims

As signaled in our letter dated 7 June 2023, there are several other claims that involve the same issue that the Supreme Court ultimately decided. That is, liability claims concerning both weathertight and non-weathertight defects where the member is seeking cover from Riskpool for their liability for the non-weathertight defects.

However, these other claims differ to the three accepted claims above in that they were all declined by Riskpool due to late notification issues.

Riskpool has been sued in the High Court by three member councils over these declinatures. Based on legal advice from Senior Counsel, we attempted to strike out several of the claims but were ultimately unsuccessful. On 24 May 2024 a High Court Judge determined that the proceedings should not be struck out and awarded costs against Riskpool.

While the result is disappointing, it provides a good opportunity to have another look at our strategy, which is underway.

Quantifying Riskpool's potential exposure

One of most significant challenges for us right now is quantifying the extent of Riskpool's potential exposure.

Putting aside all legal arguments, it is imperative that all members (including those suing Riskpool) understand what Riskpool's financial exposure might be if it is found liable for mixed defect claims that have previously been declined.

Everyone is asking the same question, from members, reinsurers in London, to Riskpool's auditor, and unfortunately, we can't answer it right now.

To properly quantify Riskpool's potential risk, we need to know (a) what the defendants, including the Council, paid to settle the original claim with the building's owners; (b) what the Council's contribution to the settlement sum was; and (c) how much of the relevant Council's contribution related to weathertight (excluded) defects. Only then will we know for certain how many millions of dollars might be at issue.

In recent weeks we have been greatly assisted by the member councils claiming against Riskpool and, in our next update, we hope to provide all members with a reasonable idea of Riskpool's potential exposure.

Apportioning the weathertight vs non-weathertight component of the councils' contributions towards these settlements may pose some challenges, but we do have a plan. It will require an analysis of the settlement terms and expert quantity surveying expertise.

Riskpool and the relevant councils are in open dialogue about the best way of completing this exercise, aiming for speed and cost-effectiveness.

Thank you again for your patience and please don't hesitate to contact Nathan Speir if any questions arise from this letter.

Yours sincerely

Charlie Howe
CEO Civic Financial Services Ltd

Craig Stevenson
Acting Chair of LGMFT (Riskpool)

chatham islands council

PARC Public Excluded Agenda

24 June 2024

Chair to Move

I move that the public be excluded from the following part of the proceedings of the meeting.

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:

Item No.	Minutes / Report of:	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
1.	Chief Executive Officer	Minutes of PARC Public Excluded Meeting 120 May 2024	Good reason to withhold exists under Section 7	Section 48(1)(a)

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 which would be prejudiced by holding the whole or relevant part of the proceedings of the meeting in public, are as follows:

Item Nos	
1.	Would be likely to prejudice the commercial position of the person or persons who are the subject of the information. 7(2)(b)(ii) To maintain legal professional privilege. 7(2)(h) To enable the Council holding the information to carry out, without prejudice or disadvantage, commercial activities. 7(2)(i)