

Notice of Meeting:

I hereby give notice that an ordinary Meeting of the Finance Committee will be held on:

Date: Tuesday 26 September 2017
Time: 9.30am
Meeting Room: Council Chamber
Venue: Municipal Building, Garden Place, Hamilton

Richard Briggs
Chief Executive

Finance Committee OPEN SUPPLEMENTARY AGENDA

Item 7 - Chairs Report

Item C3 - Development Contributions Policy Update

Membership

Chairperson Cr G Mallett
Members Mayor A King
Deputy Mayor M Gallagher
Cr M Bunting
Cr J R Casson
Cr S Henry
Cr D Macpherson
Cr A O'Leary
Cr P Southgate
Cr G Taylor
Cr L Tooman
Cr P Yeung

Leave of Absence Crs P Yeung & R Pascoe (Deputy Chairperson)

Quorum: A majority of members (including vacancies)

Meeting Frequency: Six weekly

Becca Brooke
Governance Team Leader
21 September 2017
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Purpose:

The Finance Committee is responsible for:

1. Monitoring Council's financial strategy, and financial performance against the Long Term Plan and Annual Plan.
2. Determining financial matters within its delegations and Terms of Reference and making recommendations to Council on financial matters outside its authority.
3. Guiding and monitoring Council's interests in its Council Controlled Organisations (CCOs), Council Organisations (COs) and subsidiaries.

In addition to the common delegations on page 9, the Finance Committee is delegated the following Terms of Reference and powers:

Terms of Reference:

1. To monitor Council's financial strategy, and performance against that strategy.
2. To monitor Council's financial and non-financial performance against the Council's 10 Year Plan.
3. To approve deferred capital expenditure.
4. To develop and monitor policy related to the following matters:
 - a) financial management;
 - b) revenue generation;
 - c) procurement and tendering; and
 - d) the appointment and remuneration of directors of CCOs and COs.
5. To monitor the probity of processes relating to policies developed by the Finance Committee.
6. To provide clear direction to Council's CCOs and COs on Council's expectations, including feedback on draft statements of intent.
7. To receive six-monthly reports of Council's CCOs and COs, including on board performance.
8. To undertake any reviews of CCOs and agree CCO-proposed changes to their governance arrangements, except where reserved for Council's approval by Council.
9. To monitor Council's investments in the Municipal Endowment Fund and the Domain Endowment Fund.

The Committee is delegated the following powers to act:

- Approval of:
 - Appointments to, and removals from, CCO and CO boards; and
 - A mandate on Council's position in respect of remuneration proposals for CCO and CO board members to be presented at Annual General Meetings.
- Approval of letters of expectation for each CCO and CO.
- Approval of statements of intent for each CCO and CO.

- Approval of proposed major transactions of CCOs and COs.
- Approval or otherwise of any proposal to establish, wind-up or dispose of any holding in, a CCO or CO.
- Approval of operating and/or capital expenditure within the Long Term Plan or Annual Plan that exceeds the Chief Executive's delegation, excluding expenditure which:
 - contravenes the Council's Financial Strategy and/or annual budgeted surplus; or
 - significantly alters any level of service outlined in the applicable Long Term Plan or Annual Plan; or
 - impacts Council policy or practice, in which case the delegation is recommendatory only and the Committee may make a recommendation to the Council for approval.
- Approval of contractual and other arrangements for supply and services, and revenue generating contracts, excluding contracts or arrangements that are reserved for the Council or another Committee's approval.
- Approval of Private Development Agreements recommended by the Growth and Infrastructure Committee.
- Approval of acquisition or sale or lease of properties owned by the Council, or owned by the Municipal Endowment Fund or the Domain Endowment Fund consistent with the Municipal Endowment Fund Investment Policy, for any endowment properties.
- Approval to write-off outstanding accounts greater than \$10,000 (in accordance with the Debtor Management Policy).

The Committee is delegated the following recommendatory powers:

- The Committee may make recommendations to Council.
- The Committee may make recommendations to other Committees.

Oversight of Policies:

- *Appointment and Remuneration of Board Members of COs, CCOs and CCTOs Policy*
- *Freeholding of Council Endowment Land Policy*
- *Funding Needs Analysis Policy*
- *Investment and Liability Management Policy*
- *Municipal Endowment Fund Investment Policy*
- *Rates Remissions and Postponements Policy*
- *Rating Policy*

Revenue and Financing Policy

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Council Report

Item 7

Committee: Finance Committee

Date: 26 September 2017

Author: Rebecca Watson

Authoriser: Becca Brooke

Position: Committee Advisor

Position: Governance Team Leader

Report Name: Chair's Report - Finance Committee - 26 September 2017

Report Status	<i>Open</i>
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Staff Recommendation

That the Finance Committee receives the report.

Attachments

Attachment 1 - Chairperson's Report - 26 September 2017 .



Chair's Report

1. Financial Strategy

Since early in this Council term we've been advised that Council's finances are under stress. This financial stress is largely, but not only, due to growth pressure in both residential and commercial sectors. We're advised that Council has been using money collected to fund growth to meet day-to-day operating expenses.

One of Council's responses, early 2017, was to initiate a Financial Strategy Taskforce (FST) which:

- (1) reviewed and recommended options for improvements to our former Financial Strategy, which had been in place since around 2012, including the appropriateness of both (a) the metrics reported to Council and (b) the definition of those metrics and
- (2) identified, analysed and recommended additional sources of funding to: (a) address the gap between our day-to-day revenue and expenses and (b) pay for city growth.

NB The above is my colloquial description of the terms of reference for the FST.

FST's work is important and timely however the terms of reference for the FST have addressed only half of the problem. The FST's terms of reference asked for recommendations to increase revenue but not for recommendations to cut costs, to find efficiencies or to determine services and/or activities where Council could reduce or eliminate its involvement. The focus on increasing revenue without addressing the costs/expenses/efficiency side of the equation will likely force Council into rates/fees increases which I believe are untenable and unacceptable to many of our ratepayers.

I remind Councillors that the unaudited results for the 12 months ended 30 June 2017 showed (using the current Balancing the Books methodology) a \$12 million surplus. However, using the Balancing the Books methodology recommended by the FST (aka the PWC measure), that \$12 million surplus becomes a \$12.5 million deficit – a turnaround of \$24.5 million!

2. Claudeland Events Centre - Comfortably Numb

The Claudeland Events Centre (CEC) has been operating for 7 years. It cost around \$68 million to build and has generated losses every year of operation. (See below for details):

	Overall Result	Gross Margin
2010/11	(\$2,056,502)	(\$1,255,750)
2011/12	(\$2,349,283)	(\$653,554)
2012/13	(\$9,897,766)	(\$3,829,092)
2013/14	(\$10,061,107)	(\$4,238,274)
2014/15	(\$9,595,405)	(\$4,027,364)
2015/16	(\$8,588,711)	(\$1,913,531)
2016/17	(\$7,639,064)	(\$1,609,737)

Total **(\$50,187,838)** **(\$17,527,302)**

Unfortunately CEC's budgeted results for the 30 June 2018 year were not available at time of writing.

CEC, on its own, consumes around 5% of Hamilton's total rate take.

CEC has not generated a single dollar towards paying down any of the money borrowed to pay for its construction. Indeed, rather than generating money to pay down debt, CEC has directly increased city debt by at least \$17.5 million at an average of about \$2.5 million every year.

As far as I can see, and according to staff advice, there is little suggestion that the financial returns from the CEC will improve.

The fiscal impact of the CEC was reported to Councillors on a monthly basis in the last term of Council and is now reported quarterly.

When the initial results from CEC were first reported through the 2010/11 year there was public outcry triggering investigations & hand-wringing at Council and promises that things would improve.

But things haven't improved, indeed its likely things will worsen as CEC becomes older and as competition increases from facilities being developed around the country.

In my opinion we (Councillors) have come to accept and expect that every year CEC will deliver multi-million dollar losses. Losses that, in its earlier years, were cause for embarrassment have become routine and not challenged. We have come to accept that every year CEC will lose around \$7-9 million and that city debt will grow in order to fund CEC's losses.

We have become '**Comfortably Numb**' (**Pink Floyd**). This is a very dangerous position for our ratepayers especially as discussion on our 10-year plan includes a number of huge (in scale and cost), non-core, loss making projects.

In the previous Council term (2013-2016) I recommended Council sell the CEC. The recommendation was defeated. Since then CEC has gone on to lose ratepayers around in excess of \$15 million.

There is no intention to blame current staff operating the CEC for its poor financial performance. I believe our staff do the best they can given a difficult assignment. The fault falls to both those who advised the Council when the CEC was approved and the Councillors themselves who gave that approval.

Having said that I am still very much of the view that HCC's ownership and operation of CEC is not in the best interests of our ratepayers and/or residents.

Councillor Garry Mallett
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Item 7

Attachment 1

Resolution to Exclude the Public

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

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 follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Development Contributions Policy Update) Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987)))))	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 the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

Item C1. to enable Council to carry out commercial activities without disadvantage Section 7 (2) (h)