



EXTRAORDINARY MEETING OF COUNCIL

Open Minutes

Meeting Date: Monday 2 November 2020

Time: 3.00pm-3.31pm

Venue Large Exhibition Hall
Napier War Memorial Centre
Marine Parade
Napier

Livestreamed via Zoom on Council's Facebook page

Present Mayor Wise, Councillors Boag, Browne, Chrystal, Crown,
Mawson, McGrath, Price, Simpson, Tapine, Taylor, Wright

In Attendance Interim Chief Executive, Director Corporate Services, Director
Infrastructure Services, Director City Services, Director City
Strategy, Manager Communications and Marketing, Chief
Financial Officer, Manager Asset Strategy, Manager Design and
Projects, Senior Māori Advisor, Manager Regulatory Solutions,
Corporate Accountant,

Karen Young, Audit Director - Audit New Zealand

Administration Governance Team

Karakia

The Senior Māori Advisor opened the meeting with a Karakia.

Apologies

Council resolution

Councillors Crown / Wright

That the apology from Councillor Brosnan be accepted.

Carried

Conflicts of interest

Nil

Public forum

Nil

Announcements by the Mayor

Nil

Announcements by the management

Nil

AGENDA ITEMS

1. RATING OUTTURN 2019/20

Type of Report: Legal and Operational

Legal Reference: Local Government Act 2002

Document ID: 966772

Reporting Officer/s & Unit: Caroline Thomson, Chief Financial Officer

1.1 Purpose of Report

To report on Council's rates position as at 30 June 2020.

At the Meeting

The Chief Financial Officer spoke to the report and it was noted that this agenda item reports on Council's rates position for the year whereas the following agenda item is in relation to Council's overall operating position, including other sources of funding in addition to rates.

A brief overview was provided and Council officers confirmed that the net rates deficit of \$2.3Million was a result of the significant impacts of Covid-19 this year, and mainly due to the closure of Council's business and tourism facilities. The report requests that Council fund the deficit from loans.

In response to questions from Councillors, the following points were clarified:

- All rates arrears are included in this position to year end, and the year to date rates arrears figure will be included in the first quarterly report.
- A loan term of 25 years would result in approximately a 0.2% increase on rates. Any shorter timeframe would increase the impact on rates. Loan terms are typically delegated to Council officers.
- The interest rate currently applied is 3%. This and interest rate assumptions going in to the Long Term Plan will be reassessed.
- In the event of future surpluses, Council may wish to apply any surpluses against the loan.

Elected members noted that Council had anticipated a higher deficit and were happy to see the final amount is lower than initially thought.

Council resolution

Councillors Taylor / Mawson

That Council:

- a. Note that lost revenue due to Covid-19 has impacted Council's rates position for 2019/20 resulting in a rates deficit of \$2,341,603
 - b. Approve funding the 2019/20 net rating deficit of \$2,341,603 from loans.
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Carried

2. ADOPTION OF ANNUAL REPORT 2019/20

<i>Type of Report:</i>	Legal
<i>Legal Reference:</i>	Local Government Act 2002
<i>Document ID:</i>	966720
<i>Reporting Officer/s & Unit:</i>	Caroline Thomson, Chief Financial Officer

2.1 Purpose of Report

To present the Napier City Council Annual Report 2019/20 for adoption by Council.

At the Meeting

The Mayor introduced Karen Young, Audit Director from Audit New Zealand and invited her to speak to the report alongside Council's Chief Financial Officer. The Independent Auditor's Report (Audit Opinion) was tabled at the meeting (refer **Appendix A**).

The Chief Financial Officer spoke to the report, providing a brief overview and confirming that due to the significant impacts of Covid-19, Council would be reporting its first ever operating deficit of \$2Million. It was noted that the unbalanced budget has been carefully considered with the most financially prudent option being to loan fund the shortfall due to its one-off nature. Council will be working towards a balanced budget for the Long Term Plan 2021-31.

The audit opinion confirms Audit New Zealand are satisfied that the financial statements fairly reflect Council's activities for the year and its financial position, and includes an 'Emphasis of matter' paragraph explaining the impact that Covid-19 has had on Council's operations, financials and activity groups.

Three performance measures have also been identified in the audit opinion where Audit New Zealand was unable to determine that the reporting on these matters was materially correct, including the number of complaints for three-waters, mainly due to the lack of detail captured by Council's afterhours call provider. Council officers will work with the call provider to ensure that the call data is accurately recorded moving forward and it was noted that there will be a number of other Councils receiving a qualified audit opinion for the same matter.

In response to questions from Councillors, the following points were clarified:

- Performance measures are detailed in Council's quarterly reports.
 - The Department of Internal Affairs mandatory performance measures in relation to complaints have been in place since 2013. The issue was initially identified last year and this year Audit New Zealand looked at this across all Councils. There are around 24 other Councils currently being audited that use the same after hours call provider. The Audit Director noted that there are similar issues with Council's system also.
 - The value of Council housing will be included in land and buildings.
 - In response to questions around the Resident Satisfaction Survey results, it was noted that following the adoption of the Parking Strategy, Council officers are looking at separating Napier's short term parking from long term parking. Key land purchases have also been identified to develop parking in the longer term.
 - The six public cemeteries in Napier are Western Hills, Park Island, Wharerangi, Taradale, Napier and Eskdale.
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- Income from gaming trusts is included in the actual report itself, relating to subsidies and grants.
 - The \$2Million operating deficit is Council's overall position; the \$2.3Million rates deficit forms part of Council's overall position.

ACTION: Councillor Boag requested that Council officers provide her with the total value of Council's housing as well as the amount of income that came from gaming trusts.

**Officer's
Recommendation**

That Council:

- a. Note the 2019/20 Annual Report has been considered by the Audit and Risk Committee.
- b. Note Council did not meet the balanced budget benchmark in 2019/20 due to the impact of Covid-19 on Council's revenues.
- c. Resolve that the operating deficit of \$2.2m for 2019/20 will be funded from loans
- d. Note the Auditor's report when available will include an emphasis of matter paragraph drawing attention to the impact of Covid-19 as set out in the notes to the financial statements and activity groups.
- e. Note Council when the audit opinion is available will receive a qualified Audit opinion on the activity group statements relating to incomplete information about the number of complaints for some services.
- f. Note that the Audit opinion will be provided at the Council meeting of 2 November 2020, with the Audit Director for Audit NZ available to talk to the opinion.
- g. Adopt the Annual Report for Napier City Council for 2019/20 subject to any grammatical and minor changes and any changes due to the requirements of the audit process.

**Council
resolution**

Mayor Wise / Councillor Tapine

Substitute Motion

That Council:

- a. Note the 2019/20 Annual Report has been considered by the Audit and Risk Committee.
 - b. Note Council did not meet the balanced budget benchmark in 2019/20 due to the impact of Covid-19 on Council's revenues.
 - c. Note as required under Section 80 of the Local Government Act (2002), Council considers the most financially prudent option is to fund Council's 2019/20 net operating deficit of \$2m from loans.
 - d. Resolve that the operating deficit of \$2m for 2019/20 will be funded from loans.
 - e. Note the Auditor's report when available will include an emphasis of matter paragraph drawing attention to the impact of Covid-19 as set out in the notes to the financial statements and activity groups.
 - f. Note Council when the audit opinion is available will receive a qualified Audit opinion on the activity group statements relating to
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incomplete information about the number of complaints for some services.

- g. Note that the Audit opinion will be provided at the Council meeting of 2 November 2020, with the Audit Director for Audit NZ available to talk to the opinion.
- h. Adopt the Annual Report for Napier City Council for 2019/20 subject to any grammatical and minor changes and any changes due to the requirements of the audit process.

Carried

The Mayor thanked Councillor McGrath for arranging to have the Ranfurly Shield on display at the meeting.

PUBLIC EXCLUDED ITEMS

Council resolution	Councillors Mawson / Chrystal
	That the public be excluded from the following parts of the proceedings of this meeting.
	Carried

Agenda Items

1. Kenny Eriksen Roundabout

The general subject of each matter to be considered while the public was excluded, the reasons 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 were 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) to the passing of this resolution.
	That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information where the withholding of the information is necessary to:	48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist:

Agenda Items

1. Kenny Eriksen Roundabout	7(2)(h) Enable the local authority to carry out, without prejudice or disadvantage, commercial activities	48(1)A That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist: (i) Where the local authority is named or specified in Schedule 1 of this Act, under Section 6 or 7 (except
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		7(2)(f)(i)) of the Local Government Official Information and Meetings Act 1987.
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The meeting moved into committee at 3.31pm.

Approved and adopted as a true and accurate record of the meeting.

Chairperson

Date of approval

Appendix A

Independent Auditor's Report

To the readers of Napier City Council's annual report for the year ended 30 June 2020

The Auditor-General is the auditor of Napier City Council (the City Council). The Auditor-General has appointed me, Karen Young, using the staff and resources of Audit New Zealand, to report on the information in the City Council's annual report that we are required to audit under the Local Government Act 2002 (the Act). We refer to this information as "the audited information" in our report.

We are also required to report on:

- whether the City Council has complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- the completeness and accuracy of the City Council's disclosures about its performance against benchmarks that are required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

We refer to this information as "the disclosure requirements" in our report.

We completed our work on 2 November 2020. This is the date on which we give our report.

Opinion

Unmodified opinion on the audited information, excluding the Activity Groups statement

In our opinion:

- the financial statements on pages [...] to [...] and pages [...] to [...]:
 - present fairly, in all material respects:
 - the City Council's financial position as at 30 June 2020;
 - the results of its operations and cash flows for the year ended on that date; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards;

- the funding impact statement on page [...], presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the City Council's annual plan;
- the statement about capital expenditure for each group of activities on pages [...] to [...], presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the City Council's annual plan; and
- the funding impact statement for each group of activities on pages [...] to [...], presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the City Council's Long-term plan.

Qualified opinion on the Activity Groups statement – our work was limited with respect to the verification of the number of complaints for some services

In our opinion, except for the possible effects of the matter described in the *Basis for our qualified opinion* section of our report, the Activity Groups statement on pages [...] to [...]:

- presents fairly, in all material respects, the levels of service for each group of activities for the year ended 30 June 2020, including:
 - the levels of service achieved compared with the intended levels of service and whether any intended changes to levels of service were achieved;
 - the reasons for any significant variation between the levels of service achieved and the intended levels of service; and
- complies with generally accepted accounting practice in New Zealand

Report on the disclosure requirements

We report that the City Council has:

- complied with the requirements of Schedule 10 of the Act that apply to the annual report; and
- made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence Regulations 2014) on pages [...] to [...], which represent a complete list of required disclosures and accurately reflects the information drawn from the City Council's audited information and, where applicable, the City Council's long-term plan and annual plans.

Basis for our qualified opinion on the audited information

The City Council is required to report against the performance measures set out in the Non-Financial Performance Measure Rules 2013 (the Rules) made by the Secretary for Local Government. These

mandatory performance measures include the total number of complaints (per 1,000 properties connected) received about the following:

- drinking water clarity, taste, odour, pressure or flow, and continuity of supply;;
- sewage odour, sewerage system faults and blockages, and the City Council's response to issues with the sewerage system; and
- the performance of the stormwater system.

These measures are important because the number of complaints are indicative of the quality of services received by ratepayers.

The Department of Internal Affairs has issued guidance to assist local authorities in applying the Rules, including on how to count complaints. Our audit testing found that the City Council has not been counting complaints in accordance with this guidance and that the City Council's method of counting was likely to have understated the actual number of complaints received both in the current year and in the comparative year to 30 June 2019. Complete records for all complaints made to the City Council were not available and we were unable to determine whether the City Council's reported results for these performance measures were materially correct.

We also found that the City Council's system for classifying complaints between the above performance measures is deficient and we are unable to determine whether this deficiency results in a material misstatement of the number of complaints reported per performance measure. The City Council has indicated their best estimate of the number of complaints based on a "worst-case" scenario for each of the performance measures above which has not been audited.

As a result, our work was limited and there were no practical audit procedures we could apply to obtain assurance over the number of complaints reported against these three performance measures.

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. We describe our responsibilities under those standards further in the "Responsibilities of the auditor for the audited information" section of this report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion on the audited information.

Emphasis of matter – Impact of Covid-19

Without further modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the City Council as set out in [note x/notes x and y] to the financial statements and page xx of the Activity Groups statement.

Responsibilities of the Council for the audited information

The Council is responsible for meeting all legal requirements that apply to its annual report.

The Council's responsibilities arise under the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014.

The Council is responsible for such internal control as it determines is necessary to enable it to prepare the information we audit that is free from material misstatement, whether due to fraud or error.

In preparing the information we audit the Council is responsible for assessing its ability to continue as a going concern. The Council is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to amalgamate or cease all of the functions of the City Council or there is no realistic alternative but to do so.

Responsibilities of the auditor for the audited information

Our objectives are to obtain reasonable assurance about whether the audited information, as a whole, is free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of this audited information.

For the budget information reported in the audited information, our procedures were limited to checking that the budget information agreed to the City Council's annual plan.

We did not evaluate the security and controls over the electronic publication of the audited information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the audited information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City Council's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.
- We determine the appropriateness of the reported intended levels of service in the Activity Group, as a reasonable basis for assessing the levels of service achieved and reported by the City Council.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Council and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast a significant doubt on the City Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the audited information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the City Council to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the audited information, including the disclosures, and whether the audited information represents, where applicable, the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Council regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Information

The Council is responsible for the other information included in the annual report. The other information comprises the information included on pages [...] to [...] and [...] to [...], but does not include the audited information and the disclosure requirements.

Our opinion on the audited information and our report on the disclosure requirements do not cover the other information.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the audited information and the disclosure requirements, or our knowledge obtained during our work, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the City Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to our audit and our report on the disclosure requirements, we have carried out a limited assurance engagement related to the City Council's debenture trust deed, which is compatible with those independence requirements. Other than these engagements, we have no relationship with or interests in the City Council.

Karen Young
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand