

CENTRAL HAWKE'S BAY



I hereby give notice that an Extraordinary Meeting of Council will be held on:

Date: Thursday, 30 May 2019
Time: 3.30pm
Location: Council Chamber
28-32 Ruataniwha Street
Waipawa

AGENDA

Extraordinary Council Meeting 30 May 2019

Our vision for Central Hawke's Bay is a proud and prosperous district made up of strong communities and connected people who respect and protect our environment and celebrate our beautiful part of New Zealand.

Monique Davidson
Chief Executive

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- 1 PRAYER
- 2 APOLOGIES
- 3 DECLARATIONS OF CONFLICTS OF INTEREST
- 4 STANDING ORDERS

RECOMMENDATION

THAT THE FOLLOWING STANDING ORDERS ARE SUSPENDED FOR THE DURATION OF THE MEETING:

20.2 TIME LIMITS ON SPEAKERS

20.5 MEMBERS MAY SPEAK ONLY ONCE

20.6 LIMITS ON NUMBER OF SPEAKERS

AND THAT OPTION C UNDER SECTION 21 GENERAL PROCEDURES FOR SPEAKING AND MOVING MOTIONS BE USED FOR THE MEETING.

- STANDING ORDERS ARE RECOMMENDED TO BE SUSPENDED TO ENABLE MEMBERS TO ENGAGE IN DISCUSSION IN A FREE AND FRANK MANNER.

5 REPORT SECTION**6.1 ANNUAL PLAN 3 WATERS COMPLIANCE ADDITIONAL FUNDING****File Number:** COU1-1400**Author:** Josh Lloyd, Group Manager - Community Infrastructure and Development**Authoriser:** Monique Davidson, Chief Executive**Attachments:** Nil**PURPOSE**

The matter for consideration by the Council is the approval of additional funding required in the Annual Plan 2019/20 to support regulated compliance work for the three waters.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

- a) Council approve the additional budget required in the Annual Plan 2019/20 to support regulated compliance for the three waters and this is funded from rates to a total value of \$113,191.

COMPLIANCE	
Significance	This matter is assessed as being of some importance.
Options	<p>This report identifies and assesses the following reasonably practicable options for addressing the matter:</p> <ol style="list-style-type: none"> 1. Council approve the additional budget required in the Annual Plan 2019/20 to support regulated compliance for the three waters and this is funded from rates to a total value of \$113,191. 2. Council approve the additional budget required in the Annual Plan 2019/20 to support regulated compliance for the three waters and this is loan funded to a total value of \$113,191. 3. Council approve the additional budget required in the Annual Plan 2019/20 to support regulated compliance for the three waters and this is funded from within existing three waters budgets by reprioritising expenditure to a total value of \$113,191. 4. That Council do not approve any increase in funding to support regulated compliance requirements for the three waters and instead instruct and support officers to push back on regulators.
Affected persons	The persons who are affected by or interested in this matter are the residents of Central Hawke's Bay who are impacted in any way by the three waters, Council officers tasked with meeting compliance standards, Council contractors tasked with meeting compliance standards.
Recommendation	<i>This report recommends option 1 for addressing the matter.</i>
Long-Term Plan / Annual Plan Implications	This report requests, among other options, a change to the Annual Plan 2019/20 budgets to increase funding to support regulatory compliance for the three waters.
Significant Policy and Plan Inconsistencies	Option 2 is outside of the Revenue and Financing Policy

EXECUTIVE SUMMARY

This report presents options to fund an identified shortfall between existing Annual Plan budgets and what is required to meet new regulatory compliance requirements for Drinking Water, Storm Water and Waste Water. Specifically, options considered include funding from rates, loan funding for Annual Plan 2019/20, re-prioritising investment or not investing at all and accepting to not meet compliance requirements. Based on the options analysis Officers consider that funding from rates is the best option to reduce risk to Council and the community.

BACKGROUND

Mandatory Compliance Regime.

Council own and operate three waters infrastructure to provide safe and reliable service to its communities and in accordance within a plethora of regulatory and legislative controls. The compliance regime is rightfully in place to provide oversight of the sector and ensure that minimum standards are being met in order to ensure that services are safe, reliable and do not have any adverse impacts on health, safety or the environment.

There are many controls in place for Council that are implemented by many different governing bodies or regulators. The two key groups of controls under which Council MUST comply for the three waters are the NZ Drinking Water Standards and our many Resource Consent conditions.

The NZ Drinking Water Standards are implemented across NZ by regional DHBs with appointed local Drinking Water Assessors (DWAs). These standards are set ultimately by the Ministry of Health. Our Resource Consent conditions are set in line with the Resource Management Act, administered by the Hawke's Bay Regional Council and enforceable through the Environment Court.

Drinking Water Compliance

A national move to a new format of Water Safety Plans has been embraced by the Hawke's Bay DHB and local Drinking Water Assessors (DWAs). The new format has been accompanied by an increased enthusiasm and energy of the DWAs who are seeking now to review many previously accepted practices, processes and procedures. DWAs locally are now requiring reviews of all supporting documentation to all water-safety-related activities at a level much greater than previous. Weekly reviews are occurring internally now to meet the compliance workload and this is considered unsustainable in the medium to long term.

The HBRC have also tightened up on requirements now requesting much greater detail and timeliness in water-use information. HBRC are also more strictly enforcing consent conditions for water takes requiring additional monitoring and reporting on Councils part.

Waste Water Compliance

The extension of consents for some plants to optimise capital investment has resulted in an increase in short-medium term monitoring and reporting requirements. The sophistication of analysis and information processing for monitoring and reporting against all wastewater consents has also increased with annual return reports increasing from 20 to 60 pages in most cases.

Storm Water Compliance

The implementation of, and adherence to, CHBDCs Stormwater Resource Consent is requiring a radical increase in resource. New monitoring and sampling programmes are being created, new reporting frameworks published and landowners are being engaged with under a totally new model and approach to managing Stormwater. Stantec have been supporting the work to date and have compiled a 12-month roadmap of actions required to meet consent conditions complete with estimated resource requirements for each task.

Risk.

Council has adopted a formal approach to managing risk coordinated across the organisation. Governance play a vital role in the risk management approach through the adoption of policies and frameworks and through the review and endorsement of a corporate risk register. The tables below are taken from the adopted Risk Management Framework and CHBDC Risk Register, respectively. They illustrate the importance that governance has placed on effective risk management and highlight key risks at a generic level (insignificant to catastrophic classification ranking) and a specific level (such as the top listed risk on the risk register about fresh water quality and compliance).

Officers have built a close working relationship with the HBRC and DHB DWAs over the past 18 months through the changing regulatory and compliance regime. Officers have also increased their understanding and limitations of our infrastructure. This process has been expedited through the on-boarding of Veolia. Officers have confidence that our infrastructure is performing to physical expectations in most cases but that additional and ongoing resource is required to continue to demonstrate this to regulators as well as to make some small changes to plant and equipment. It is Officers view that without an increase in resource, Council will struggle to continue to demonstrate compliance. Non-compliance can be dealt with in many ways with the severest being prosecution under the Health Act or Resource Management Act.

Consequence (C)	1	2	3	4	5
Risk Area	Insignificant	Minor	Significant	Major	Catastrophic
Leadership and Governance including Reputation	<p>Customer complaint. AND/OR Not at fault issue, settled quickly with no impact.</p> <p>Minor legislative technical breach but no damages. No monetary penalty AND/OR Internal query.</p> <p>No impact on the Vision and Strategic Community Outcomes</p> <p>Consultation on Annual or LTP, strategies or revised Vision & Community Outcomes delayed by less than 3 working days</p>	<p>Non-headline community media exposure. Clear fault. Settled quickly by CHBDC response.</p> <p>Negligible impact. Minor technical non-compliances and breaches of regulations or law with potential for minor damages or monetary penalty. AND/OR Special audit by outside agency or enquiry by Ombudsman.</p> <p>Inconvenience or short delay in achieving the Vision and Strategic Community Outcomes</p> <p>Consultation on Annual or LTP, strategies or revised Vision & Community Outcomes delayed by 3-5 working days</p>	<p>Negative local (headline) and some regional media coverage. Council notification. Slow resolution. Compliance breach of regulation with investigation or report to authority with prosecution and/or possible fine. AND/OR Non-compliance with Corporate/Council Policy Significant difficulty introduced to achievement of the Vision and Strategic Community Outcomes.</p> <p>Lost opportunity to contribute positively to one or more of the Vision and Strategic Community Outcomes</p>	<p>Negative regional (headline) and some national media coverage. Repeated exposure. Council involvement. At fault or unresolved complexities impacting public or key groups. Major compliance breach with potential exposure to large damages or awards. Prosecution with 50% to maximum penalty imposed. District or Environmental court. OR Multiple compliance breaches that together result in potential prosecution with 50% to maximum penalty imposed.</p> <p>Failure to achieve a specific Strategic Community Outcome. Lost opportunity to significantly advance a specific Strategic Community Outcomes.</p>	<p>Maximum multiple high-level exposure. Sustained national media coverage. Direct Council intervention. Loss of credibility and public / key stakeholder support. Serious compliance breach with potential prosecution with maximum penalty imposed. High Court or criminal action. OR Multiple compliance breaches that together result in potential prosecution with maximum penalty imposed</p> <p>Failure to achieve multiple Strategic Community Outcomes.</p> <p>Lost opportunity to significantly advance multiple Strategic Community Outcomes.</p>

Risk No	Risk Description	Objectives	Causes	Consequences	Risk Owner	Initial (Inherent) Risk Assessment			Controls
						Consequence	Likelihood	Inherent Risk	
1	Fresh Water Failure of water treatment, pumping and network infrastructure or lack of network capacity means the community does not receive an adequate supply of fresh potable water	Durable infrastructure	Inadequate water testing and operating procedures	Gastro outbreak causing sickness and/or death.	Executive Leadership Team	Catastrophic	Almost Certain	Extreme	Adequate and implemented Water Safety Plans for all supplies
		A prosperous district	Under investment in water treatment and water network assets.	No potable water available for some or all of the community					Active monitoring in accordance with the Water Safety Plans and Drinking Water Standard
		Environmentally responsible	Water contamination from system failure or backflow contaminants.	Need for "boil water" notice and public service disruption.					Implementation of online diagnostics and controls
		Smart growth	Poor contract management	Prosecution of Council and of council staff.					
			Natural disaster (earthquake, flood etc.)						

Enforcement.

Officers consider that they are likely to be unable to meet the requirements of new and existing regulation under the NZ Drinking Water Standards and our Resource Consents without additional investment for monitoring and compliance activities. This report seeks to inform Council about the risk of enforcement and options to mitigate that risk. While prosecution is only one aspect of enforcement, it is a possibility that Council need to be aware of.

Should prosecution be pursued by our regulating bodies, the Health (Drinking Water) Amendment Act 2007 sets that a fine not exceeding \$200,000 is imposable on any organisation who commits an offence under the act as well as a maximum fine of \$10,000 per day for every day during which the offence occurs. The Resource Management Act 1991 sets that a fine not exceeding \$600,000 is imposable by any organisation who commits an offence under the act as well as a maximum fine of \$10,000 per day for every day during which the offence occurs. These figures are the maximum values and it is not anticipated that such high figures would be imposed on a Council of our size however it is possible.

National Context.

The compliance regime under which CHBDC operates is the same for other Councils across NZ. There are however significant regional inconsistencies in the interpretation of standards and guidelines across the country that continue to be the subject of heavy national debate. Councils involvement in the Joint Water Working Group as well as the HB 3 Waters Reform working group ensures a continued and increasing awareness of both regional and national activity.

The Central Government-led 3 Waters Reform seeks to fundamentally transform the regulatory model for the 3 Waters ensuring consistency and robustness in the regulation. Officers involved in aspects of the review are totally confident that a new central regulating body will be created in the short to medium term. Officers are also entirely confident that any new regulations will be in addition to existing regulation and the compliance realm will not become simpler or more 'relaxed'. Officers have had it made clear that a continued significant investment in compliance and monitoring is required.

A second leg of the 3 Waters Reform is seeking to review the operational delivery model and find efficiencies and optimisations. This work is being led nationally by a Hawke's Bay working group with a report from that group to be presented to CEs in May. This work may in time lead to some consolidation of resources and changes in funding models but will not make changes within the immediate or short term as required to fund existing challenges.

Funding Implications.

Officers request an alteration to the Annual Plan 2019/20 budgets to allow for necessary increases in internal and contracting resource to meet new and changing legislative and wider regulatory and compliance requirements for drinking water, storm water and waste water. An increase in the following budgeted amounts within the presented Annual Plan are requested:

The increases in operating expenditure required are necessary given changes in the regulatory and compliance regimes for all three waters. The changes necessitating an increase in Council investment are described below categorised under each of the three waters.

The total increase in funding required is \$113,191.

	Current Budgeted Amount	New Budget Requirement	Additional Budget required
Water Operational Monitoring	\$87,485	\$148,818	\$61,333

Wastewater Operational Monitoring	\$153,000	\$196,630	\$43,630
Stormwater Operational Monitoring	\$32,640	\$40,868	\$8,228

SIGNIFICANCE AND ENGAGEMENT

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed as of some importance because of the potential impact on rates or existing programmes of work.

OPTIONS

The following standard criteria for evaluating options have commonality between the options and are discussed here in general rather than individually under each option.

a) Alignment to Project Thrive and Community Outcomes

Project THRIVE was a key driver of the Big Water Story which placed an increased focus on 3 waters infrastructure. The investment requested in this report does not directly support 3 waters infrastructure creation or maintenance but supports the effective management of that infrastructure through increased monitoring and compliance in adherence with regulation/s. Options 1 and 2 both allow Council to continue to meet the inherent drivers of Project THRIVE and the Big Water Story through continuing investment in infrastructure and supporting this investment with further investment in monitoring and compliance to ensure that the infrastructure is performing as it should to meet health, wellbeing, environmental, community and regulatory outcomes. Options 3 and 4 are considered specifically under their respective sections below.

b) Participation by Māori

Council is required to engage with Maori in a meaningful way while providing 3 waters services. The additional compliance requirements addressed in the report have no direct bearing on Councils ongoing engagement with Maori.

Option 1 Council approve the additional budget required in the Annual Plan 2019/20 to support regulated compliance for the three waters and this is funded from rates to a total value of \$113,191.

a) Financial and Resourcing Implications

The additional investment per year to meet new compliance requirements of \$113,191 spread across the 3 waters will have an impact on targeted rates for connected customers as follows:

	Current Budgeted Amount	New Budget Requirement	Additional Budget required	Increase amount per connect (incl GST)
Water Operational Monitoring	\$87,485	\$148,818	\$61,333	\$16.94

Wastewater Operational Monitoring	\$153,000	\$196,630	\$43,630	\$12.57
Stormwater Operational Monitoring	\$32,640	\$40,868	\$8,228	\$0.0099 per dollar of capital value

b) Risk Analysis

This option is considered to remove the immediate and highest risk to Council which is the threat of non-compliance and subsequent prosecution. This option however creates additional risk by transferring the burden onto ratepayers who may experience affordability issues in some cases. There is a risk to Council of negative public feedback or criticism about continued rates increases to service the 3 waters however this risk is considered manageable through communicating clearly with ratepayers about the absolute need to comply with regulation and that this is not Council's own doing.

c) Community Views and Preferences

This option is considered to be in alignment with community views and preferences in that it will go some way to ensuring the continued delivery of safe and reliable drinking water, the careful management of the environment and environmental impacts and compliance with regulation. It is anticipated that there will be strong views in the community about the affordability of required rates increases.

d) Statutory Responsibilities

This option supports Council to meet its statutory responsibilities under the NZ Drinking Water Standards and numerous Resource Consents.

e) Consistency with Policies and Plans

This option requires a change to the Annual Plan but is in alignment with infrastructure plans, asset management plans and water safety plans and Council's Revenue and Financing Policy.

f) Advantages and Disadvantages

The primary advantages of this option are that it directly allows Council to meet regulatory compliance requirements and avoid the immediate threat of prosecution. This option is also considered to be relatively easy to enact in that it does not require a change to funding mechanisms.

The primary disadvantage of this option is the affordability implications for our ratepayers.

Option 2 Council approve the additional budget required in the Annual Plan 2019/20 to support regulated compliance for the three waters and this is loan funded to a total value of \$113,191.

a) Financial and Resourcing Implications

An option exists to loan fund the required \$113,191 in year one while Council consider longer term how to meet changing compliance requirements. This is not a long-term solution as loan funding for year on year investment is outside of Council Revenue and Financing Policy and what is considered prudent financial management. The impact on connected ratepayers in year 1 to pay back the loan over a five-year period is shown in the table below. Note that this amount would be added to any future rates increases required in the five-year period.

	Current Budgeted Amount	New Budget Requirement	Additional Budget required	Increase amount per connect (incl GST)
Water Operational Monitoring	\$87,485	\$148,818	\$61,333	\$3.86
Wastewater Operational Monitoring	\$153,000	\$196,630	\$43,630	\$2.86
Stormwater Operational Monitoring	\$32,640	\$40,868	\$8,228	\$0.0023 per dollar of capital value

b) Risk Analysis

This option removes the immediate risk to Council of non-compliance and potential prosecution. This option defers the risk to Council of public scrutiny over affordability issues but only for one year as funding via loan for year on year investment is outside of Council Revenue and Financing Policy and what is considered prudent financial management.

c) Community Views and Preferences

This option is in alignment with community views and preferences in that it allows good management of infrastructure and an ability to meet compliance requirements. This option also will garner community support in creating a short-term period of grace from larger rates increases. This option is however considered unsustainable and merely defers a longer-term decision on how to fund compliance requirements. Through Project THRIVE and the LTP 2018-28 consultation the community demonstrated a strong desire to not defer decisions on infrastructure that need to be made.

d) Consistency with Policies and Plans

This option is not consistent with Councils Revenue and Financing Policy so would need to be implemented outside of that Policy.

e) Advantages and Disadvantages

The primary advantage of this option is that it lessens the affordability impact on ratepayers in year one, but only for a short time.

The primary disadvantages are that it is only a short term option potentially deferring the same decision to be made next year.

Option 3 Council approve the additional budget required in the Annual Plan 2019/20 to support regulated compliance for the three waters and this is funded from within existing three waters budgets by reprioritising expenditure to a total value of \$113,191.

a)

a) Financial and Resourcing Implications

This option will not have any resulting increases in rates or require any changes to funding mechanisms. A transfer of existing funds from within existing 3 waters operational budgets could be made but would come at extreme risk to asset performance and level of service. The funds

would logically need to come from budgets set aside for asset condition assessment and asset management plans. This would leave little to no money available in these budgets to carry out already planned work to manage our assets.

Drinking Water

Asset Management Planning budgets in Drinking Water would be \$0.00 for 2019/20 (\$30,812) and the \$30,521 of the additional funding remainder would be taken from routine maintenance under the CFIM contract.

Waste Water

Asset Management Planning would be reduced by the additional expenditure of \$43,630.

Storm Water

Asset Management Planning would be reduced by the additional expenditure of \$8,228.

b) Risk Analysis

This option completely removes the risk of additional financial burden on ratepayers but transfers this to what Officers consider to be an unacceptably high risk on the assets and in terms of level of service. Funds would need to be transferred from an existing operational budget with AMPs being the most suitable candidate. This would leave insufficient funds to carry out already planned AMP work and would result in poorly produced plans and deteriorating assets.

c) Alignment to Project Thrive and Community Outcomes

This option would meet community needs and expectations in the immediate term by allowing continued monitoring and compliance work to adherence to regulation. It could however be seen to be contradictory to already built understanding in the community about the need to invest in the assets through proper maintenance, condition assessment and planning as this option would directly take much-needed funds from those activities.

d) Community Views and Preferences

This option may be supported by the community in the short term as it would not result in any increases to rates. It would however result in a decreased level of service from the assets which undermines the intent of the Big Water Story and the strong views of the community to properly invest in infrastructure.

e) Consistency with Policies and Plans

This option is consistent with the Revenue and Financing Policy however would have a significant impact on the ability of Officers to develop robust and appropriate Asset Management Plans.

f) Advantages and Disadvantages

The primary advantage of this option is that it does not result in an increase in rates.

The primary disadvantage of this option is that it would result in a decrease in levels of service from the assets and be contradictory to already built understanding in the community about the need to invest in the assets through proper maintenance, condition assessment and planning as this option would directly take much-needed funds from those activities

Option 4 That Council do not approve any increase in funding to support regulated compliance requirements for the three waters and instead instruct and support officers to push back on regulators.

a) Financial and Resourcing Implications

This option would require no additional investment from Council but would require Officer and Elected Member time to engage with regulators to argue and support the case for not complying with regulations.

Prosecution for not complying with regulation could come in the form of financial penalties as identified in the report.

b) Risk Analysis

This option creates a significant risk to Council of breaching the NZ Drinking Water Standards and its requirements under the conditions of numerous Resource Consents. The provision of safe drinking water is number 1 on Councils adopted Risk Register and this option directly does not support continued management of that risk.

While Officers do not consider there to be an immediate risk of public safety being compromised, by not meeting new compliance requirements, there is potential that without completing the necessary monitoring activities required under compliance regime/s that Council could produce unsafe water.

c) Alignment to Project Thrive and Community Outcomes

This option does not align with Project THRIVE or community outcomes as it will likely see Council prosecuted and therefore require significant sums of money to be transferred from value-adding activities to paying imposed penalties.

d) Statutory Responsibilities

This option is directly against mandated regulation as per the NZ Drinking Water Standards and our many Resource Consents.

e) Community Views and Preferences

Officers consider that this option does not align with community views and preferences that would set at a minimum that Council comply with regulation standards. The Community have questioned several times during recent engagements how Council complies with Drinking Water Standards and have questioned how Council complies with its own Resource Consents.

f) Consistency with Policies and Plans

Option 4 does not require a change to the Annual Plan or any funding mechanism but is inconsistent with aspects of Water Safety Plans and Asset Management Plans.

g) Advantages and Disadvantages

The advantage of this option is that it comes at no immediate cost to the ratepayer.

The disadvantages of this option are that it will almost certainly lead to non-compliance, possible prosecution and the need to spend time and money to pay penalties.

Recommended Option

This report recommends **Option 1, Council approve the additional budget required in the Annual Plan 2019/20 to support regulated compliance for the three waters and this is funded from rates to a total value of \$113,191**, for addressing the matter.

NEXT STEPS

Following a decision by Council, Officers will re-design compliance and monitoring work programmes as required to ensure continued compliance. Officers will also communicate with the regulating bodies in the district/region to inform them of any changes to our programmes or to provide any feedback that Elected Members wish.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

- a) **Council approve the additional budget required in the Annual Plan 2019/20 to support regulated compliance for the three waters and this is funded from rates to a total value of \$113,191.**

6.2 CENTRAL HAWKE'S BAY DISTRICT COMMUNITY TRUST - REQUEST FOR ADDITIONAL FUNDING**File Number:** ASS2-3000**Author:** Doug Tate, Group Manager Customer and Community Partnerships**Authoriser:** Monique Davidson, Chief Executive**Attachments:** 1. Central Hawke's Bay District Community Trust - Funding request letter and budget breakdown [↓](#) **PURPOSE**

The purpose of this report is to present further information to Council to determine whether to provide additional annual funding for operational costs to the CHB Community Trust.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

- a) That Council provide additional funding to the Central Hawke's Bay District Community Trust of \$14,500 ongoing, above and beyond the current Service Agreement value, noting an additional rating impact of \$8,910 in the 2019/20 year; or
- b) That Council provide additional funding to the Central Hawke's Bay District Community Trust of only \$5,590 ongoing, above and beyond the current Service Agreement value; or
- c) That Council declines the Central Hawke's Bay District Community Trusts request for additional funding.
- d) That Council requires a variation to the Service Agreement with the Central Hawke's Bay District Community Trust, with payment of the additional funding being conditional upon the Trust providing quarterly reporting information to Council to meet Long Term Plan performance measures and for the Trust Chairman to attend a quarterly liaison meeting with Senior Council staff. (DELETE OR AMEND IF NO FUNDING PROVIDED)

COMPLIANCE	
Significance	This matter is assessed as being of some importance
Options	<p>This report identifies and assesses the following reasonably practicable options for addressing the matter:</p> <ol style="list-style-type: none"> 1. Fund the full request of the Trust requiring new rating requirements of \$8,909. 2. Part fund the request of the Trust to the value contained within budgets. 3. Decline the request for additional funding.
Affected persons	The persons who are affected by or interested in this matter are the CHB Community Trust and users of the pool.
Recommendation	<i>This report does not recommend an option to address the matter.</i>
Long-Term Plan / Annual Plan Implications	Yes – if option 1 is adopted additional funding will be required for the 2019/20 financial year.
Significant Policy and Plan Inconsistencies	No

BACKGROUND

Council have a service agreement with the Central Hawke's Bay District Community Trust ("The Trust") dated 8 November 1996 for the provision of a swimming pool in Central Hawke's Bay, with the Trust covenanting "to provide the residents of Central Hawke's Bay and visitors with access to a modern recreational swimming and fitness facility". In consideration of the provision of the pool, Council makes an annual payment.

The service agreement has had minor variations since 1996, either extending the agreement or formalising increases above and beyond inflation. The service agreement comes to an end on 30 June 2022.

All costs relating to the operation of the facility are the responsibility of the Trust, noting however that they are limited in their ability to generate operational revenue - outside of sponsorship and Council funding.

While the Trust could seek to raise fees and charges for the complex with Council approval, the current operational contractual arrangement prevents any net revenue being returned to the Trust. The Trusts operational service provider collects and retains all fees and charges as part of the operational service agreement, requiring modification of the service agreement for a portion or any fees and charges to be returned to the Trust.

The Trust are required as part of their Lease to insure the Pool and other improvements and are required to pay all premiums in respect thereof.

In early May officers received a request from the Central Hawke's Bay Community Trust to provide an increase of \$14,500 ongoing, above and beyond the current funding allocation provided for in their service agreement with Council. For clarity, this request was given earlier than anticipated in the Service Agreement, with the Trust not required to submit any request for increased funding until 30 June of each financial year.

The increase in funding is requested to cover operational costs relating to insurance that has increased beyond the Trusts capability to sustainably fund these for the pool complex. The Trust sought independent insurance advice to procure the insurance and sought expert advice on the relativity of an increase based on their current premiums. The Trust has accepted the current insurance with the new provider for the 2019/20 year. Officers have not had the opportunity to seek comparable insurance costs at the time of writing.

A budget for the Trust is set out with their correspondence submitted as in **attached**. As set out in the budget, the Trust has no other means of funding these additional costs, requiring it to necessarily look to Council in terms of the Service Agreement regarding the pool.

An option is for the Trust to reduce the allocation being set aside annually for operational replacements and the renewal of the facility. In relation to the stewardship of the facility, this is an approach the Trust are uncomfortable taking on behalf of the Central Hawke's Bay Community.

Council currently provides \$209,146 (excluding GST) in the 2018/19 year as part of the service agreement. The agreement provides for a compounding inflation value each year.

Based on the anticipated inflation figure for the 2018/19, the expected value of the service agreement for the 2019/20 year is \$211,237.

The budget in the 2019/20 year is \$216,828, providing a surplus of \$5,590.

The Trust have requested an increase in funding of their service agreement to \$225,737. This increase is \$14,499 above the value in the 2019/20 year that the service agreement anticipates, and \$8,910 above the budgeted value in the 2019/20 Annual Plan and is an increase in rates of 0.05%.

It is acknowledged between the parties that a stronger operational and strategic relationship between Officers and Trust needs to be established. In the preparation of the report, this is something the Trust's Chair has welcomed in the future. It is recommended a variation to the service agreement is made to enact this, should Council provide additional funding.

Councillors will also recall that as part of the Long Term Plan, new performance measures relating to the operation of the swimming facility were included. In the absence of this being included in the current service agreement, it is recommended that the requirement is also provided should new funding be provided to make their provision a requirement.

SIGNIFICANCE AND ENGAGEMENT

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed as of some importance.

OPTIONS

Three options for Council to consider include:

- Option 1 Fund the full request of the Trust requiring a new rating requirement of \$8,909**
- a) Financial and Resourcing Implications

New funding of \$8,910 above the budgeted value in the 2019/20 Annual Plan is required and this is an increase in rates of 0.05%.

b) Risk Analysis

The most substantial risk to Council is the additional increase to the general rate that results.

c) Alignment to Project Thrive and Community Outcomes

Providing the additional funding supports a great community asset and service to the Central Hawke's Bay Community, supporting connected citizens and strong communities.

d) Statutory Responsibilities

n/a

e) Consistency with Policies and Plans

n/a

f) Participation by Māori

n/a

g) Community Views and Preferences

The Trust would look favourably on the increase.

It is unclear whether support or not of the facility by Council would be viewed favourably or unfavourably by the general public.

h) Advantages and Disadvantages

There are no obvious advantages to this option, other than the Trust being able to fully fund its operational costs. The only disadvantage is the additional ongoing rate impact.

Option 2 Part fund the request of the Trust to the value contained within budgets

a) Financial and Resourcing Implications

Council only fund \$5,590 of the requested \$14,500, being the projected budget surplus for the activity identified in the 2019/20 Annual Plan project.

There would be no rate impact with this option.

b) Risk Analysis

The most substantial risk is that the Trust is unable to operate within its operational financial means or has to reduce the maintenance reserve it is building for renewal and replacement, which is not sound asset stewardship.

i) Alignment to Project Thrive and Community Outcomes

Providing the additional funding supports a great community asset and service to the Central Hawke's Bay Community, supporting connected citizens and strong communities.

j) Statutory Responsibilities

n/a

k) Consistency with Policies and Plans

n/a

- l) Participation by Māori
n/a
- m) Community Views and Preferences
The Trust may look unfavourably only receiving part of the increase.
It is unclear whether support or not of the facility by Council would be viewed favourably or unfavourably by the general public.
- n) Advantages and Disadvantages
The obvious disadvantage is that the Trust is unable to fully fund its operational costs and cost of replacement long term. The advantage is that no additional increase to rates is required.

Option 3 Decline the request for additional funding.

- a) Financial and Resourcing Implications

No new funding requirements result.
- b) Risk Analysis
The notable risk is the feedback from and the inability of the Trust to fund the shortfall. Long Term this then creates a position when maintenance reserves for the complex dwindle.
- c) Alignment to Project Thrive and Community Outcomes
The facility is well supported by the Central Hawke's Bay Community, supporting connected citizens and strong communities.
- d) Statutory Responsibilities
n/a
- e) Consistency with Policies and Plans
n/a
- f) Participation by Māori
n/a
- g) Community Views and Preferences
The Trust would look unfavourably on no increase. It is likely the overall terms of insurance would have to be varied, possibly increasing the risk exposure to the Trust and Council in the event that the Trust could not fund any excess, however this has not been able to be verified at the time of writing.
It is unclear whether support or not of the facility by Council would be viewed favourably or unfavourably by the general public.
- h) Advantages and Disadvantages
The obvious advantage to this option is that no additional rates increase is required. The clear disadvantage is that the Trust is unable to fully fund its operational costs and longer term will not have renewal funds available.

Recommended Option

This report does not recommend an option, with the topic being a matter for Council to determine.

NEXT STEPS

In the event that Council approve the additional funding, a Variation to the Service Agreement will be formalised, providing a way forward for the Trust.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

- a) That Council provide additional funding to the Central Hawke's Bay District Community Trust of \$14,500 ongoing, above and beyond the current Service Agreement value, noting an additional rating impact of \$8,910 in the 2019/20 year; or
- b) That Council provide additional funding to the Central Hawke's Bay District Community Trust of only \$5,590 ongoing, above and beyond the current Service Agreement value; or
- c) That Council declines the Central Hawke's Bay District Community Trusts request for additional funding.
- d) That Council requires a variation to the Service Agreement with the Central Hawke's Bay District Community Trust, with payment of the additional funding being conditional upon the Trust providing quarterly reporting information to Council to meet Long Term Plan performance measures and for the Trust Chairman to attend a quarterly liaison meeting with Senior Council staff. (DELETE OR AMEND IF NO FUNDING PROVIDED)

**CENTRAL HAWKE'S BAY DISTRICT COMMUNITY TRUST
P O BOX 397
WAIPUKURAU 4242**

2 May 2019

The Chief Executive
Ms Monique Davidson
Central Hawke's Bay District Council
P O Box 127
WAIPAWA 4240

Dear Monique,

A W PARSONS HEATED POOL, WAIPUKURAU

As required under the terms of the Service Agreement you will find enclosed a copy of the budget for pool operations for the 2019/2020 year (commencing on 1 July 2019).

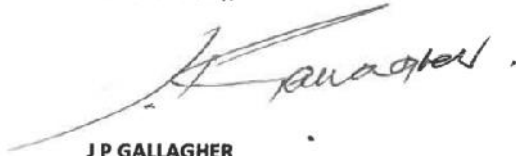
I need particularly to draw attention to an increase in insurance costs which necessitates a request for an increase in annual funding beyond the stipulated annual CPI adjustment. For a few years now the Trust's insurances have been included in the Council's portfolio of covers. Recently the Trust undertook a review of the replacement value of its buildings. The pool facility, inclusive of its operating plant, along with the stadium and gymnasium was valued at just over \$17million to replace. (Additionally the Trust now needs to insure the new hockey turf and netball facility.) The Trustees are of the view that, acting responsibly, they must ensure that the assets are fully insured to the level of the current replacement value.

At the premium rates applied by the Council's underwriters, the total premium for the complex based on the new valuation could well approach \$100,000. The Trust engaged Hurford Parker to explore the possibilities and have accepted their quotation of an annual premium (for all of the Trust's assets) of \$50778.65 exclusive of GST.

The portion of this premium which is applicable to the pool facility alone is \$29517.55 exclusive of GST. This is an increase of \$14,500 for the pool beyond the 2018/19 level and the Trust is requesting that the service payment for the year commencing 1 July 2019 be adjusted to cover this increase. The attached budget includes this increase.

As always, I will be pleased to meet with Councillors to answer any questions they may have concerning this matter.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'J P Gallagher', with a long horizontal stroke extending to the left.

J P GALLAGHER
CHAIRMAN

CENTRAL HAWKE'S BAY COMMUNITY TRUST**WAIPUKURAU HEATED POOL****BUDGET 2019/2020****Outgoings (Exclusive of GST)**

Aqua Management Ltd		
\$161,591 plus est CPI adjustment, as per contractual arrangements, say 1%		163,207
Trust Administration Expenses		
Accountancy and Full Audit		6,500
Insurance (Inclusive of additional premium cost following replacement cost revaluation)		29,500
Provision for Maintenance and Replacement		<u>33,030</u>
Total Expected Outgoings		<u>\$232,237</u>

Funded by (Exclusive of GST):

Interest earned on invested Reserves	6,500	
Requested Service Payment from CHBDC	<u>225,737</u>	<u>\$232,237</u>

Total requested from CHBDC	2019/2020	2018/19
(Subject to actual CPI adjustment and incl additional insurance premium cost)	+ CPI 1%	(Actual)
	225,737	209,146
Add: GST	<u>33,861</u>	<u>31,372</u>
Total	<u>\$ 259,598</u>	<u>\$240,518</u>

6 PUBLIC EXCLUDED BUSINESS**RESOLUTION TO EXCLUDE THE PUBLIC****RECOMMENDATION**

That the public be excluded from the following parts of the proceedings of this meeting.

The general subject matter 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 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 for the passing of this resolution
7.1 - Supplier Recommendation : SH2 Borefield Upgrade	s7(2)(i) - the withholding of the information is necessary to enable Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	s48(1)(a)(i) - the public conduct of 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 under section 6 or section 7
7.2 - Supplier Recommendation: Otane Alternate Supply	s7(2)(i) - the withholding of the information is necessary to enable Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	s48(1)(a)(i) - the public conduct of 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 under section 6 or section 7

7 DATE OF NEXT MEETING**RECOMMENDATION**

THAT the next meeting of the Central Hawke's Bay District Council be held on 20 June 2019.

8 TIME OF CLOSURE