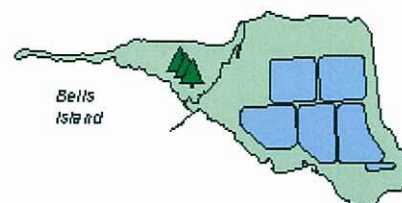


Nelson Regional Sewerage Business Unit



AGENDA

Nelson Regional Sewerage Business Unit

**Friday 15 March 2013
Commencing at 1.00pm**

**Council Chamber
Level 2A, Civic House
Trafalgar Street
Nelson**

Members:

Donna Hiser

Councillors P Matheson and D Shaw (Nelson City Council)

M Higgins and Councillor G Glover (Tasman District Council)

In attendance:

Kura Stafford (Iwi Representative)

P Wilson (Industry Customers' Representative)

Apologies

1.0 Interests

- 1.1 Updates to the Interests Register
- 1.2 Identify any conflicts of interest in the agenda

2.0 Confirmation of Minutes – 14 December 2012 7-16

Document number 1434989

Recommendation

THAT the minutes of the meeting of the Nelson Regional Sewerage Business Unit, held on 14 December 2012, be confirmed as a true and correct record.

3.0 Status Report – 15 March 2013 17-19

Document number 950967 v18

Recommendation

THAT the Status Report (950967 v18) be received.

4.0 Checklist (Board Work Plan)

Meeting Date	Activity	Papers required	Status
Early 2013 Joint Shareholders meeting	Present Annual Report	Annual Report.	
15 March 2013 Joint Committee Meeting	Review Board Performance Review Governance Policy Receive report on Contingency Plan review by customer representatives	Checklist for board effectiveness. Governance Policy Report on contingency plan review.	

March 2013 Combined Shareholders' meeting	Present Business Plan to combined Shareholders meeting.	Business Plan.	
12 April 2013 Board Workshop	Update on waste industry changes and trends. Lunch or Dinner with Board	Guest speaker. (Proposed topic: Energy audit/benchmarking)	
21 June 2013 Joint Committee meeting	Review customer satisfaction survey results. Annual review of Strategic Plan Adopt Energy Conservation Plan	Customer survey report Strategic Plan Energy Conservation Programme	

5.0 Chairperson's Verbal Report

6.0 Staff Report – 15 March 2013

20-43

Document number 1409653

Recommendation

THAT the Staff Report – 15 March 2013 (1409653) be received.

Note: Attachment 2 to this report, the Draft Bell Island Environmental Development Plan (1423262) is circulated as a separate document.

7.0 Major Projects Report

44-49

Document number 682846 v29

7.1 Treatment Plant Upgrade Progress Report

Recommendation

THAT the sum previously budgeted for the installation of launder covers and centrifuge, and unused to date, be released and excluded from the 2013/14 budget;

AND THAT it is noted that the requirement to follow the Nelson City Council procurement policy was suspended for the procurement of work to remediate the A-Train ATADs;

AND THAT the review of the management processes at the plant be delayed until the new Operations and Management contract has been in place for sufficient time for the new contractor to become thoroughly familiar with the plant;

AND THAT it is noted that a variation to the value of \$724,000 (inclusive of a \$24,000 contingency) for the remediation of the A-Train ATADs and associated changes to the walkway was let to the Operation and Maintenance Contractor.

7.2 Pipeline Strategy Project Progress Report

Recommendation

THAT the Pipeline Strategy Project Progress Report (682846 v29) be received.

8.0 Licence to Occupy: Grazing of Bell Island

50-81

Document number 1453957

Recommendation

THAT the right of renewal be offered to the licensee at the market value as assessed by the registered valuer;

AND THAT on acceptance of the offer to extend the term of the agreement to a further 5 year period that the agreement be amended by an exchange of letters;

AND THAT the licensee be informed that his rights pursuant to this agreement will absolutely cease on 30 June 2018.

9.0 Valuation Process

82-98

Document number 1466027

Recommendation

THAT NRSBU staff carry out annual revaluations through adjusting the asset valuation register for any asset movement, changes in remaining life, redundancy and applying the NRSBU Construction Index;

AND THAT the NRSBU Joint Committee considers and approves the NRSBU Construction Index annually;

AND THAT the NRSBU Construction Index be based on Statistic New Zealand indexes for the period April to March;

AND THAT the services of a local registered valuer be retained to review the valuation and issue a valuation certificate for the valuation carried out by NRSBU staff.

10.0 Finance Report for the Period Ending 31 January 2013

99-100

Document number 1419497 v7

Recommendation

THAT the Finance Report for the Period Ending 31 January 2013 (1419497 v7) be received.

PUBLIC EXCLUDED BUSINESS

11.0 Exclusion of the Public

Recommendation

THAT the public be excluded from the following parts of the proceedings of this 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	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
1	Nelson Regional Sewerage Business Unit – Public Excluded Minutes – 14 December 2012	Section 48(1)(a) The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7.	The withholding of the information is necessary:

	<p>These minutes confirmed the public excluded minutes of the Nelson Regional Sewerage Business Unit meeting of 5 October 2012, and otherwise contain information regarding:</p>		
	<p>Review of Customer Charging, including an independent professional adviser's opinion as to whether the capital charge is currently being calculated in accordance with the Disposal of Trade Waste Agreement.</p>		<ul style="list-style-type: none"> • Section 7(2)(i) To carry out negotiations
2	<p>Regional Pipeline Upgrade Liquidated Damages and Pipeline Testing</p> <p>This report contains information regarding re-testing of the regional pipeline and consideration of liquidated damages.</p>	<p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7.</p>	<p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • Section 7(2)(b) To protect information that may disclose a trade secret or the commercial position of a person

12.0 Re-admittance of the Public

Recommendation

THAT the public be re-admitted to the meeting.

Minutes of a meeting of the Nelson Regional Sewerage Business Unit

Held in Ruma Mahitahi, Civic House, Trafalgar Street, Nelson

On Friday 14 December 2012, commencing at 1.04pm

- Present: D Hiser (Chairperson), Councillor G Glover (Tasman District Council), M Higgins (Tasman District Council), and Councillor D Shaw (Nelson City Council)
- In Attendance: Industry Customers' Representative (P Wilson), Nelson City Council Engineering Adviser (J Thiant), Nelson City Council Management Accountant (A Bishop), Nelson City Council Administration Adviser (E-J Ryan)
- Apologies: Were received and accepted from K Stafford (Iwi Representative)

1. Conflicts of Interest

Ms Hiser, Mr Higgins, Councillor Glover and Councillor Shaw provided updated copies of the Interests Register form.

Mr Wilson declared a conflict of interest in relation to Item 3 of the Public excluded agenda (Review of Customer Charging). It was agreed that Mr Wilson would remain for Ms Anne Urlwin's presentation and to ask questions, but would then depart the room for any ensuing discussion.

2. Confirmation of Minutes

5 October 2012

Document number 1385915, agenda pages 1-7 refer.

Resolved

THAT the minutes of a meeting of the Nelson Regional Sewerage Business Unit, held on 5 October 2012, be confirmed as a true and correct record.

Glover/Higgins

Carried

3. Status Report – 14 December 2012

Document number 950976 v16, agenda pages 8-10 refer.

There was a brief discussion regarding item 6 on the Status Report, as this item had taken place during the public excluded part of a previous meeting. Mr Thiart said he would look into this matter.

Resolved

THAT the Status Report (950967 v16) be received.

Hiser/Glover

Carried

4. Checklist (Joint Committee Work Plan)

Mr Thiart explained that Cardno BTO had been brought in as the wastewater specialist for Downer, who had taken over operation of the Bell Island Treatment Plant from CPG/Spiire. Mr Thiart noted that Cardno BTO had carried out benchmarking work for other local authorities, and suggested that the Joint Committee may be interested to hear a presentation on this topic.

It was suggested that the presentation take place at the Joint Committee Workshop. It was agreed that this should take place on Thursday 31 January 2013, from 4pm – 6pm, followed by a meal.

5. Chairperson’s Verbal Report

Ms Hiser explained that she had recently had productive meetings with the Chief Executives of both Councils, and with the Mayor of Tasman. She said she would arrange to meet the new Chief Executive of Nelson City Council, Ms Clare Hadley, early in 2013, and it was suggested that it may be useful for Ms Hadley to tour the Bell Island Treatment Plant.

Ms Hiser added that several meetings had taken place with Ms Anne Urlwin regarding the customer contracts, and that Nikki Harrison, at Nelson City Council, and Murray Staite, at Tasman District Council had been invited to these.

Ms Hiser also spoke briefly about the audit and valuation processes that had recently occurred.

6. Staff Report – 14 December 2012

Document number 1409653, agenda pages 11-33 refer.

Mr Thiart spoke to the report.

6.1 Flow Meter and Sampler

Mr Thiart explained that Alliance's flow meter was currently not working, and 92% of their water use was being used as a proxy for charging in the meantime. He said that Alliance was planning on installing a new meter in June/July 2013.

Mr Thiart said that Nelson Pine Industries had completed plans for a new meter, and had suggested a useful solution regarding calibration of the customers' new meters. He added that it would be necessary to discuss arrangements for a new meter with ENZA.

6.2 Draft Bell Island Environmental Development Plan

Mr Thiart said that he had now received the draft Bell Island Environmental Development Plan, and that this would be presented at the next Joint Committee meeting.

6.3 Operation and Maintenance Contract – Action Items

Mr Thiart explained that Cardno BTO had made some useful suggestions in relation to the operation of Bell Island Treatment Plant. He added that he had not yet received the asset schedule from Downers, but would provide copies to Joint Committee members once he had received it.

6.4 4 Saxton Land Procurement

Mr Thiart said that an agreement had been signed for the procurement of the land. However, he said that part of the biofilter encroached onto adjacent roading land, and the New Zealand Transport Agency required the Nelson Regional Sewerage Business Unit to lease this piece of land, at \$1000 per annum until a new biofilter that did not encroach the adjacent land could be installed. He said that the Joint Committee would need to authorise the Executive Manager Network Services to sign the lease agreement on its behalf.

The Committee discussed the proposed lease, and noted that it was a short term solution until the new biofilter could be installed. In response to a question, Mr Thiart explained that replacing the biofilter would also create an opportunity to undertake other maintenance work at the same time.

Resolved

THAT the Nelson City Council Executive Manager Network Services be authorised to enter into a lease agreement with the New Zealand Transport Agency for the land adjacent to the Saxton Pump Station onto which the biofilter encroaches.

Hiser/Higgins

Carried

6.5 Disposal of Trade Waste Agreement

Mr Thiart noted the additional pipeline capacity following the upgrade project, and said that he would be meeting with Jeff Cuthbertson of Tasman District Council to discuss the agreement.

6.6 Health and Safety

Mr Thiart noted that the Ministry for Business Innovation and Employment appeared satisfied with arrangements for public access to the Rabbit Island plantation.

6.7 Operations and Maintenance Contract

Mr Thiart spoke about the recent plant audit, and said that Downer and Cardno BTO were addressing the issues noted with the Heat Exchanger. He added that the earth bonding was also found to be deficient, and that the contractor would replace this at its own cost.

7. Exclusion of the Public

The Chairperson explained that it was necessary to move to public excluded business, as there were time constraints for Ms Anne Urlwin, who was making a presentation in relation to item 3 of the Public Excluded agenda (Review of Customer Charging). She said it was necessary to pass a procedural resolution for Ms Urlwin to remain in the public excluded meeting.

Resolved

THAT, in accordance with section 48(5) of the Local Government Official Information and Meetings Act 1987, Ms Anne Urlwin remain after the public has been excluded, for Item 3 of the Public Excluded agenda (Review of Customer Charging), as she has knowledge that will assist the Nelson Regional Sewerage Business Unit;

AND THAT, in accordance with section 48(6) of the Local Government Official Information and Meetings Act 1987, the knowledge that Ms Anne Urlwin possess relates to the review of customer charging that Ms Urlwin completed on behalf of the Nelson regional Sewerage Business Unit.

Glover/Shaw

Carried

Resolved

THAT the public be excluded from the following parts of the proceedings of this 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	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
<p>1</p>	<p>Nelson Regional Sewerage Business Unit – Public Excluded Minutes – 5 October 2012</p> <p>These minutes confirmed the public excluded minutes of the Nelson Regional Sewerage Business Unit meeting of 31 August 2012, and otherwise contain information regarding:</p>	<p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p>	<p>The withholding of the information is necessary:</p>
	<p>Regional Pipeline Upgrade Consultancy Fees</p>		<ul style="list-style-type: none"> • Section 7(2)(i) To carry out negotiations
	<p>Operation and Maintenance Contract: Transfer of Contract</p>		<ul style="list-style-type: none"> • Section 7(2)(i) To carry out negotiations
<p>2</p>	<p>Review of Customer Charging</p> <p>This report contains information regarding an independent professional adviser's opinion as to whether the capital charge is currently being calculated in accordance with the Disposal of Trade Waste Agreement.</p>	<p>Section 48(1)(a)</p> <p>The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7</p>	<p>The withholding of the information is necessary:</p> <ul style="list-style-type: none"> • Section 7(2)(i) To carry out negotiations

Glover/Shaw

Carried

The meeting went into public excluded session at 1.39pm and resumed in public session at 3.59pm.

8. Re-admittance of the Public

Resolved

THAT the public be re-admitted to the meeting.

Glover/Higgins

Carried

9. Clarification of Owners Distribution Calculation

Document number 1414989, agenda pages 37-38 refer.

Nelson City Council Management Accountant, Mr Bishop, spoke to the report. He explained that the auditors had requested clarification of three issues, and briefly outlined each issue. He confirmed that the accounting report was consistent with the financial policies of both Councils, as well as International Financial Reporting Standards.

Resolved

THAT the Operating Surplus for calculating the Owners Distribution excludes any Abandoned Asset expense or revaluation of Derivative Instruments.

Higgins/Shaw

Carried

10. Staff Report – 14 December 2012 - Continuation

The meeting returned to consider the Staff Report.

10.1 Biosolids Contract

Mr Thiart explained that the volume of biosolids sprayed was still high. In response to a question, Mr Thiart explained the measurement of biosolids loads, and said he was confident that the measurements were accurate. He added that the consultants were considering the issue.

10.2 Improvement Programme

Mr Thiart explained that the work programme had been evaluated and re-prioritised, and explained the changes that had occurred.

10.3 Financial

Mr Thiart noted that electricity use was tracking higher than normal, but that power was usually saved over the summer months as the ponds were used more.

10.4 General

Mr Thiart explained that Network Tasman was installing another line into the plant, to improve the electrical security of the plant. He said that this was at no cost to the Business Unit, although the Business Unit had had to grant an easement for the work to be undertaken. He tabled a copy of the proposed plan (1435061).

Resolved

THAT the Staff Report - 14 December 2012 (1409653) be received.

Hiser/Glover

Carried

11. Major Projects Report

Document number 682846 v26, agenda pages 34-36 refer.

Mr Thiart spoke to the report.

11.1 Treatment Plant Upgrade Progress Report

Resolved

THAT the Treatment Plant Upgrade Progress Report (682846 v26) be received.

Higgins/Shaw

Carried

11.2 Pipeline Strategy Project Progress Report

Mr Thiart explained that testing was on-going, had failed marginally, and had identified an issue with valve seals. He said that testing had suggested an internal issue with the pipe, but the results did not necessarily suggest an external leak. A discussion followed regarding the difficulties of testing in an estuarine environment.

In response to a question, Mr Thiart confirmed that the current budget was still sufficient for testing purposes.

Resolved

THAT the Pipeline Strategy Project Progress Report (682846 v26) be received.

Higgins/Shaw

Carried

11.3 Outfall Diffuser Progress Report

In response to a question, Mr Thiart explained that the carry-over amount was approximately \$144,000, and that the project should be completed this financial year.

Resolved

THAT the Outfall Diffuser Progress Report (682846 v26) be received.

Higgins/Shaw

Carried

12. Nelson Regional Sewerage Business Unit Annual Report 2011/2012

Document number 1384026, agenda pages 39-63 refer.

The Joint Committee discussed the draft Annual report 2011/2012 and the following minor changes were noted:

- Pages 55-56, Figures 10 12 – the references to 'total 2 day average' to be amended to 'peak 2 day average';
- Page 62 – Table of 2010-11 information to be replaced with 2011-12 information;
- Page 65 – Councillor P Matheson to be included as Nelson City Council representative; and
- Minor wording changes to section 12.1.

Resolved

THAT the revised draft Annual Report be approved, subject to minor amendments being made by the Chairperson or required by Audit.

Shaw/Higgins

Carried

13. Nelson Regional Sewerage Business Unit Annual Financial Statements for the year ended 30 June 2012

Document number 1419497, agenda pages 64-79 refer.

Mr Bishop spoke to the Financial Statements, and explained the minor clarifications that had been requested through audit. He also explained that two signatures were required, and it was agreed that Councillor Glover should join the Chair in signing the statements.

There was a brief discussion regarding the audit management letter. In response to a question, Mr Bishop explained that normal practice was for management to see the letter initially to correct any errors and address any issues. He agreed that the Board should see the letter once this process was completed.

There was also a brief discussion regarding the Memorandum of Understanding and the need for a Treasury Policy. It was noted that

Tasman District Council intended to produce a Treasury Policy for Joint Committee approval by April 2013.

Resolved

THAT the Nelson Regional Sewerage Business Unit Annual Financial Statements for the year ended 30 June 2012 (1419497) be approved, subject to audit;

AND THAT the Chair and Councillor Glover be authorised to sign the Nelson Regional Sewerage Business Unit Annual Financial Statements for the year ended 30 June 2012.

Shaw/Glover

Carried

14. Financial Report for the Period Ending 31 October 2012

Document number 1419497, agenda pages 80-81 refer.

Resolved

THAT the Finance Report for the Period Ending 31 October 2012 (1419497) be received.

Hiser/Shaw

Carried

15. Nelson Regional Sewerage Business Unit Business Plan 2013/2014

Document number 1408447, agenda pages 82-100 refer.

The Joint Committee discussed the Business Plan 2013/2014.

There was a brief discussion regarding pond de-sludging, and Mr Thiart explained that a review indicated that de-sludging would not be required for approximately seven and a half years. He added that a further review would be carried out next year in order to establish benchmarks.

There was a further discussion regarding the projected budgets for the 2020/2021 and 2021/2022 years. It was noted that some capital expenditure may get pushed out to later years, depending on growth in the Tasman area, which would dictate when further capacity would be required.

Some minor amendments to the Business Objectives were also noted:

- The Key Performance Indicator in Goal One 'Loads do not exceed the capacity of system components' be replaced with 'The Nelson Regional Sewerage Scheme has adequate capacity to deal with flows and loads';

- Page 88, note 2 to be replaced with 'sludge handling/management';
- Goal Six – add 'and reporting mechanisms implemented for the 2014 year'. All Key Performance Indicators requiring action by June 2013 to be reviewed, to ensure that the timeframes set out are achievable;
- 2013 meeting dates – move the June 2013 meeting to 5 July 2013. August Joint Committee meeting confirmed for 23 August 2013, and 13 December 2013 identified as a preferred meeting date, noting that this would be after the 2013 Local Authority elections had taken place. Add the requirement to set meeting dates for 2014 to the December 2013 meeting checklist.

Resolved

THAT the Nelson Regional Sewerage Business Unit Business Plan 2013/2014 (1408447) be adopted, with the amendments as specified.

Glover/Shaw

Carried

There being no further business the meeting ended at 5.03pm.

Confirmed as a correct record of proceedings:

_____ Chairperson _____ Date

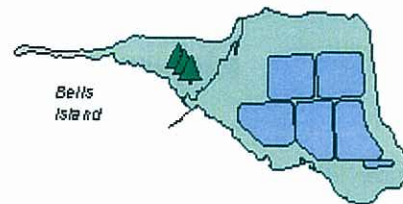
NRSBU STATUS REPORT - 15 March 2013

No	Meeting Date	Document Number	Report Date	Report Title / Item Title	Officer	Resolution or Action	Status
A	22/06/12	1307226	22/06/12	Bell Island Energy Audit	J Thiar	Claim EECA grant.	EECA invoiced
B	20/04/12	1277777	20/04/12	Minutes Item 3.1	J Thiar	Hazard and Operability Study (HAZOP) to be carried out as part of the Operation and Maintenance Contract procurement process	Part of O&M procurement process
C	17/09/11				J Thiar	Flow meter accuracy review.	NRSBU staff working with contributors to change installations.
D	17/09/10				J Thiar	Risk assessment if contributor exits the contributor agreement	
E	17/09/10				J Thiar	Benchmarking of treatment plant operations	
F	22/06/12		22/06/12	Minutes	J Thiar	Energy audit at pump stations	Part of O&M procurement process
G	5/10/12	1042662	5/10/12	Staff Report	J Thiar	Review valuation policy (RAD 1385915).	Plan for 2015
H	14/12/12			Bell Island power supply	J Thiar	Improvement of power supply by Network Tasman	Network Tasman activity
I	15/03/13				J Thiar	Sludge survey 2013/14. Facultative ponds.	Next survey will be carried out in November 2013
1	21/01/13	1448241	21/01/13	A-train upgrade	J Thiar	That the sum previously budgeted for the installation of launder covers and centrifuge, and unused to date, be released and excluded from the 2013/14 budget; That the requirement to follow the Nelson City Council procurement policy be suspended for the procurement of work to remediate the A-Train ATAD's; That the Nelson City Council Executive Manager Network Services be authorised to negotiate a variation to the existing Operations and Maintenance Contract 2791 up to the value of \$724,000 (inclusive and a \$24,000 contingency) for the remediation of the A-train ATAD's and associated changes to the walkway. That the review of the management processes at the plant be delayed until the new Operations and Management contract has been in place for sufficient time for the new contractor to become thoroughly familiar with the plant.	Contract let to Downer
2	14/12/12	1434989	14/12/12	Minutes of meeting	J Thiar	THAT the Nelson City Council Executive Manager Network Services be authorised to enter into a lease agreement with the New Zealand Transport Agency for the land adjacent to the Saxton Pump Station onto which the biofilter encroaches.	
3	14/12/12	1419497	14/12/12	NRSBU Annual Financial Statements for 30 June 2012	J Thiar	THAT the Nelson Regional Sewerage Business Unit Annual Financial Statements for the year ended 30 June 2012 (1419497) be approved, subject to audit; AND THAT the Chair and Councillor Glover be authorised to sign the Nelson Regional Sewerage Business Unit Annual Financial Statements for the year ended 30 June 2012.	
4	14/12/12	1408447	14/12/12	NRSBU Business Plan 2013/14	J Thiar	THAT the Nelson Regional Sewerage Business Unit Business Plan 2013/2014 (1408447) be adopted, with the amendments as specified.	A hardcopy of plan forwarded to owners appended to this report.
5	31/08/12	1351514	31/08/12	Autothermal-Thermophilic Aerobic	J Thiar	THAT CPG be commissioned to prepare a design report for the upgrade of the sludge treatment facility at a cost not exceeding \$35,000;	Awaiting proposal from Downer.

						<p>AND THAT the Nelson City Council Executive Manager Network Services be authorised to enter into a contract for the procurement of a design report for the upgrade of the sludge treatment facility at Bell Island;</p> <p>AND THAT the review of the operation of the autothermal thermophilic aerobic digestion plant be deferred until after the upgraded facility has been operated for at least a year following commissioning.</p>	
6	22/06/12	1307226	22/06/12	Bell Island Energy Audit	J Thiar	<p>THAT the restructuring of the Operation and Maintenance contract to include the responsibility for energy consumption will be considered as part of the contract procurement process;</p> <p>AND THAT the removal of the time of use meter at the dewatering building will be considered once the deferral of the thickening upgrade is confirmed;</p> <p>AND THAT the optimisation of O₂ levels in the aeration basin will be considered as part of the waste water treatment capacity review;</p> <p>AND THAT the cost of changing the point of supply for the ponds and irrigation pump station will be investigated in order to establish the return on capital investment.</p>	Consider during procurement process.
7	22/06/12	1308222	22/06/12	ATAD Literature Review	J Thiar	<p>THAT a Working Party be set up comprising Philip Wilson, Johan Thiar, Michael Higgins and Donna Hiser to draft a Terms of Reference for the ATAD Literature Review and come back to the Business Unit with a recommendation as to who it should approach to undertake the work.</p>	Refer to 1351514. On hold.
8	22/06/12	1303867	22/06/12	Purchase of Land 4- Saxton Road	J Thiar	<p>THAT the Nelson Regional Sewerage Business Unit accept the offer to purchase the land at 4 Saxton Road (Saxton Road pump station) from the New Zealand Transport Agency for the amount of \$220,000 plus costs.</p>	In process.
9	22/06/12	1310909	22/06/12	Allocation of Reticulation Costs	J Thiar	<p>THAT the matter be discussed with all the customers and the results of those discussions be reported back to the next meeting of the Business Unit for decision;</p> <p>AND THAT the Business Unit urge the Nelson City Council and Tasman District Council to have their senior management involved in these discussions;</p> <p>AND THAT in the meantime the single node model is used for charging purposes and if there are any alterations agreed to following the discussions then the revised charges are backdated to 1 July 2012.</p>	With TDC engineers.
10	9/03/12	1042662	9/03/12	Staff report	J Thiar	<p>AND THAT the NRSBU continue supporting the tree trials and that the monitoring continues until the trees are harvested.</p>	Ongoing
11	16/09/11	11497595	16/09/11	NRSBU BIWWTP Capacity and commissioning report	J Thiar	<p>AND THAT there be a further full capacity review in 2012/13 when the last upgrade to the Plant has settled in;</p> <p>AND THAT an independent review be undertaken of the charging mechanism and user contracts once the capacity review in 2012/13 is complete;</p>	
12	2/12/11	682846	2/12/11	Major projects report	J Thiar	<p>THAT the installation of the primary launder covers and the centrifuge be reconsidered after the 2012 summer period;</p> <p>AND THAT the surplus on the budget be retained in the business plan for the future installation of the launder covers and the centrifuge.</p>	Retain funds on budget for another year and reassess situation after next summer
13	17/06/11	1103265	17/06/11	Bell Island Forest Management	J Thiar	<p>That NRSBU adopts a modified integrated forest management model for replanting the forest block at Bell Island and that the Radiata component of this planting is undertaken during July 2011.</p>	Radiata component planted. Requested a proposal for the planting of the other areas from PF Olsen.
14	15/02/11	1042982	3/02/11	Bell Island Spit Restoration	J Thiar	<p>AND THAT the project committee submit a progress report to the NRSBU on a Quarterly basis;</p>	Report appended to staff report.

						<u>AND THAT</u> a memorandum of understanding is drafted to define the relationship between the NRSBU and the Bells Island Spit Restoration Group, and the responsibilities of both parties.	
15	12/03/10	888175	25/02/10	BELLS ISLAND MANAGEMENT PLAN	J Thiar	<u>THAT</u> the development of an environmental development plan be put on the work programme;	Staff report.

**Staff Report
15 March 2013**



1. Action Items

Flow Meter and Sampler

- 1.1 NRSBU is working with NPI and Alliance on processes that will allow them to complete the upgrades required.
- 1.2 A project proposal received from the Operation and Maintenance Contractor was provided to NPI for their consideration.
- 1.3 A copy of the proposal was shared with Alliance to allow them to consider if they want to use the same contractor.
- 1.4 The strategy to use the ENZA flow meter and monitor flows against the flow meter installed where their effluent discharges into the pump station will continue.

Draft Bell Island Environmental Development Plan

- 1.5 The revised draft of the Bell Island Environmental Management Plan was received in December 2012. (Tasman Carter reviewed the plan after receiving comments from Joint Committee members and staff. The revised plan is appended).
- 1.6 The Plan provides a consolidated report on the environmental values of Bell Island.
- 1.7 The most significant issues raised in the report are associated with processes that need to be followed where future development of the Island will result in soil disturbance.
- 1.8 The plan further identifies areas that can be enhanced through further restoration projects.
- 1.9 The plan provides an adequate framework within which the future development of the Island can be structured.
- 1.10 It is recommended that the plan be adopted by the Joint Committee following some minor editing and be used to guide future development on Bell Island.

Operation and Maintenance Contract

- 1.11 The request for tenders for the Operation and Maintenance of NRSBU assets closes on 21 March 2013.

No. 4 Saxton Land Procurement

1.12 The purchase of the land is now unconditional.

Disposal of Trade Waste Agreement

1.13 Tasman District Council Engineers are reviewing the information regarding the changes to the agreements following the increased capacity of the network following the regional pipeline upgrade project.

Sludge Survey

1.14 The sludge survey carried out by Conhur was evaluated by the Wastewater Specialist who indicated that desludging is unlikely to be required within the next six years.

1.15 The sludge levels in the maturation ponds are on average less than 200mm deep with an average sludge content of 1.5%. The maturation ponds contain less than 14% sludge and the average depth from the sludge surface to the water surface exceeds 1.1m.

1.16 The average sludge depth varies significantly between the three facultative ponds.

- Facultative pond F1 is 28% full of sludge, an average solids content of 2.8% and an average depth of sludge surface to water surface of 1.36m.
- Facultative pond F2 is 34% full of sludge, an average solids content of 2.9% and an average depth of sludge surface to water surface of 1.21m.
- Facultative pond F3 is 25% full of sludge, an average sludge content of 2.5% and an average depth of sludge surface to water surface of 1.26m.

1.17 The sludge survey also indicated that the sludge levels in the facultative ponds are not evenly spread and that the minimum depth between areas of elevated sludge levels and the water surface is 650mm.

1.18 A depth of sludge to water surface that exceeds 600mm is considered a good indicator that the ponds have further capacity to receive sludge.

1.19 A second survey is programmed for November 2013 and will focus on the facultative ponds. The information gained will be used to develop a pond desludging strategy.

Joint Committee Annual Workshop

1.20 The contractor and wastewater specialist were unable to present on benchmarking and their management philosophy at a meeting that was scheduled to take place on 31 January 2013.

- 1.21 It is considered that it will be more appropriate to provide the contractor that will be identified following the Operation and Maintenance procurement process with the opportunity to present on these matters to the Joint Committee some time prior to the commencement of the new contract in July 2013.

Asset Register

- 1.22 All assets have now been set up in the Hanson asset register.
- 1.23 NRSBU and contractor staff are now developing processes to schedule and record all programmed, reactive and maintenance work carried out in Hanson.

Electricity Supply Improvements

- 1.24 Network Tasman has advised that they are discussing the installation of the new power supply line with landowners in an effort to reach an agreement with them so that they can proceed with the project.

Audit 30 June 2012 Management Report

- 1.25 The management report was received from Audit New Zealand on 17 January 2013. (Appended to report on Valuation Process).
- 1.26 Audit New Zealand reported that they are satisfied that the financial statements fairly reflect the Business Unit's activities for the period 1 July 2011 to 30 June 2012.
- 1.27 The auditor identified the following areas where the Business Unit processes can be enhanced:
- The Business Unit's Memorandum of Understanding is out of date and should be reviewed and updated.
 - The Business Unit should develop a treasury policy.
- 1.28 While the Business Unit revaluation was found to be suitable for inclusion in the financial statements the auditor advised that the processes around property, plant and equipment valuations should be reviewed.
- 1.29 Audit New Zealand advised that they will be requesting additional recovery of cost incurred for the additional work following the identification of a number of significant misstatements in draft valuation.

Treasury Policy

- 1.30 Murray Staite and Nikki Harrison have met and are in the process of jointly drafting a treasury policy that is expected to be submitted to the NRSBU Joint Committee for consideration at the next Joint Committee meeting.

Governance Charter

- 1.31 The current Governance Charter is considered to be well aligned with legislative environment. (The Governance Charter is appended).

Customer Contingency Plan Review

- 1.32 Following the heavy rain event in January 2013 the customer contingency plans were reviewed.
- 1.33 The review showed that contractor staff are not familiar with the contingency plans.
- 1.34 The contingency plans are now reviewed at monthly meetings to ensure that staff respond in accordance with the strategies set out in the plans.

2. Health and Safety

- 2.1 There have been nine Health and Safety inductions and 147 visitors to the Bell Island site over the past three months.
- 2.2 One of the operators required hospital care after suffering an injury following a fall when working on uneven ground. An accident investigation following the incident identified a number of areas that required mediation to prevent similar accidents from occurring. Remedial work proposed by the contractor was approved.

3. Operations and Maintenance Contract

- 3.1 The list of deficiencies compiled following the six monthly plant audit is being attended and will be reviewed during March 2013.
- 3.2 After receiving a proposal from the existing contractor to review the Operation and Maintenance Manual it was decided to include this work into the new operation and maintenance contract.
- 3.3 A blockage of the primary sludge lines resulted in the diversion of sewage through the oxidation pond and secondary clarifier for a period of two months. During this time some minor modifications were carried out on the primary sludge line to improve access to routinely flush and pig the line.
- 3.4 The primary clarifier was emptied during December 2012 for its annual service check. The clarifier is in sound condition.
- 3.5 The aeration basin was cleaned during February 2013. The aeration basin is in sound condition. The grit captured in the aeration basin suggests that the inlet screen upgrade completed in 2010 is working very well and that the interval between inspections can now be increased (this will continue to be a contractor risk).

4. Biosolids Contract

- 4.1 The volume of biosolids sprayed over the past six months averaged 2,675m³ per month. If the rate of biosolids production continues at this rate for the remainder of the year the budget for biosolids spraying will be exceeded by around \$60,000.
- 4.2 The average concentration of total solids for the last six months is 2.3%. The contractor has not reported any issues with biosolids spraying.
- 4.3 The daily average nitrogen application through biosolids application for the last twelve months is 152 kilogram per day and is less than 60% of the daily capacity of the Rabbit Island and Bell Island forests.

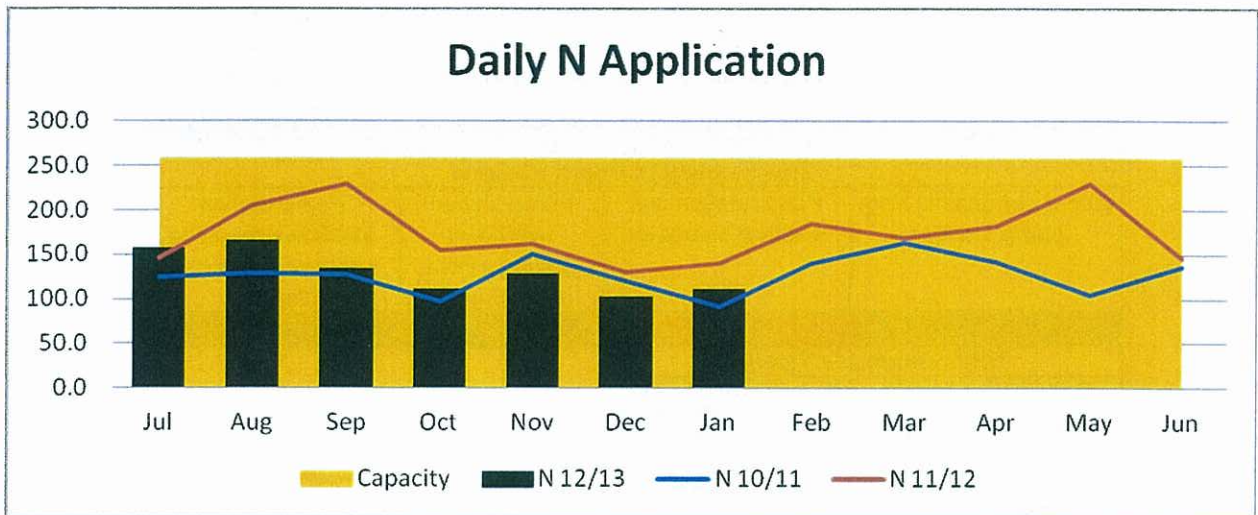


Figure 1 The daily average kilogramme application of nitrogen

- 4.4 On average around 700 tonnes of dry solids are diverted away from the ponds annually since the commissioning of the primary clarifier in 2010.

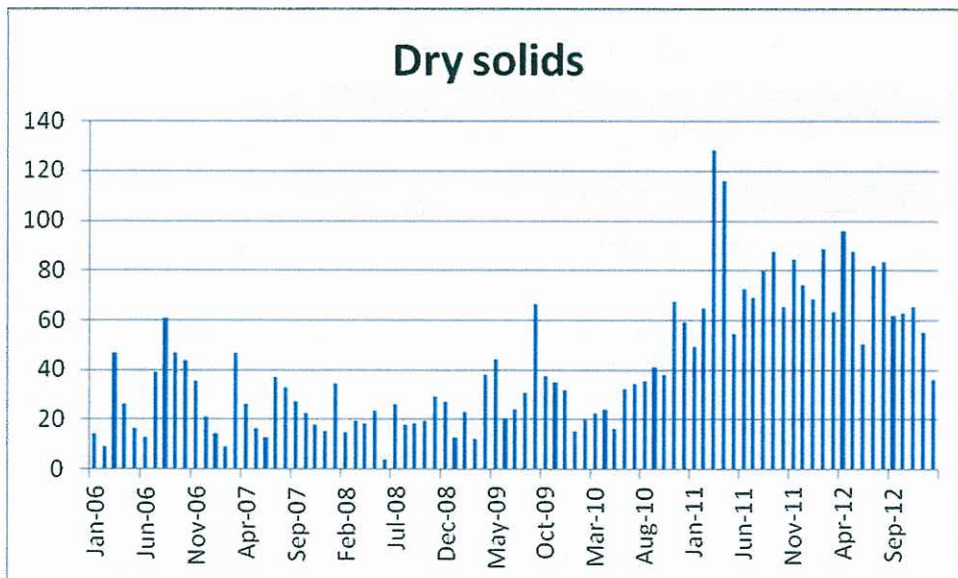


Figure 2 Dry solids (tonne per month) diverted from the ponds

- 4.5 The operation and maintenance contractor is in the process of reviewing the management of sludge at Bell Island to ensure that the ponds are loaded appropriately to allow for optimal plant performance.

5. Level of Service

- 5.1 Level of Service performance for the previous three months is as follows:

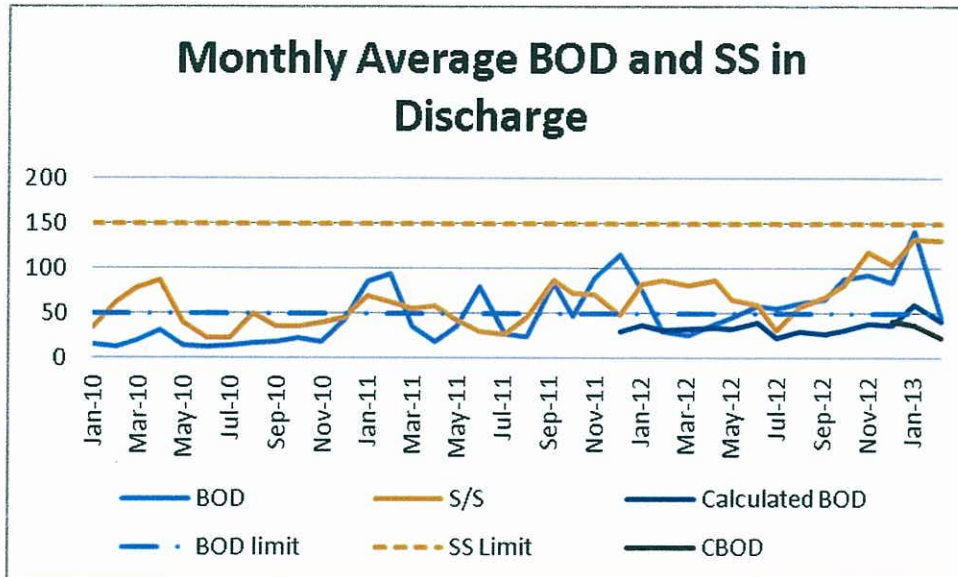
Environmental: Treatment and Disposal			
RMA consent - wastewater Discharge to Coastal Marine Area	RMA Consent - Discharge of Contaminants to Air (Odour complaints)	RMA Consent - Discharge of Contaminants to Land	Equipment Failure of critical components within treatment and disposal system
Note ¹			
Environmental: Pump Stations			
Odour complaints from pump stations	Pump station wet weather overflows	Pump station overflows resulting from power failure	Pump station overflows resulting from mechanical failure
	Note ²		
Environmental: Pipeline			
Reticulation breaks	Air valve malfunction		
Capacity: Overloading system capacity			
Treatment & Disposal	Pump Stations		
Reliability: Equipment failure of critical components			
Treatment & Disposal	Pump Stations	Pipelines	
Responsiveness: Speed of response for emergency and urgent maintenance works			
Treatment & Disposal	Pump Stations	Pipelines	
Responsiveness: Speed of response for routine and programmable maintenance works			
Treatment & Disposal	Pump Stations	Pipelines	
Key customer relationships: Overall satisfaction			
Treatment & Disposal	Pump Stations	Pipelines	

Note 1: Exceeded the Biological Oxygen Demand limits. (Refer to paragraph 5.2 and graph below)

Note 2: Overflows occurred at the Beach Road and Saxton Road pump stations following a high rainfall event in January. It must be noted that the Beach Road pump station operated below optimum capacity as the high flow pumps have not yet been programmed to run in parallel. The capacity on the rising main between Saxton and Bell Island was affected by the fact that the new pipeline was out of commission to allow for further testing.

- 5.2 The increase in the concentration of Biological Oxygen Demand in the effluent discharged from Bell Island continues to be of concern.

- 5.3 The historically high BOD results over the past two years were found to be due to nitrification occurring during the 5 day BOD test.
- 5.4 Nitrification exerts an oxygen demand in the sample which is not related to the carbonaceous oxygen demand of the algae.



Calculated BOD = Filtered BOD plus 0.3XSuspended Solids

Figure 3 The graph compares the Biological Oxygen Demand with the calculated and Carbonaceous BOD in the treated effluent.

- 5.5 The difference between the CBOD and the total BOD is considered to be the effect of nitrification occurring during the 5 day BOD test.
- 5.6 The upward trend in the suspended solids and BOD is not expected to continue once temperatures and daylight hours start to reduce.
- 5.7 Tests are being carried out to determine the feasibility of chemical dosing to remove algae from the effluent if required.
- 5.8 Staff met with the Tasman District Council consent officer and it was agreed to add CBOD tests results to the consent reporting.
- 5.9 Once the cause for the change in the total BOD in the effluent discharged from Bell Island is better understood the NRSBU will need to decide how to address the matter. A change in the resource consent conditions to bring it in line with international best practice, where CBOD is generally used as an indicator rather than total BOD, will need to be considered.

5.10 Level of Service performance for the previous 12 months is as follows:

i)	<p>Resource Consent Compliance (rolling 12 month record)</p> <ul style="list-style-type: none"> ➤ Discharge to Estuary Permit Not achieved: Exceeded the Biochemical Oxygen Demand limits during the past two years. ➤ Discharge to Air Permit 100% Compliance ➤ Biosolids Disposal 100% Compliance ➤ Discharge treated waste water to land 100% Compliance
ii)	<p>Odour Complaints</p> <ul style="list-style-type: none"> ➤ Past three months Two odour complaints were received. Both were associated with biosolids spraying at Bell Island. Biosolids spraying at Bell Island was completed on 22 February. ➤ Last 12 months Two complaints. As above.
iii)	<p>Overflows</p> <ul style="list-style-type: none"> ➤ Past three months Two Overflows. Overflows occurred at the Beach Road and Saxton Road pump stations following a heavy rain event on 15 January. The overflow at Saxton Road would not have occurred had the new pipeline been operational. ➤ Last 12 months Three overflows. All overflows were associated with heavy rainfall events. It is anticipated that these events could have been mitigated if the high flow pumps were programmed to operate in parallel and both pipelines from Monaco to Bell Island is operational.
iv)	<p>Speed of response for maintenance works</p> <p>Two call-outs were recorded over the past three months:</p> <ul style="list-style-type: none"> • Both call-outs were for problems associated with the A-train mechanical equipment. <p>➤ Response within 30 minute response requirement. Achieved.</p>

6. 2012 Action Plan Implementation

6.1 The following table indicates the possible time lines for the individual action items.

AP	Action	Target Date	Completion Date	Comments
Levels of Service				
1.1	Annual customer survey.	March 2013		
Demand Management				
2.1	Extending/renewing the Memorandum of Understanding that expires in 2010.	2012/13		The Joint Shareholders Committee approved the indefinite extension of the current Memorandum of Understanding.
2.2	Review Improvement Plan, consider and if appropriate prioritise and move to action.		Ongoing	Continuing.
2.3	Flow and load analyses.	July 2012	31 July 2012	Completed.
Risk Management				
3.1	Carry out a risk assessment at component level and maintain risk schedules.	December 2013		
3.2	Annual calibration.	June 2013		
3.3	Emergency spillage contingency plans and alarms procedures reviewed.	March 2013		
Financial				
4.1	Valuation.	August 2012	20 November 2012	Completed.
4.2	Business Continuity Plan updated.	June 2013		
4.3	Internal review of customer charging model.	May 2013		

AP	Action	Target Date	Completion Date	Comments
Asset Management				
5.1	Review Asset Management Plan.	June 2013		
5.2	Renewal programme review.	October 2012	November 2012	Included in 2013/14 Business Plan
5.3	Treatment Plant Capacity Review.	December 2013		Included in operation and maintenance contract procurement process.
5.4	Bell Island Environmental Management Plan.	31 March 2013		Report included in this report.
5.5	Review flow meter and sampling.	30 June 2013		Contributors to consider reports provided by Nelson Regional Sewerage Business Unit.
5.6	Benchmarking.	June 2013		
General				
6.1	Board Workshop.	April 2013		Presentation by incumbent operation and maintenance contractor and wastewater specialist on benchmarking.

7. Loads

- 7.1 With the increase in pumping capacity it is expected that heavy rainfall events will have a bigger impact on the management of ponds.

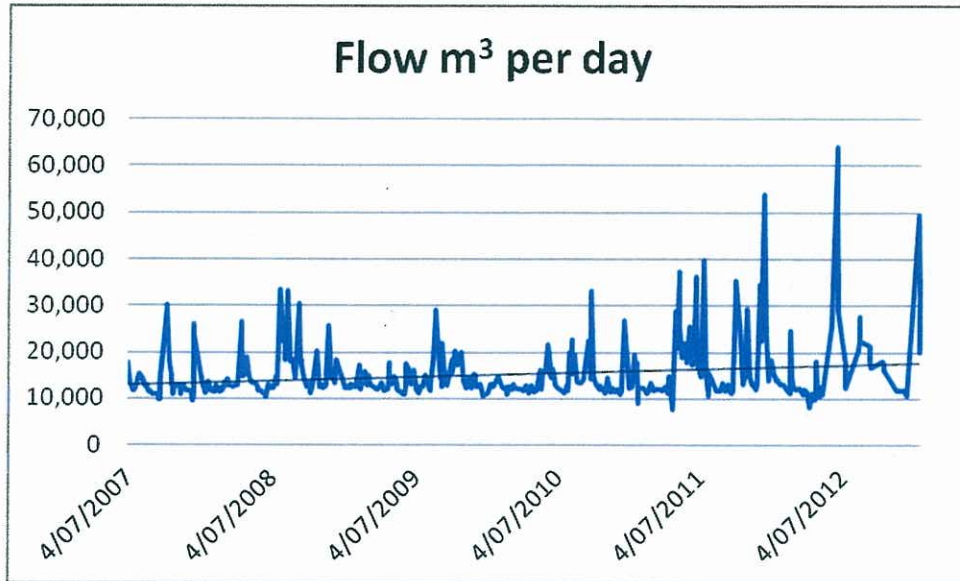


Figure 4 Volume discharged to Bell Island

- 7.2 The loads discharged to the plant appear to have decreased since 2007.

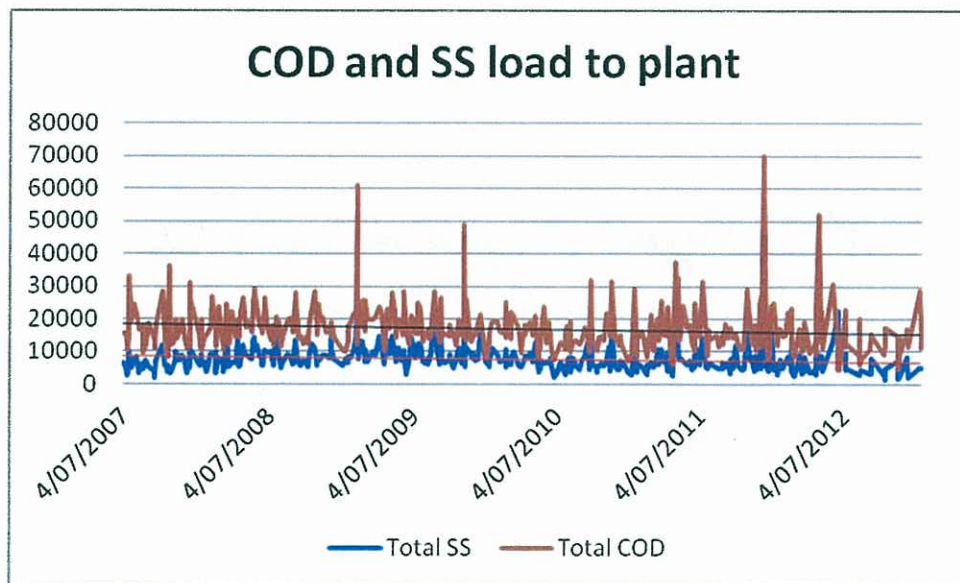


Figure 5 Load discharged to Bell Island

8. Performance

- 8.1 The efficiency of pump stations in terms of power used per unit of flow has improved since changing the flow from the old pipeline to the new pipeline.

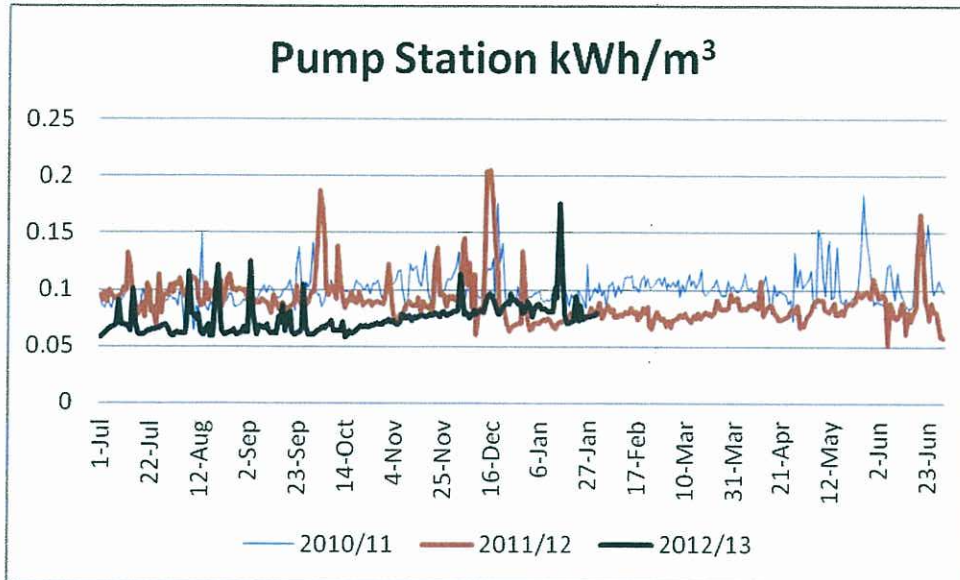


Figure 6 Combined pump stations power usage

- 8.2 The consumption of power at Bell Island has decreased since the implementation of the primary clarifier upgrade.

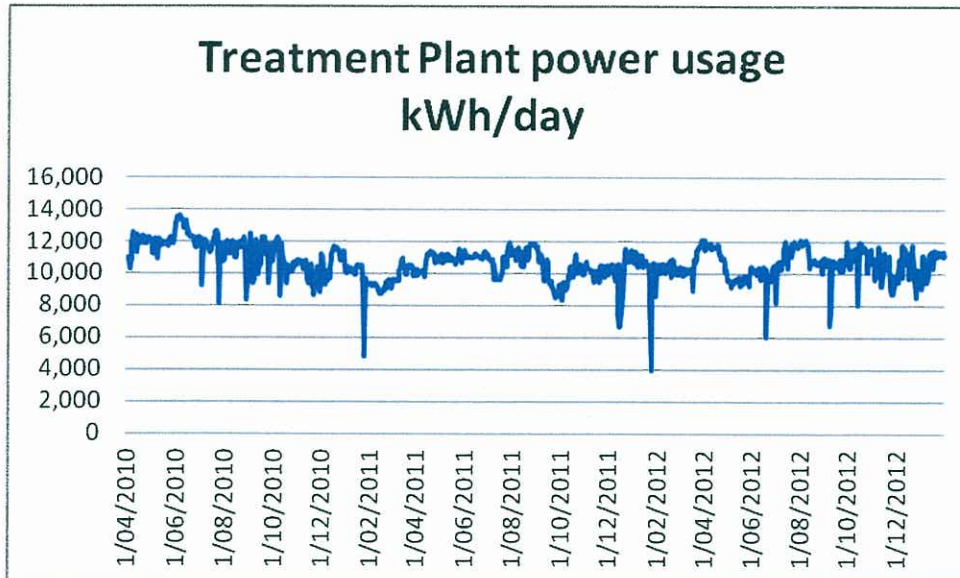


Figure 7 Power usage per day at Bell Island

- 8.3 The efficiency of the treatment plant in terms of power used per kg of COD and SS processed has marginally increased over the last five years. The sludge treated in the ATAD's has more than doubled since the completion of the primary clarifier upgrade.

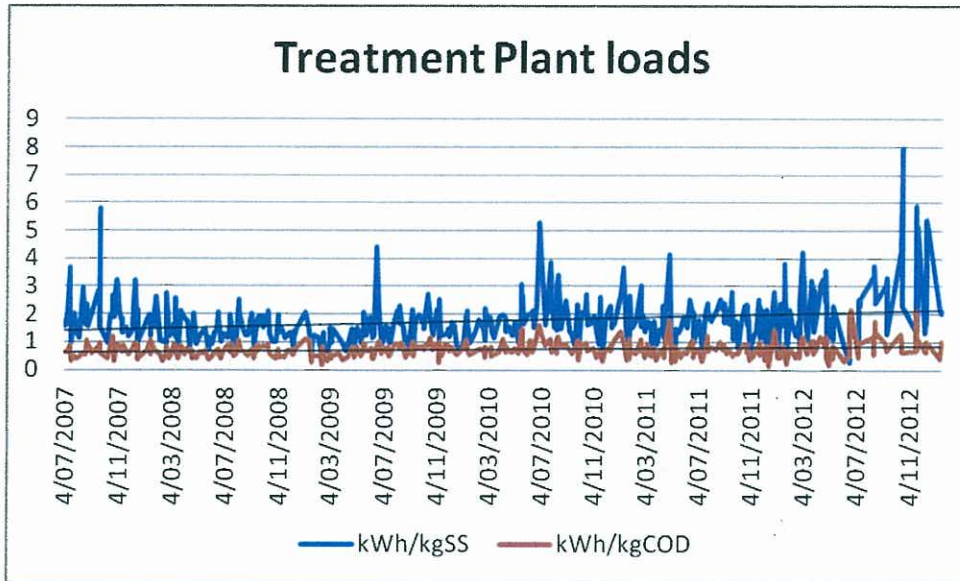


Figure 8 Power usage Treatment Plant

9. Financial

Operations and Maintenance

- 9.1 While the year to date operation and maintenance expenditure is 2.7% over the year to date budget allowance the projection of operational costs is tracking slightly lower than budget.
- 9.2 The cost of power used is tracking slightly lower than budget.

Capital Expenditure Forecast (\$'000)

Upgrade Plan (\$,000)	Budget and Carryover	Projection	1	2	3
	12/13	12/13	13/14	14/15	15/16
New R/M and P/S: Richmond to Bell Is	8,496	1,197			
Outfall Capacity Upgrade	166	166			
Primary Clarifier	788 ¹	788			
Expand Biosolids Treatment Facilities	1,000	1,000			
Sludge Management					5,000
Purchase of Land	150	210 ²			
Pond Desludging					1,140
Resource Consent	15	15			
TOTAL	10,615	3,361	0	0	6,140

Note ¹: Installation of centrifuge.

Note ²: Purchase of Saxton Road land from New Zealand Transport Agency

(Capital projects are discussed in more detail under the project reports section)

10. General

- 10.1 Two short duration interruptible power supply events occurred during the past month. Both interruptions lasted for only a few minutes and the reinstatement of power occurred without incident. Monthly payments are received from ENERNOC.
- 10.2 A letter was received from the Ornithological Society of New Zealand thanking the NRSBU for assistance with the control of predators on Bell Island.
- 10.3 An infringement notice was received from Nelson City Council following the overflow at the Saxton Road pump station during the heavy rain event on 15 January 2013. The spot fine of \$750 was not contested.

J K Thiart
Engineering Adviser

Attachments:

Attachment 1: Governance Charter [1465779](#)

Attachment 2: Draft Bell Island Environmental Development Plan [1423262](#)

NELSON REGIONAL SEWERAGE BUSINESS UNIT (NRSBU)

GOVERNANCE CHARTER

December 2009

1. The Role of the Board

The Board of the Nelson Regional Sewerage Business Unit (NRSBU) has been established as a Joint Committee of the Nelson City Council and the Tasman District Council ('the Councils') by resolution of both Councils.

The role of the Board is to represent and promote the interests of the Councils as owners of the Nelson Regional Sewerage Scheme by providing leadership in:

- ensuring that the Business Unit operates in accordance with its Memorandum of Understanding with the Councils and with all relevant legislation (see Appendix 1);
- establishing and monitoring strategic direction and ensuring that the Business Unit meets its objectives as agreed with the Councils;
- the establishment of all necessary policies and controls so that the Business Unit is equipped to manage risk and to ensure statutory compliance;
- monitoring performance against established measures and ensuring accurate reporting;
- ensuring sound financial management including compliance with International Financial Reporting Standards (IFRS) and New Zealand Accounting Practices;
- ensuring appropriate management and maintenance of all capital assets;
- communicating formally with the owners through the annual Business Plan and Annual Report, ensuring that the Councils are kept well informed on all important issues and that there are 'no surprises' on matters likely to cause Community or political concern;
- setting the terms of engagement for the external auditor and facilitating the audit function;
- fostering a culture of high ethical standards;
- managing the performance of the NRSBU General Manager as it relates to the management of the Business Unit, including entering into a performance agreement, reviewing performance and communicating with the General Manager and the Chief Executive, Nelson City Council on the outcome of such reviews.

2. Governance Principles

The Board operates to the Principles and Guidelines for Corporate Governance in New Zealand, published by the Securities Commission New Zealand:

- 2.1. Board Members observe and foster high ethical standards.
- 2.2. There should be an appropriate balance of independence, skills, knowledge, experience, and perspectives among Board Members so that the Board works effectively.
- 2.3. The Board may use sub-committees where this would enhance its effectiveness in key areas whilst retaining Board responsibility.
- 2.4. The Board should demand integrity both in financial reporting and in the timeliness and balance of disclosures on entity affairs.
- 2.5. The remuneration of Board Members and executives should be transparent, fair, and reasonable.
- 2.6. The Board should regularly verify that the Business Unit has appropriate processes that identify and manage potential and relevant risks.
- 2.7. The Board should ensure the quality and independence of the external audit process.
- 2.8. The Board should foster constructive relationships with the Councils that encourage them to engage with the Business Unit.
- 2.9. The Board should respect the interests of stakeholders within the context of the Business Unit's fundamental purpose.

The Board will also ensure that the governance structure and processes are effective, open and transparent in compliance with the Local Government Act 2002.

3. Code of Ethics

The Board is committed to the adoption of ethical and legal conduct in all areas of its responsibilities and authority.

Board Members:

- Will act honestly and in good faith at all times;
- Will be diligent, attend Board meetings and devote sufficient time to preparation for Board meetings to allow for full and appropriate participation in the Board's decision making;

- Will ensure scrupulous avoidance of deception, unethical practice or any other behaviour that is, or might be construed as, less than honourable in the pursuit of the business of the NRSBU;
- Will not disclose to any other person confidential information other than as agreed by the Board or as required by law;
- Will act in accordance with their fiduciary duties, complying with the spirit as well as the letter of the law, recognising both the legal and moral duties of the role;
- Will hold separate their role as a member of the governing body of the Regional Sewerage Scheme, from their membership of their respective Council as a customer of the scheme.
- Will abide by the Board decisions once reached notwithstanding a Board Member's right to pursue a review or reversal of a Board decision;
- Will not do anything that in any way denigrates the NRSBU or harms its public image.

4. Composition of the Board

- 4.1. The composition of the Board is prescribed by the Memorandum of Understanding between the Nelson City and Tasman District Councils.
- 4.2. Board Members are appointed by resolutions of the Nelson City Council and the Tasman District Council following each Local Body election for a term of three years in accordance with the Local Electoral Act 2001.
- 4.3. The Board Members appoint a Chairperson at the first meeting of each triennium.
- 4.4. New Board Members undergo an induction process which includes an introduction to the wastewater industry, an explanation of the governance, facilities and operation of the Business Unit and the provision of all relevant background documents.
- 4.5. The Board will conduct a review of its performance and the performance of individual Board Members prior to each Local Body election.

5. Board Remuneration

Elected members on the Board will receive the remuneration due them as Councillors, and the Independent member will be remunerated in accordance with the Councils' joint policy on the appointment of directors.

6. Board Sub-committees

The Board may establish sub-committees and working parties to support it in its work, provided that such do not conflict with the General Manager's delegated responsibilities. The Board Chair is an ex-officio member of all sub-committees unless otherwise specified below. Appointments to sub-committees will be approved by resolution of the Board.

7. The Role of the Chairperson

The Chairperson provides leadership to the Board, ensuring that the Board's processes and actions are consistent with its policies.

The responsibilities of the Chairperson include:

- Chairing Board meetings, with all the commonly accepted power of that position;
- Representing the Board and the Business Unit to outside parties;
- Overseeing communications with the Councils;
- Leading Board and member performance assessment and management;
- Maintaining regular communication with the General Manager (without coming between the Board and its formal links with the General Manager).

The Chairperson may delegate aspects of the responsibilities accompanying the position but remains accountable for the overall role.

8. The Board/General Manager Relationship

The Board delegates to the General Manager responsibility for the implementation of its strategic and business plans in accordance with the following:

- 8.1. The General Manager is the sole linkage and point of accountability between the Board and the operation of the Regional sewerage Scheme. Neither the Board nor individual Board Members will instruct staff or contractors in any matters relating to their work.
- 8.2. Only the Board acting as a body can instruct the General Manager.
- 8.3. The Board will make its strategic plans clear including performance targets which will be applied by the Board when reviewing the organisation's and the General Manager's performance.
- 8.4. The General Manager will act within the limits of the delegations of authority given him as a senior manager of the Nelson City Council. The Board will make clear to the General Manager in writing any limits

it wishes to place on his or her freedom to take action or make decisions, allowing the General Manager any reasonable interpretation of these limitations. In the event that a conflict arises between the delegations and the Board's wishes the matter will be referred to the Chief Executive Nelson City Council for direction.

- 8.5. As long as the General Manager applies a reasonable interpretation of the Board's policies (ie does not set out to defeat the stated intent or the spirit of the policies) he/she is authorised to establish all operational policies, make operational decisions and design, implement and manage all operational practices and activities.
- 8.6. Provided that the General Manager achieves the outcomes sought by the Board and does so in a manner consistent with the Board's policies and values, the Board will respect and support the General Manager's choice of actions.
- 8.7. The General Manager will inform the Board in a timely manner of all issues and concerns necessary to the meeting of the Board's duty of care, the carrying out of its responsibilities and the meeting of its accountabilities to the Councils and key stakeholders.
- 8.8. Board Members will make their knowledge and experience available to the General Manager when required.

9. General Manager Limitations Policy

The General Manager is free to adopt any means to achieve the Board's strategic and business plans so long as he/she does not take, allow or approve any practice, activity or decision which is in any way unethical, unlawful, imprudent, breaches agreed budgetary resources, brings the Business Unit or the Councils into disrepute or breaches any Board policy, expressed values, or any commonly held business or professional ethic.

9.1. Procedures to be followed

9.1.1. Financial management

The General Manager is responsible for the day-to-day financial management of the Business Unit. In carrying out this duty he/she must ensure that nothing is done that could cause financial harm or threaten the Business Unit's financial integrity.

He/she must not:

1. Use any Business Unit funds, or enter into any contracts or accept other liabilities, other than for the furtherance of the Board's plans and priorities.

2. Expend more funds than have been received in the financial year unless offset by approved borrowings or approved withdrawals from reserves.
3. Allow undisputed invoices from suppliers of goods and services to remain unpaid beyond trade credit terms agreed with those suppliers.
4. Authorise expenditure beyond the level established by his/her delegations or as set by the Board, whichever is the lesser.
5. Fail to meet Government imposed or Council imposed financial regulations.
6. Breach International Financial Reporting Standards (IFRS) or New Zealand Accounting Practices.

9.1.2. Employment matters

The General Manager is responsible for the day-to-day management of staff associated with the NRSBU, their performance reviews and remuneration and supervision of contractors.

He/she must not:

7. Fail to meet the standards of a good employer set down in the Local Government Act 2002.
8. Fail to inform the Board of any employment matter leading towards serious health issues with a staff member, a personal grievance, a serious misconduct issue or a constructive dismissal issue.

9.1.3 Conflicts of interest

It is a fundamental obligation of Board Members that they must act in good faith in the interests of the NRSBU. It is accepted that those Members appointed by Nelson City Council and Tasman District Council are appointed to represent the interests of their respective Councils and that at times those interests may conflict with the interests of the Business Unit.

In addition the Board acknowledges that elected members of the Board are subject to the provisions of the Local Authorities (Members Interest) Act 1968 in respect of any financial interests which they might have with the Business Unit or with their respective councils, and that they are bound to declare these interests should they have relevance to the matter being dealt with.

The NRSBU Board wishes to identify where Board Members' interests conflict or may conflict with the interests of the NRSBU and to maintain procedures to deal with these in an open manner which ensures that the decisions made by the Board are not compromised.

Procedures to deal with potential conflicts of interest will be followed in cases:

- When a Member or their immediate family has personal or business interests which stand to gain from the outcome of decisions being made by the Board.
- When a Member provides a professional service to the Business Unit.
- When a Member receives products or services from the Business Unit.
- When a Member stands to gain from using insider knowledge of the Business Unit's affairs.
- When a Member is a member of another organisation which may have conflicting or competing interests with the Business Unit.

Procedures to be followed:

- An Interests Register will be kept by the Business Unit Secretary in which will be recorded the declared interests of the members, which will include any memberships of other organisations which may have conflicting or competing interests with the Business Unit. This register will be updated on a six monthly basis.
- If a Member has an interest in a particular agenda item it is expected that they will declare the interest at the time and not participate in the discussion on that item except:
 - To the extent that they are invited to do so by the rest of the Board (eg to state his/her position, answer questions or comment on matters of fact);
 - If the Board consents and the Member believes that the Board will otherwise make an unsound decision.
- The circumstances of any such participation will be recorded in the minutes of the meeting.
- If the matter is of significance it is expected that the Member will withdraw from that part of the meeting to facilitate full and frank discussion by other Members.
- Any Member who has declared an interest in a particular matter will not vote on that matter..
- Where a Member purchases products or services from the Business Unit, payment for these will be on the same terms and conditions as those provided to unrelated parties in the normal course of business and this fact will be recorded in the Board minutes.

- If a Member provides services to the Business Unit and is paid for those services, then it is recognised that the independence of that Member may be compromised. The Business Unit will not therefore enter into such an arrangement unless the matter is raised with the full Board, with all options being considered by the Board, and the procedures described in this policy being followed.
- Members will not use insider knowledge gained through their involvement with the Business Unit for personal gain.
- If Members are unsure whether a conflict of interest exists they will discuss the matter with the Chairperson and, if necessary, legal advice will be obtained.

10. Other Board Policies

The NRSBU will act in accordance with:

- The Finance Policy of the Tasman District Council
- The Treasury Policy of the Tasman District Council
- The Communications Policy of the Nelson City Council
- The Risk Management Policy will be incorporated in the NRSBU Asset Management Plan.
- The Fraud Prevention Policy of the Nelson City Council

APPENDIX I: RELEVANT STATUTES

(Members should note that this list is not exhaustive; it is provided as a guide to key legislation only and Members have a responsibility to ensure that the Business Unit complies with all legislative requirements.)

Local Government Act 2002

Local Government Official Information and Meetings Act 1987

Local Government (Members Interest) Act 1968

Public Works Act 1981

Health Act 1956

Health and Safety in Employment Act 2002

Fair Trading Act 1986

Commerce Act 1986

Companies Act 1993

Privacy Act 1993

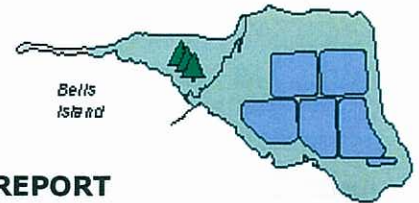
Resource Management Act 1991

15 February 2013

Memo To: NRSBU Joint Committee

Memo From: Johan Thiar

Project 1: TREATMENT PLANT UPGRADE PROGRESS REPORT



The final cost for the project excluding the installation of the centrifuge and the primary clarifier launder covers is estimated at \$8,361,837.

The budget approved for the upgrade project of \$9.1m has been maintained in the Business Plan to allow for the installation of the centrifuge and launder covers if a reassessment of the operation of the plant indicates that these improvements are required. The surplus in the budget has been retained and the situation was to be reviewed after the 2012 summer period.

Progress

No issues have been observed since the primary clarifier was commissioned in June 2010 that indicate a need to undertake the installation of the centrifuge and launder covers.

Launder covers: the area around the primary clarifier has shown no issues with odours that require the installation of the launder covers. The installation of the launder covers was always seen as a precautionary action and after more than two years of operation with no odour issues it is considered that they will not be required.

Centrifuge: While an increase in nitrogen application to the Rabbit and Bell Island pine plantations has been observed the nitrogen discharged is well within the resource consent conditions. The application of nitrogen has peaked at slightly less than 72% of the capacity of Rabbit and Bell Island to receive nitrogen. Loads discharged to the wastewater treatment plant have not increased at the rate projected in the 2006/07 capacity review and the installation of the centrifuge to remove nitrogen from biosolids is no longer considered necessary.

A-Train Remediation

A variation was approved for the remediation and upgrade of the A-train ATAD tanks. The work is programmed for completion in May 2013. (Memorandum to the Executive Manager Network Services copied to the Joint Committee members is appended).

Budget

The estimated cost of the project is \$724,000 inclusive of a \$24,000 contingency amount. The total cost of the project including this variation is estimated at \$9,085,837.

The work to complete the upgrade is a mix of renewals and upgrade work. Funds have been allowed for the work in the Business Plan. The exact split between the value of the renewal and upgrade work will only be able to be confirmed on completion of the work. It is estimated that the split will be approximately:

- Upgrade: 40%
- Renewal 60%

The budget for the current financial year for sludge treatment is:

- Upgrade budget: \$1,000,000
- Renewal budget: \$432,000

Recommendations

That the sum previously budgeted for the installation of launder covers and centrifuge, and unused to date, be released and excluded from the 2013/14 budget;

And That it is noted that the requirement to follow the Nelson City Council procurement policy was suspended for the procurement of work to remediate the A-Train ATAD's;

And That the review of the management processes at the plant be delayed until the new Operations and Management contract has been in place for sufficient time for the new contractor to become thoroughly familiar with the plant;

And That it is noted that a variation to the value of \$724,000 (inclusive of a \$24,000 contingency) for the remediation of the A-train ATAD's and associated changes to the walkway was let to the Operation and Maintenance Contractor.

Attachments:

A-train Upgrade [1448241](#)

Project 2: PIPELINE STRATEGY PROJECT PROGRESS REPORT

The owners approved the pipeline strategy in December 2009. The resource consents for the construction of the pipeline upgrade project were obtained in October 2010. The contract for the physical works was let with an estimated overall contract completion date of 18/11/2011.

Projected Costs

Project Progress	Revised Cost Estimate	Actual to date
Business Plan	\$12,551,000	
Physical works	\$8,846,500	\$8,547,255
Procurement items	\$718,063	\$703,410
Fees	\$2,413,000	\$2,340,000
Other expenditure	\$390,000	\$384,814.20
NCC return pipeline	-\$550,000	-\$550,000
NRSBU Total	\$11,817,563	\$11,425,479

Progress:

Beach Road, Saxton Road and Airport pump station upgrades: Complete.
Generator installation: Complete.
Songer Street pump station: Complete.
Inspection and repair of joints: Complete.
Pipeline upgrade: Complete.

Comment

A review of literature around the testing of PE pipes indicated that the original test carried out on the pipeline achieved a pass when using the UK Water Industry Guidance note (IGN 4-01-13, dated March 2011) developed following a major review of the British Standards. The consultants reviewed the information provided by the NRSBU and concluded that the assessment criteria in the Guidance note is applicable to the new regional pipeline and that the original test achieved the pass criteria. With no evidence that there is any leak on the pipeline, the pipeline was approved.

An agreement was reached with the contractor on all outstanding contractual related matters and as build plans, operation manuals and commissioning reports are expected to be received before the end of March 2013.

All outstanding issues will be dealt with in the remaining defects liability periods. Spiire has provided the indicative capacity of the pump stations when storm pumps are run in parallel at the Beach Road and Saxton Road pump stations.

Tests carried out on the pipeline demonstrated that in-situ testing of pipelines is not considered practical to demonstrate the integrity of pipelines. The most effective method of monitoring the performance of the pipelines will be a visual inspection along the pipeline route. Procedures will be put in place to inspect both pipelines annually to demonstrate their integrity.

Recommendation

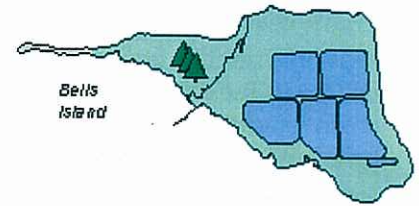
THAT the report be received.

21 January 2013

Memo To: Executive Manager Network Services

CC: NRSBU Joint Committee

Memo From: Johan Thiar

Project 1: TREATMENT PLANT UPGRADE PROGRESS REPORT

The final cost for the project excluding the installation of the centrifuge and the primary clarifier launder covers is estimated at \$8,375,815.

The budget approved for the upgrade project of \$9.1m has been maintained in the Business Plan to allow for the installation of the centrifuge and launder covers if a reassessment of the operation of the plant indicates that these improvements are required. The surplus in the budget has been retained and the situation was to be reviewed after the 2012 summer period.

Progress

No issues have been observed since the primary clarifier was commissioned in June 2010 that indicate a need to undertake the installation of the centrifuge and launder covers.

Launder covers: the area around the primary clarifier has shown no issues with odours that require the installation of the launder covers. The installation of the launder covers was always seen as a precautionary action and after more than two years of operation with no odour issues it is considered that they will not be required.

Centrifuge: While an increase in nitrogen application to the Rabbit and Bell Island pine plantations has been observed the nitrogen discharged is well within the resource consent conditions. The application of nitrogen has peaked at slightly less than 72% of the capacity of Rabbit and Bell Island to receive nitrogen. Loads discharged to the wastewater treatment plant have not increased at the rate projected in the 2006/07 capacity review and the installation of capacity to remove nitrogen from biosolids is no longer considered necessary.

A-Train Remediation

Issues following the commissioning of the primary clarifier upgrade in 2010 led to a review of the sludge treatment process at Bell Island. Subsequently, the 2012 Annual Operation and Maintenance Performance Report confirmed that the capacity of the three ATAD trains is adequate to treat the sludge produced at Bell Island for the foreseeable future. A condition inspection was carried out on ATAD tank A2 following minor repairs to the tank.

The condition inspection showed that the roofs, walls and floors of the A-train tanks require remedial work. While the roof structure could be repaired, replacement of the roof with a fibreglass roof similar to that used in the upgrade of the B- and C-trains in 2004/05 provides the best net present value and will provide greater sludge treatment capacity. Whilst the tank walls do not show obvious signs of pitting, corrosion or delamination, the expected life of the tanks can be extended by stripping the existing surface coating and applying a new surface coating. The paint on the steel floor was generally peeled and pitted and in one location the floor was found to be corroded through. The condition report recommends that once the tanks are drained the cladding be removed to assess the condition of the foundation around an area where the floor shows signs of foundation settlement. It is therefore recommended that the floors be replaced with concrete floors similar to those installed in the B and C trains during the 2004/05 upgrade.

The replacement of the roofs requires a modification of the elevated walkway as the foam cutters will be supported by the walkway. The lateral stability of the walkway will be affected by the modifications and this element will be designed by a structural engineer.

Much of the work can only be accurately quantified once the tanks have been emptied. Work needs to be carried out while the plant continues to be operational.

Discussion

The review of sludge treatment referred to above confirmed that there were issues with the sludge management process rather than a lack of capacity in the ATAD trains. It was recommended that the then incumbent contractor prepare a design report, including a review of the management and maintenance issues identified; with the aim of consolidating the upgrade and process changes into one project that could be implemented over the summer period.

Since that time however, the O&M contract has been assigned to Downer and a new wastewater specialist has been assigned to the project. In addition, the current O&M contract expires at the end of June 2013 and the process of retendering the contract is now underway. It is therefore considered appropriate that a review of the management processes at the plant be delayed until the new Operations and Management contract has been in place for sufficient time for the new contractor to become thoroughly familiar with the plant.

The Operation and Maintenance contract requires that the contractor manages the wastewater treatment plant in such a way that the plant discharges comply with specific resource consents. The remediation work required on the A-train will need to be integrated into the sludge management processes and will affect the ability of the contractor to achieve compliance with resource consents. This will lead to complicated contractual relationships if the work is let to a third party. The risk that this may cause issues that could result in claims from both parties and lead to an escalation in costs is considered to be high. Furthermore, the current operation and maintenance contractor has access to the design and construction processes employed during the 2004/05 upgrade of B and C train.

It is unlikely that another contractor could undertake the work at a lower cost in view of their lack of familiarity with the operation and maintenance of the plant.

It is considered the lowest risk option to enter into an agreement with the current operation and maintenance contractor to perform this work on open book principles similar to those that directed the Mechanical and Electrical upgrade of the treatment plant upgrade (Separable portion D of Contract 2917).

There is no legal obligation for the NRSBU to tender this work.

The Auditor General has provided guidelines for procurement by public entities. ("Procurement guidance for public entities") Part 4. Direct procurement, Selective procurement section 4.10.

This guidance state that a selective process of procurement can be followed on the condition that staff follow procurement policy.

The Operation and Maintenance contractor was therefore asked to prepare a proposal to carry out the remedial work identified for the A-train.

Proposal

The proposal received from Downer provides a budget price of just under \$700,000 for the works. However, a significant component of the work that needs to be carried out can only be properly defined once the tanks have been emptied and it is therefore proposed that the cost be confirmed when the tanks have been emptied and the upgrade design is completed. It is recommended that the cost is charged based on open book principles and is carried out as a variation to separable portion D of the Operations and Maintenance Contract 2791.

Reasons for using selective procurement

There is a significant risk of contractual issues developing if any following non-compliance with the resource consent for the spraying of biosolids occurs.

Adjudication of liability if the work is let to a third party.

The operation and maintenance contractor is responsible for the overall performance of the wastewater treatment process at Bell Island.

The accountability for the management of the facultative ponds if a third party directs the operation and maintenance contractor to divert sludge to ponds.

Integration of work programme into ongoing operations activities will be difficult and costly to manage.

The incumbent contractor is familiar with the design and construction processes employed during upgrade of B and C-train in 2004/05.

Much of the work that needs to be carried out can only be accurately defined once the ATAD tanks have been emptied.

Budget

The work to complete the A-train upgrade is a mix of renewals and upgrade work. Funds have been allowed for the work in the Business Plan. The exact split between the value of the renewal and upgrade work will only be able to be confirmed on completion of the work. It is estimated that the split will be approximately:

- Upgrade: 40%
- Renewal 60%

The budget for the current financial year for sludge treatment is:

- Upgrade budget: \$1,000,000
- Renewal budget: \$432,000

Recommendations

That the sum previously budgeted for the installation of launder covers and centrifuge, and unused to date, be released and excluded from the 2013/14 budget;

That the requirement to follow the Nelson City Council procurement policy be suspended for the procurement of work to remediate the A-Train ATAD's;

That a variation be approved to the existing Operations and Maintenance Contract, Contract 2791, up to the value of \$724,000 (inclusive and a \$24,000 contingency) for the remediation of the A-train ATAD's and associated changes to the walkway.

That the review of the management processes at the plant be delayed until the new Operations and Management contract has been in place for sufficient time for the new contractor to become thoroughly familiar with the plant.

RAD 1363689

15 March 2013

REPORT 1453957

Licence to Occupy: Grazing of Bell Island

1. Purpose of Report

- 1.1 To consider whether to extend the Licence to use the land on Bell Island identified for cattle grazing to the current lessee.

2. Recommendation

THAT the right of renewal be offered to the licensee at the market value as assessed by the registered valuer;

AND THAT on acceptance of the offer to extend the term of the agreement to a further 5 year period that the agreement be amended by an exchange of letters;

AND THAT the licensee be informed that his rights pursuant to this agreement will absolutely cease on 30 June 2018.

3. Background

- 3.1 The relevant sections of the licence to occupy are as follows:
- 3.1.1 Section 3: "This licence shall commence on 1 July 2008 and shall expire on 30 June 2013 with a right of renewal for a further 5 year term subject to approval of the Board such that if the right of renewal is exercised, the Licence shall expire on 30 June 2018. Upon the expiry of the said term or its earlier termination the Licensee's rights pursuant to clause 2 hereof shall absolutely cease and determine but the Licensee shall not be released from any liability hereunder for any antecedent breach of the terms of this licence and any rent in arrears."
- 3.1.2 Section 4.3: "The annual rental will be reviewed by the Board of the NRSBU as at 1 July 2013, if the Licensee is granted a right of renewal. The rent shall be a market rental as assessed by a Registered Valuer."
- 3.1.3 Section 2: "Grant of Licence and Purpose: The Licensor grants and the Licensee accepts a personal and non-transferable licence to occupy the Licensed area during the period of this licence and at the times authorised in this licence for the purpose of grazing stock thereon,

and/or other agricultural use as deemed appropriate at the discretion of the General Manager, Nelson Regional Sewerage Business Unit.”

4. Discussion

- 4.1 The licensee has indicated that he would like to take up the right of renewal.
- 4.2 The licensee has made substantial investment in terms of capacity to irrigate part of the leased land.
- 4.3 The licensee has obligations under the agreement to maintain the leased land in good order.



Figure 1: Grazing land Bell Island

5. Staff Comment

- 5.1 The licensee has complied with the requirements of the agreement and has not caused any nuisance to the NRSBU operations.
- 5.2 The NRSBU operations do not need the land covered under the lease agreement for any alternative use at this time.
- 5.3 The grazing of the land is compatible with the draft environmental plan for Bell Island.

- 5.4 It is considered fair to grant the renewal in order to allow the licensee to recover the cost of his investment on the island over the maximum period allowed under the original agreement with the NRSBU.
- 5.5 Alternative use of the land will be considered as part of the next asset management plan development.
- 5.6 The agreement allows the NRSBU to terminate the licence at its sole discretion without any contractual consequences.
- 5.7 Section 5.8:of the licence states: "The Licensor may, for any reason whatsoever terminate this licence or reduce the licensed area on six month's written notice to the Licensee. In the event of a termination the Licensee shall not be entitled to any compensation or payment whatsoever from the Licensor. The Licensee shall however be entitled to a refund of any rental paid beyond the date of termination. In the event of a reduction in the licensed area the annual rental payable shall be a sum calculated on the reduced licensed area in proportion to the annual rental previously payable.

Such a termination or reduction in area shall not relieve the Licensee from liability for any previous breach or breaches of the terms of this licence."

- 5.8 However, the fundamental basis of the arrangement between the NRSBU and the licensee is to allow the licensee to recover his investment over a defined period of time suggests that if the licensee is unable to use the land for the intended purpose as a result of a unilateral decision of the NRSBU that the licensee will likely have some common law recourse to claim some form of compensation from the NRSBU for lost opportunity.
- 5.9 This is not considered a high risk and the value of any such claim will be relatively low considering that half of the original term has lapsed.
- 5.10 The NCC property division has instructed a registered valuer to determine the market rental as required under section 2 of the agreement.
- 5.11 The valuation report advises an annual lease of \$16,000 for areas 'A' to 'D'. (Valuation report attached).
- 5.12 The limitations around the use of Areas 'E' and 'F' are considered such that it is considered fair to continue to offer this land to the lessee at no charge.

6. Conclusion

- 6.1 No alternative needs for the land have been identified for the next five years.
- 6.2 The grazing of the land does not conflict with land uses identified in the Draft Bell Island Environment Management Plan.

- 6.3 That the right of renewal be offered to the licensee subject to his acceptance of the market rental as assessed by the registered valuer.

Johan Thiart
Engineering Adviser

Attachments

Attachment 1: Rural Rental Valuation 1459476



Rural Rental Valuation

Bell Island Grazing Rental

Date: 13 February 2013

Client: Nelson Regional Sewage Business Unit

Telfer Young (Nelson) Limited

Ref: NEL-9198

18 February 2013

Jennie Kaye-Wood
Nelson City Council
P O Box 645
NELSON 7040

TelferYoung
Nelson

Dear Jennie

**Re: Rural Rental Valuation
Bell Island Grazing Rental**

In accordance with your instructions, we inspected the above property on 13 February 2013 for the purpose of assessing the market rental. We provide our assessment of the market rental as at 13 February 2013.

For your convenience we have provided an Executive Summary which precedes our formal valuation report. This briefly details the main characteristics of the property and summarises our valuation conclusions. Our Executive Summary must be read in conjunction with the formal valuation report and with TelferYoung (Nelson) Ltd's Statement of Limiting Conditions and Valuation Policies.

This report has been prepared for the purpose stated and solely for the benefit of Nelson Regional Sewage Business Unit as instructed by Jennie Kaye-Wood of Nelson City Council and may not be used for any other purpose, or by any other party, without first obtaining our written consent.

Yours faithfully
TelferYoung (Nelson) Limited



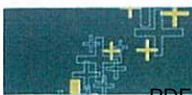
Rod Baxendine
Registered Valuer, ANZIV, SPINZ
Email: rod.baxendine@telferyoung.com

TelferYoung (Nelson) Limited
52 Halifax Street, PO Box 621, Nelson, New Zealand.
Telephone : 03 546 9600, Facsimile : 03 546 9186
email : nelson@telferyoung.com web site : www.telferyoung.com
+ Ian McKeage + Rod Baxendine + Wayne Wootton + Ashley Stevens



Table of Contents

1.0	Executive Summary	1
2.0	Scope of Work	2
3.0	Location	4
4.0	Land	5
5.0	Resource Management	6
6.0	Licence to Occupy Details	7
7.0	Rental Evidence	7
8.0	Valuation Methodology	8
9.0	Rental Valuation	8
10.0	Statement of Limiting Conditions and Valuation Policy	9





1.0 Executive Summary

Property Address:	Bell Island Grazing Lease.										
Instructions:	To assess the market rental in accordance with the Licence to Occupy, as at 13 February 2013.										
Instructing Party:	Jennie Kaye-Wood of Nelson City Council.										
Client:	Nelson Regional Sewage Business Unit.										
Date of Inspection:	13 February 2013										
Date of Valuation:	13 February 2013										
Brief Description:	The property comprises 40.3 ha of flat land available for grazing at market rental rates and an additional 10.1 ha of land available for free grazing. This is situated on Bell Island, where the Nelson Regional Sewage Business Unit is operating. Bell Island comprises sewage ponds, with an area of pasture and bio-solid disposal areas around the perimeter.										
Methodology:	To assess the market rental for the parcels of land within the Licence to Occupy we have drawn comparison with market rental agreements reached on similar properties.										
Rental Valuation:											
Areas 'A' - 'D':	Sixteen Thousand Dollars (\$16,000) pa, plus GST (if any)										
Areas 'E' & 'F':	Two Thousand, Five Hundred Dollars (\$2,500) pa, plus GST (if any)										
Lease Summary:	<table><tr><td>Commencement:</td><td>1 July 2008</td></tr><tr><td>Term:</td><td>5 years</td></tr><tr><td>Renewals:</td><td>One term of 5 years</td></tr><tr><td>Rent Reviews:</td><td>1 July 2013</td></tr><tr><td>Type of Lease:</td><td>Grazing lease under Licence to Occupy</td></tr></table>	Commencement:	1 July 2008	Term:	5 years	Renewals:	One term of 5 years	Rent Reviews:	1 July 2013	Type of Lease:	Grazing lease under Licence to Occupy
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Term:	5 years										
Renewals:	One term of 5 years										
Rent Reviews:	1 July 2013										
Type of Lease:	Grazing lease under Licence to Occupy										
Conditions of Valuation:	Nil										
Valuer:	Rod Baxendine, ANZIV, SPINZ										



2.0 Scope of Work

2.1. The Valuer

The valuation has been undertaken by Rod Baxendine who provides this objective and unbiased valuation. Rod has no material connection with the instructing party and has the appropriate qualifications and experience to undertake the valuation.

2.2. Our Client

Nelson Regional Sewage Business Unit.

This report has been prepared solely for the use of, and is confidential to, the above client and is valid only when bearing the Valuer's original signature.

2.3. Purpose of Valuation

Grazing rental assessment.

2.4. Asset Valued

Rental assessment for various parcels of grazing land identified in Schedule 2 of the Bell Island Grazing document.

2.5. Basis of Valuation

Current market rental.

Market rent is defined in International Valuation Standard 230 as:

"The estimated amount for which the property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

2.6. Valuation Date

13 February 2013

2.7. Extent of Investigations

Full property inspection of identified Parcels 'A', 'B', 'C', 'D', 'E' and 'F'.

This report has been prepared for valuation purposes only and is not a structural, geotechnical or environmental survey. If any defect is found, this information could impact on the value of the property.

We have not been provided with an environmental audit of the property and we are not aware of any potential environmental concerns. Our valuation and report assumes that the land and buildings are unaffected by harmful contaminants or noxious materials which may impact on value.



2.8. Assumptions and Special Assumptions

The special assumptions relied upon in the report are the certified areas as detailed above, with general assumptions detailed above and in our Statement of Limiting Conditions and Valuation Policies.

2.9. Reporting Format

We have been instructed to provide a formal valuation report meeting all appropriate standards.

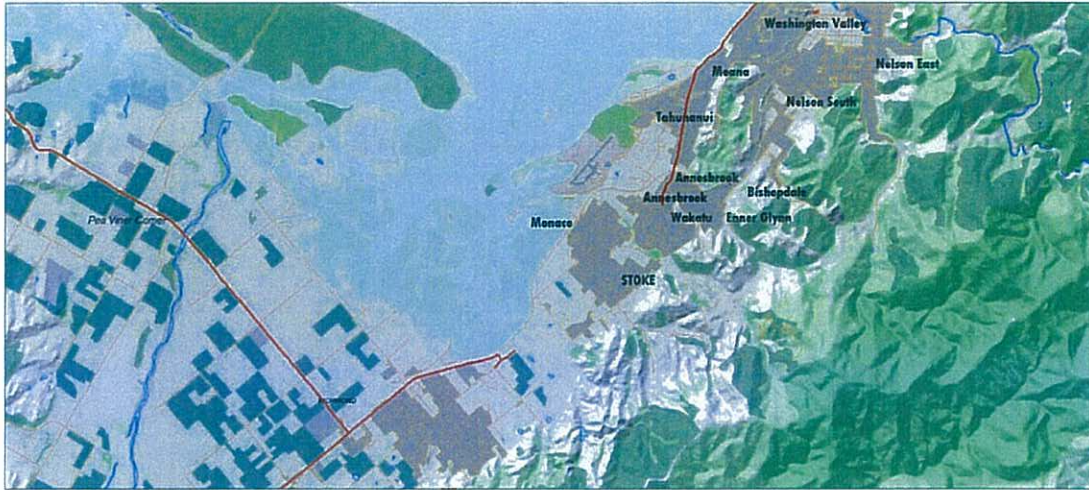
This report must be read in conjunction with TelferYoung (Nelson) Limited's Statement of Limiting Conditions and Valuation Policy.

2.10. Valuation Standards

Our valuation has been prepared in accordance with International Valuation Standards 2011 and Australia and New Zealand Valuation Guidance Notes including:

- + IVS Framework
- + IVS 101 - Scope of Work
- + IVS 102 - Implementation
- + IVS 103 - Reporting
- + IVS 230 - Real Property Interests
- + ANZVGN 1 - Valuation Procedures - Real Property
- + ANZVGN 9 - Assessing Rental Value

3.0 Location



Sourced from QuickMap

The subject parcels of grazing land are situated on Bell Island, being a small island to the northeast of Best Island, which is connected by Causeway Road. Access is obtained via Lansdowne Road through Best Island, adjoining Greenacres Golf Course and across the concrete causeway. This is an island within the Waimea Estuary.

4.0 Land



4.1. Description

The total property has an area of 121.4056 ha. This includes the grazing land, scrub land, sewage ponds and facilities. The aerial photograph above shows the six areas available for grazing under the Licence to Occupy between Nelson Regional Sewage Business Unit and Raine Farms Ltd.

Area 'A' is a 34.5 ha block of slightly undulating but variable soils. This is mostly clean land toward the southwestern end, with some scattered portions of gorse reversion toward the northeastern corners. There are some areas of lower lying slightly wetter land toward the northeastern area, with rushes and light Broom.

Of the 34.5 ha we estimate that approximately 15 ha are irrigated by way of a central pivot irrigation system. We note in the Licence to Occupy that water for irrigation of this land is available from Pond 5 within the Nelson Regional Sewage Business Unit. Most of this irrigated land provides all year grazing and also production of supplementary feed in the form of large square wrapped baleage. We noted at the time of inspection that there were some 220 large square wrapped baleage bales on site.

Area 'B' is a 1.7 ha block of reasonably clean pasture, fully fenced with some rushes toward the central area. This block adjoins the main access road at the western end of the block.

Area 'C' has reasonable quality pasture and comprises a block of flat land set below the access road. There is some gorse along the eastern boundary and also a central area of mature gorse which appears to have been recently sprayed. This has a total area of 2.3 ha of



which we estimate 2.0 ha is reasonably clear and 0.3 ha has the aforementioned gorse infestation.

Area 'D' is a 1.8 ha block of native pasture with a reasonably high percentage of gorse infestation. We estimate that approximately 50% of area 'D' is available for grazing at present.

Area 'E' is a 5.1 ha long narrow parcel of land that runs between the eastern boundary and the sewage ponds. This is clean level land set below the level of the ponds, and provides good grazing. This has been well grazed and is clear of weeds. We note that clause 4.1 of the agreement states that area 'E' being 5.1 ha will be offered free of charge for a period of five years provided the licensee clears it and maintains it clear of noxious weeds.

Area 'F' is a 5.1 ha block of broken flat slightly undulating land toward the south of the island. This was recently part of the bio-solid disposal area and has been offered for grazing on the same basis as area 'E'. This area is currently in a fairly high percentage of gorse and scrub cover and is to be cleared and maintained clear of noxious weeds including gorse, broom and ragwort by the Licensee.

4.2. Soils/Contour/Aspect

The soils are mapped as Tahunanui sandy silt loams. These range from dune formations with historic uses around the region being forestry and pastoral cover. They are a low to medium natural fertility soil which can be susceptible to wind erosion when cleared. They are generally found on the gentle rolling dune covers and sandy flats adjoining the coastal areas of Tasman and Golden Bay.

5.0 Resource Management

Local Authority:	Tasman District Council.
Plan Status:	Operative in part.
Zone:	Rural Industrial.
Zone Description:	<p>The Rural Industrial zone is due to the Nelson Regional Sewage Business Unit development, which includes sewage ponds, sewage treatment and bio-solid waste areas.</p> <p>The Licence to Occupy is for pastoral grazing and production of supplementary feed only.</p>



6.0 Licence to Occupy Details

6.1. Introduction

A copy of the Licence to Occupy between the Nelson Regional Sewage Business Unit and Raine Farms Ltd is attached to the rear of this report. The Licence was signed dated 27 September 2010 but comprises a five year term from 1 July 2008, expiring 30 June 2013 with a right of renewal for a further five year term.

6.2. Tenancy Summary

Term:	5 years.
Rights of Renewal:	One term of 5 years upon Board approval.
Rent Reviews:	At commencement of 5 year term.
Permitted Use:	Grazing of livestock and supplementary fee.

7.0 Rental Evidence

The ground rental has been assessed taking into consideration short-term grazing rentals, private grazing rentals and longterm dairy platform and dairy runoff block rentals throughout the Tasman area.

We are aware of a number of Local Authority rental agreements, with blocks ranging from 3 to 20 ha leased at between \$200 and \$520 /ha. The lower valued grazing blocks in this range tend to be of lower quality land or land which is susceptible to regular river inundation or flooding.

We are aware of several short-term grazing rentals within the Waimea Plains and Wakefield area where 3 ha to 20 ha blocks are leased for between \$550 and \$600 /ha pa. We are also aware of two leases of 15 ha and 20 ha on the outskirts of Wakefield for pastoral use and haymaking purposes which are currently being renegotiated at between \$600 and \$650 /ha pa. These are within the protection of stopbank areas and have irrigation water available. They have historically had some occasional flooding on the lower terraces.

We are also aware of grazing rentals on a stock per head per week basis, which range from between \$3.50 and \$4 per week per head of cattle.

We are also aware of Moutere Hill grazing rentals of several blocks around \$200 /ha for undeveloped land where the lessee is responsible for development and fertiliser.



8.0 Valuation Methodology

8.1. General

To establish a market rental for the parcels of land we have made comparison with recent settlements of grazing rentals as discussed above.

8.2. Rental Calculations

Based on our analysis of the river leases, protected flat land and easy hill grazing information, we would assess an unencumbered grazing rate for the dry land and land available for irrigation of \$425 /ha and \$500 /ha with water available. Taking into consideration Clauses 5.1 to 5.23 (specifically 5.8 and 5.19) of the Agreement, we consider a discount from the unencumbered market evidence of between 10 - 15% of those rates is appropriate.

Based on the market evidence and discussions above, our rental calculations are as follows.

Rental per ha -		
Irrigable flat land	15 ha @ \$450 /ha	\$6,800
Clean dry land	20.3 ha @ \$375	7,600
Lower lying fringe land	5 ha @ \$300	1,500
		<hr/>
Total		\$15,900

On the basis of an average rate per hectare over the 40.3 ha block comprising Areas 'A', 'B', 'C' and 'D', we assess the rental as follows.

40.3 ha @ \$395 /ha	\$15,918
---------------------	----------

Rental per head of cattle -

We estimate the carrying capacity for the block at approximately 450 stock units, which equates to approximately 80 head of cattle.

80 head of cattle @ \$4 /head for 50 weeks	\$16,000
--	----------

8.3. Reconciliation

Rental per ha	\$15,900 pa
Rental per head of cattle	\$16,000 pa

9.0 Rental Valuation

We assess the ground rental for the 40.3 ha of land being Areas 'A', 'B', 'C' and 'D' within the Nelson Regional Sewage Business Unit Licence to Occupy, effective as at 1 July 2013, at Sixteen Thousand Dollars (\$16,000) per annum, plus GST (if any).



9.1. Free Grazing Areas 'E' & 'F'

The areas 'E' and 'F' have been described within the body of the report. These comprise 10.2 ha of land which was formerly bio-solids waste area and is available for grazing to the Licensee, as long as the land is cleared and maintained clear of noxious weeds. If a market rental was to be charged for the two parcels of land area 'E' is clean and of good grazing although lower lying and would have a rental of around \$300 per hectare. Area 'F' is broken and low lying with a reasonably high level of gorse infestation. This also comprises 5.1 ha and would have a rental of approximately \$200 per hectare. Therefore, the total area of 10.2 ha would have a rental, if charged, of approximately \$2,500 per annum.

10.0 Statement of Limiting Conditions and Valuation Policy

Purpose

This valuation report has been completed for the specific purpose stated. No responsibility is accepted in the event that this report is used for any other purpose.

Responsibility to Third Party

Our responsibility in connection with this valuation is limited to the client to whom the report is addressed and to that client only. We disclaim all responsibility and will accept no liability to any other party without first obtaining the written consent of TelferYoung (Nelson) Limited and the author of the report. TelferYoung (Nelson) Limited reserves the right to alter, amend, explain or limit any further information given to any other party.

Reproduction of Report

Neither the whole nor any part of this valuation and report or any reference to it may be included in any published document, circular or statement without first obtaining our written approval of the form and context in which it may appear. Our report is only valid when bearing the Valuer's original signature.

Date of Valuation

Unless otherwise stated, the effective date of the valuation is the date of the inspection of the property. This valuation is current as at the date of valuation only. The value assessed herein may change significantly and unexpectedly over a relatively short period (including as a result of general market movements or factors specific to the particular property). We do not accept liability for losses arising from such subsequent changes in value.

Without limiting the generality of the above comment, we do not assume any responsibility or accept any liability where this valuation is relied upon after the expiration of 3 months from the date of the valuation, or such earlier date if you become aware of any factors that have any effect on the valuation.

Legislation

We have not obtained a Land Information Memorandum (LIM) or Property Information Memorandum (PIM) for this property which, unless otherwise stated, is assumed to conform to all requirements of the Resource Management Act 1991, the New Zealand Building Code contained in the First Schedule to the Building Regulations 1992, the Building Act 2004 and any Historic Places Trust registration. Our valuation reports are prepared on the basis that properties comply with all relevant legislation and regulations and that there is no adverse or beneficial information recorded on the Territorial Local Authority (TLA) property file, unless otherwise stated. Legislation that may be of importance in this regard includes the Health & Safety in Employment Act 1992, the Fire Safety and Evacuation of Buildings Regulation 1992, and the Disabled Persons Community Welfare Act 1975.

Registrations

Unless otherwise stated, our valuation is subject to there being no detrimental or beneficial registrations affecting the value of the property other than those appearing on the title. Such registrations may include Waahi Tapu and Historic Places Trust registrations.



Reliability of Data

The data and statistical information contained herein was gathered for valuation purposes from reliable sources and is believed to be correct. All reasonable attempts have been made to verify the authenticity of this information but we cannot guarantee its accuracy.

Assumptions

This report contains assumptions believed to be fair and reasonable at the date of valuation. In the event that assumptions are made, based on information relied upon which is later proven to be incorrect, or known by the recipient to be incorrect at the date of reporting, TelferYoung (Nelson) Limited reserves the right to reconsider the report, and if necessary, reassess values.

GST

When analysing the sales and/or leasing evidence relied upon for this valuation, it is noted that we have attempted to ascertain whether or not the sale price/rental is inclusive or exclusive of Goods and Services Tax (GST). The national property database of sales evidence does not always identify whether or not the sale price is inclusive or exclusive of GST. Where we have not been able to verify the matter of GST, we have assumed that the national property database record of sale price is inclusive of GST (if any) for residential properties and plus GST (if any) for non-residential properties. Should this not be the case for any particular sale or rental used as evidence, we reserve the right to reconsider our valuation.

Land Survey

We have made no survey of the subject property and assume no responsibility in connection with these matters. Unless otherwise stated, the valuation has been assessed conditional upon all improvements being within the title boundaries.

Unless otherwise stated, we have not undertaken investigations or been supplied with geotechnical reports with respect to the nature of the underlying land. Unless otherwise stated, the valuation has been assessed conditional upon the land being firm and suitable ground for the existing and/or potential development, without the need for additional and expensive foundation and retaining work or drainage systems.

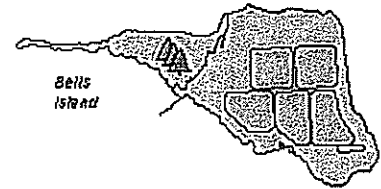
Leases

The interpretation of leases or other contractual agreements referred to in this report is solely the opinion of the author and should not be construed as a legal interpretation. Furthermore, summaries of contractual agreements which may appear in the report or appendices, are presented for the sole purpose of giving the reader an overview of the salient facts thereof.

Please contact the writer should you wish to discuss any matters raised in this report.

Yours faithfully
TelferYoung (Nelson) Limited

Rod Baxendine
Registered Valuer, ANZIV, SPINZ
Email: rod.baxendine@telferyoung.com



BETWEEN

NELSON REGIONAL SEWERAGE
BUSINESS UNIT

AND

Raine Farms Ltd

LICENCE TO OCCUPY
(GRAZING OF BELLS ISLAND)

THIS DEED made this 27th day of September 2010

BETWEEN THE NELSON REGIONAL SEWERAGE BUSINESS UNIT at Nelson
(hereinafter called "the Licensor") of the one part;

A N D Raine Farms Ltd, of 465 Suffolk Road, Stoke
(hereinafter called "the Licensee") of the other part;

BACKGROUND

- A. The Licensor is the owner of the freehold land in certificates of title NL56/193 ("the Land").
- B. The Licensor has agreed to grant to the Licensee a personal and non-transferable licence to occupy the Land referred to in Schedule 1 hereto for the purpose of grazing stock and/or other agricultural use as deemed appropriate at the discretion of the General Manager, Nelson Regional Sewerage Business Unit, upon the following terms and conditions.

THIS LICENCE WITNESSES:

1. Interpretation

In this Licence:

- (a) Where obligations bind more than one person those obligations shall bind those persons jointly and severally;
- (b) Words importing the singular number include the plural, words importing the masculine gender shall include the feminine and neuter, and vice versa;
- (c) A "person" includes any individual, company, corporation, firm, partnership, joint venture, association, organisation, trust, state, agency of state, government department or municipal authority in each case whether or not having separate legal personality;
- (d) Any schedules to this Licence shall have the same effect as if set out in the body of this Licence;

- (e) Clause headings are inserted for reference only and shall not affect the interpretation of this Licence;
- (f) References to any statute refer also to any regulation, by-law, order and notice made under or pursuant to the statute and;
 - (i) References to statutes and regulations refer also to statutes and regulations amending, consolidating or re-enacting those referred to; and
 - (ii) Expressions defined or explained in any statute shall bear those meanings in this Licence.
- (g) "Persons under the Licensee's control" includes all employees, agents, contractors, suppliers, customers and other invitees of the Licensee.
- (h) "Licensed area" means the land specified in Schedule 1.
- (i) "General Manager, Nelson Regional Sewerage Business Unit" means the officer of the Licensor for the time being holding that position or such other officer of the Licensor designated by the Licensor in his place.

2. **Grant of Licence and Purpose**

The Licensor grants and the Licensee accepts a personal and non-transferable licence to occupy the Licensed area during the period of this licence and at the times authorised in this licence for the purpose of grazing stock thereon, and/or other agricultural use as deemed appropriate at the discretion of the General Manager, Nelson Regional Sewerage Business Unit.

3. **Term**

This licence shall commence on **1 July 2008** and shall expire on **30 June 2013** with a right of renewal for a further **5 year term** subject to approval of the Board such that if the right of renewal is exercised, the Licence shall expire on 30 June 2018. Upon the expiry of the said term or its earlier termination the Licensee's rights pursuant to clause 2 hereof shall absolutely cease and determine but the Licensee shall not be released from any liability hereunder for any antecedent breach of the terms of this licence and any rent in arrears.

4. Rental

- 4.1 The Licensee shall pay to the Licensor by way of rental the sum of **\$320.00 (excl GST) per hectare**. The land available for grazing comprises areas A, B, C and D (refer attached map in Schedule 2) totalling **40.3ha**. Areas E (5.1ha) and F (5.1ha) have not been developed but may be used free of charge for a period of 5 years (expiring 30 June 2013) provided the Licensee clears it and maintains it clear of noxious weeds (including gorse, broom and ragwort). Should the Licensor require area F for the expansion of the treatment plant or any other NRSBU related activities 3 months written notice shall be given to the Licensee advising of the intention to take back the land, at no cost to the Licensor.
- 4.2 The annual rental shall be paid to the Licensor by equal monthly payments of **\$1,074.67 plus GST** in advance on the 1st day of each and every month during the term of this licence, the first of such payments to become due and payable on the date of commencement of this licence. The Licensee will if called upon by the Licensor pay the rental by automatic bank direct debit.
- 4.3 The annual rental will be reviewed by the Board of the NRSBU as at 1 July 2013, if the Licensee is granted a right of renewal. The rent shall be a market rental as assessed by a Registered Valuer.
- 4.4 If any rental payable by the Licensee remains unpaid for seven calendar days after due date the Licensee shall pay interest thereon at the rate of 16% per annum calculated from the due date to the date of payment.

5. General Conditions

- 5.1 The Licensee shall use the Licensed area only for the purpose set out in clause 2 hereof.
- 5.2 The Licensee shall not do or permit or suffer anything in or upon the licensed area which may be or become a nuisance or annoyance to or cause damage to the owners or occupiers or users of other property in the vicinity of or adjoining the Land or the Land.

- 5.3 The Licensee shall at the Licensee's expense at all times comply in all respects with the requirements of any statute, proclamation, order, regulation or by-law including the Licensor's District Plan affecting or relating to his use of the Licensed area.
- 5.4 The Licensee shall at the Licensee's expense comply with any notices or orders given by any competent authority in respect of the Licensed area or its use and shall keep the Licensor indemnified in respect of all such matters.
- 5.5 The Licensee shall not assign the benefit of this Licence, grant any sub-licence, or otherwise deal in any manner with this Licence or the right to use the Licensed area.
- 5.6 The Licensee shall not display or place any signs, placards, posters or advertising material within the Licensed area.
- 5.7 The Licensee acquires no right or legal interest in the land which is the subject of this Licence. The legal right to possession and control over the licensed area remains vested in the Licensor throughout the term of this Licence.
- 5.8 The Licensor may, for any reason whatsoever terminate this licence or reduce the licensed area on six month's written notice to the Licensee. In the event of a termination the Licensee shall not be entitled to any compensation or payment whatsoever from the Licensor. The Licensee shall however be entitled to a refund of any rental paid beyond the date of termination. In the event of a reduction in the licensed area the annual rental payable shall be a sum calculated on the reduced licensed area in proportion to the annual rental previously payable.
- Such a termination or reduction in area shall not relieve the Licensee from liability for any previous breach or breaches of the terms of this licence.
- 5.9 The Licensee may, for any reason whatsoever, terminate this licence on three month's written notice to the Licensor. In the event of a termination the Licensee shall not be entitled to any compensation or payment whatsoever from the Licensor. The Licensee shall however be entitled to a refund of any rental paid beyond the date of termination.
- Such a termination shall not relieve the Licensee from liability for any previous breach or breaches of the terms of this licence.

- 5.10 The Licensor will not be liable to pay compensation for any damage or injury to livestock or other property of the Licensee or for any disturbance from any cause, except if caused through the acts of the Licensor or any of its agents, servants, workmen or contractors.
- 5.11 The Licensee will not cut down or remove or permit or suffer to be cut down or removed any timber, trees or native vegetation from the said land without first obtaining permission in writing from the Licensor.
- 5.12 The Licensor, on giving the Licensee one weeks notice in writing, reserves the right to enter upon the said land and remove any spoil, shingle, gravel, sand, clay, minerals, trees or timber as and when required.
- 5.13 Subject to the provisions of Clause 5.15 hereof the Licensee will not remove or permit or suffer to be removed from the said land or any part thereof any spoil, shingle, gravel, sand, clay, minerals, trees or timber without the consent in writing of the Licensor.
- 5.14 The Licensee will construct and maintain a stock proof fence between the leased land and the plantation areas and treatment plant.
- 5.15 The Licensee may construct silage pits, cattle yards, fences, water troughs, irrigation equipment, pumps, pump shed and associated pipes and accessories and a hay shed on the land, subject to compliance with Tasman District Council's building by-laws and the Building Act 2004 such structures to remain the property of the Licensee.
- At the end of the term of the licence, the Licensee shall have the right to offer for sale any such structures, but shall first offer them to the Licensor. If the Licensor declines to purchase the structures, or agreement cannot be reached on the purchase price, then the structures shall be removed from the land by the Licensee within 30 days of termination of this agreement with no compensation of any kind payable by the Licensor to the Licensee.
- 5.16 The Licensee undertakes to not cause any disturbance to the archaeological sites that are clearly fenced off or signposted on the leased area.
- 5.17 The Licensee undertakes to not cause any damage to the marker posts and monitoring points located on the leased area. The Licensor shall have each of these points marked with a 1.5m high post (painted white).

- 5.18 In the event that pastures are used for sludge or biosolids disposal, the Licensee shall not permit any stock to graze on the disposal areas for a period of 2 years from the date disposal operations are completed.

In the intervening period the Licensee shall utilise the area for silage or hay production. Silage or hay produced from the area shall not be fed to stock or removed from the island until at least two years after completion of biosolids or sludge disposal except that silage may be fed to stock after shorter periods of not less than one month if temperatures are maintained at 40°C for a minimum of five days during which a temperature of 55°C must be exceeded for four hours.

Temperature tests shall be carried out by installing thermometers at five locations in each silage stack. The monitoring of temperatures shall be carried out in the presence of the Licensor or the Licensor's agent.

The Licensor shall on request provide an up to date map showing the date that disposal operations were completed in each part of the disposal area.

- 5.19 In the event of overflow from the oxidation pond, grazing will not be permitted on the affected land for a minimum period of two (2) weeks after the overflow has dried up, or such further period as the Licensor may direct to ensure compliance with the Health and Safety in Employment Act, the Resource Management Act, or any other Act or regulation. The licensor will use their best endeavours to ensure that the ponds do not overflow onto areas leased to the licensee under this agreement.
- 5.20 The Licensor has the sole right to authorise shooting on the island.
- 5.21 The Licensee will not be exercising the right to shoot on the island.
- 5.22 The Licensee shall provide a 24 hour contact number and be available when required to control stock or remedy any other situation in relation to this agreement. If operations staff are unable to contact the Licensee, the operations staff shall take whatever actions are required to make the situation safe. All time and material related costs to the Licensor shall be charged back to the Licensee. The Licensor and its servants shall not be held responsible for any damage to property or live stock in relation to actions taken under this clause.
- 5.23 The Licensee may use water from the M5 pond (the final pond in the treatment process located to the north east) for irrigation of the licensed land provided that the

appropriate approvals and consents are obtained from the relevant authorities. The following specific requirements shall apply:

- (a) Costs associated with obtaining the initial consents and providing an electrical power supply point will be borne by the Licensor.
- (b) The Licensee shall pay for the cost of electricity used for the irrigation system.
- (c) Set up and operation of an irrigation scheme, including the cost of resource consent monitoring, shall be the Licensee's. The NRSBU staff may be used to carry out soil sampling but the costs of sampling and analysis shall be the Licensee's.
- (d) The Licensor shall undertake the 3 yearly groundwater monitoring and annual reporting, as required by the resource consent, at the Licensor's cost.

6. Husbandry etc

6.1 The Licensee shall:

- a) Keep the Licensed area mostly free from gorse, broom and ragwort and shall comply with the Biosecurity Act 1993. The Licensee shall ensure that all fence lines are kept free of gorse, broom and ragwort.
- b) Apply to the Licensed area on an annual basis in accordance with best local farming practice such reasonable types and quantities of fertiliser as the General Manager of Nelson Regional Sewerage Business Unit shall require;
- c) Keep in good and substantial repair and condition all fences, ditches, crossings, gates and other improvements on the Licensed area;
- d) Manage and graze the Licensed area in a good and husband like manner in accordance with best local farming practice including stocking rates;
- e) Remove all dead livestock from the land within 24 hours of the death being noticed or reported;
- f) Keep the Licensed area tidy;
- g) Not light or permit to be lit any fires on the Licensed area without the prior written consent of the General Manager of Nelson Regional Sewerage Business Unit

and the relevant fire permits and shall take all reasonable steps to minimise the risk of fire on the Licensed area or spreading from the Licensed area;

- h) Not crop the Licensed area nor cut down any trees or bush on the Licensed area without the prior written consent of the General Manager of Nelson Regional Sewerage Business Unit. Such consent will not be unreasonably withheld;
- i) Keep all drains, ditches, creeks and water courses open and clear;
- j) At all times during the term of this Licence comply with the provisions of the Health and Safety in Employment Act 1992 and its amendments or any enactment in substitution thereof ("HSE Act") and shall, but not by way of limitation, take all practicable steps to:
 - i) Provide and maintain a safe working environment; and
 - ii) Ensure that persons on or on land adjacent to the Licensed area are not exposed to hazards that are under the control of the Licensee; and
 - iii) Develop procedures for dealing with emergencies that may arise; and
 - iv) Ensure there are in place effective methods for identifying existing hazards and new hazards and determining whether a hazard is a significant hazard as defined by the HSE Act and shall keep a written record of existing and new hazards identified by the Licensee, available for inspection by the Licensor.
- k) Permit the Licensor and its servants, contractors and agents to enter upon the Licensed area at all reasonable times:
 - i) to view the state of the Licensed area and the condition thereof;
 - ii) to carry out any works including installation of monitoring equipment;
 - iii) for the purposes of complying with any legislation;
- l) Comply with all directions given by the General Manager of Nelson Regional Sewerage Business Unit relating to any public or private events to be held on the licensed area.

7. Licensor Obligations

7.1 The Licensor shall:

- a) Take such steps as are reasonably available to it to ensure the provision of water for stock; a metered water supply point will be made available at the treatment plant for stock water. Water will be charged at the rate charged by the water supply authority (currently Tasman District Council). Costs of maintaining the flow meter will be met by the Licensee;
- b) Give to the Licensee at least 3 months written notice of its intention to carry out any works on the Licensed area;
- c) Give to the Licensee at least one month's written notice of any organised event (public or private) to be held on the Licensed area, such event(s) to be by mutual agreement but the Licensee not to unreasonably withhold approval;
- d) Allow shooting on the island between 1700 hours and 0700 hours and at other times by agreement with the Licensee. A sign indicating a shooter is on the island shall be maintained at the entrance to the island. The Licensor shall endeavour to keep the licensed area free from wild animals, rabbits and goats and in so doing shall comply with any applicable legislation, bylaw or regulations relating to the use of firearms.

8. Insurance and Indemnity Risk

- 8.1 The Licensee shall not do, or permit to be done, anything in the licensed area causing any insurance effected by the Licensor or by the Licensee to be rendered void or voidable or (except with the Licensor's prior written approval) causing the premiums payable on any such insurance to be liable to increase. The Licensee shall pay all extra premiums payable by the Licensor resulting from any extra risk caused or permitted by the Licensee.
- 8.2 The Licensee agrees to occupy the Licensed area at the Licensee's risk and releases to the full extent permitted by law the Licensor and the Licensor's employees and agents from all claims and demands of any kind and from all liability which may arise in respect of any accident, damage or injury occurring to any person or property in or about the Licensed area.

- 8.3 The Licensee shall keep the Licensor indemnified against all claims, actions, losses, damages, fines, costs and expenses of any nature which the Licensor may suffer or incur or for which the Licensor may become liable directly or indirectly as a result of:
- a) any act or omission of the Licensee or persons under the Licensee's control;
 - b) any injury to persons as a result of the Licensee failing to comply with his obligations under clause 6.1(j);
 - c) loss or damage to property or any person from any cause whatsoever caused by the use of the Licensed area by the Licensee or persons under the control of the Licensee;
 - d) any accident or damage to property or any person arising from any occurrence in or near the Licensed area by reason of any act or omission by the Licensee and persons under the Licensee's control.
- 8.4 The Licensee at the Licensee's expense shall effect, and keep current, in respect of the Licensed area and the Licensee's use of the licensed area, a policy of public risk insurance for an amount not less than \$1,000,000 for any one event with a substantial reputable insurance office or company first approved in writing by the Licensor (such approval not to be unreasonably withheld).
9. **Remedies for breach and determination**
- 9.1 In the event of a breach by the Licensee of any terms of this licence the Licensor may (without prejudice to any other remedy the Licensor may have) recover all costs, charges and expenses for which the Licensor shall become liable in consequence of or in connection with any breach or default by the Licensee in the performance or observation of any of the terms, covenants and conditions of this Licence.
- 9.2 In the event of the Licensee failing to comply with any of the conditions and requirements of this licence and such failure continuing for a period of ten calendar days after the Licensee has been notified at the Licensee's normal address of such failure, it shall be lawful for the Licensor to revoke this licence forthwith and thereupon this licence shall cease and determine but without relieving the Licensee from liability for any previous breach or breaches hereof.

9.3 On this licence coming to an end by whatever means and whether pursuant to a provision of this licence or not the Licensee shall forthwith remove all stock, stockyards, irrigation equipment and fencing, owned by the Licensee, from the licensed area and leave the licensed area in a clean and tidy state.

9.4 In the event of the termination or sooner determination or revocation of this licence for any reason whatsoever or a reduction in the Licensed area the Licensee shall not be entitled to compensation or any payment whatsoever from the Licensor.

10. Resource Management Act 1991

To the extent that the grazing of the Licensed area is contrary to the designation of it then for the purposes of Sections 176 and 178 Resource Management Act 1991 the Licensor as requiring authority consents to the grazing of the Licensed area.


SCHEDULE 1

IN WITNESS WHEREOF this Deed has been executed this:

27th day of September 2010


Title NL56/193, area A, B, C and D, shown on the attached map, total area 40.3ha, and area E (5.1ha) and F (5.1ha).

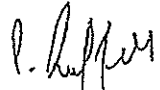
SIGNED by (Raine Farms Limited)

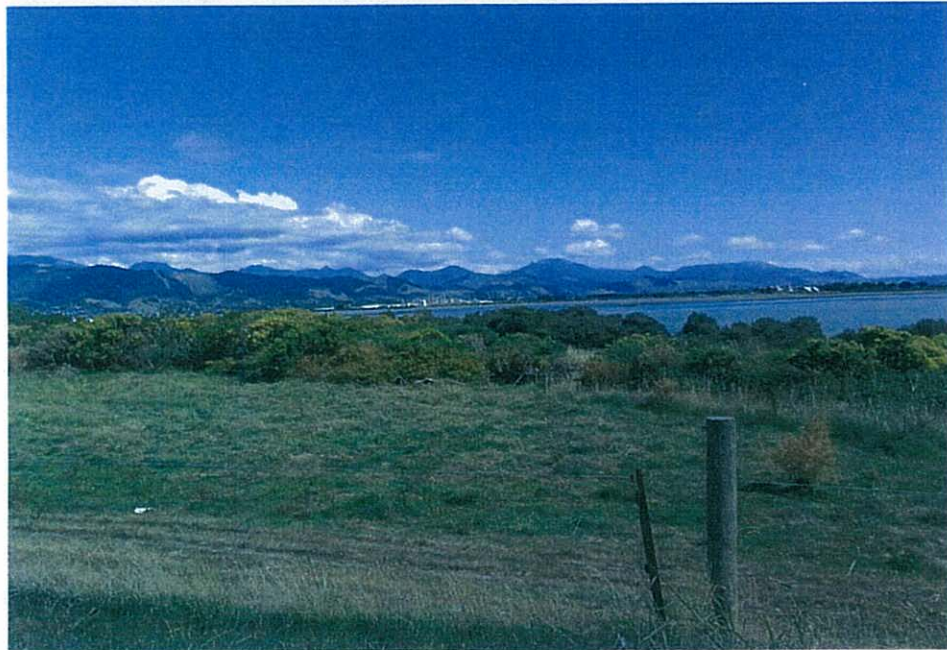

.....
As Licensee in the presence of:

Witness: Johan Thwait
Address: 4 Hareway Way, Seche, Nelson
Occupation: Engineer

SIGNED on behalf of
NELSON REGIONAL SEWERAGE BUSINESS UNIT)


.....
General Manager

in the presence of: 
Witness: Philip Charles Ruffell
Address: 4 Fauschelle Avenue, Richmond
Occupation: Engineer





Valuation Process

1. Purpose of Report

- 1.1 To review the processes around property, plant and equipment valuations.

2. Recommendation

THAT NRSBU staff carry out annual revaluations through adjusting the asset valuation register for any asset movement, changes in remaining life, redundancy and applying the NRSBU Construction Index;

AND THAT the NRSBU Joint Committee considers and approves the NRSBU Construction Index annually;

AND THAT the NRSBU Construction Index be based on Statistic New Zealand indexes for the period April to March;

AND THAT the services of a local registered valuer be retained to review the valuation and issue a valuation certificate for the valuation carried out by NRSBU staff.

3. Background

- 3.1 Audit New Zealand lists a number of significant issues with the valuation on page five of the Management Report (Attachment 1).
- 3.2 Audit New Zealand concludes that the valuation was poorly prepared and lacked a robust internal quality assurance review.
- 3.3 Audit New Zealand recommends that the NRSBU should review the valuer involved and consider one who is more familiar with the Nelson/Tasman region.
- 3.4 Audit New Zealand believes that the Business Unit should perform an independent review of all valuations once received from the valuer.

4. Discussion

30 June 2012 Valuation

- 4.1 The 30 June 2012 valuation was the continuation of a process that was initiated in 2011 to complete a "prime" valuation of all NRSBU assets following the completion of significant upgrade work in 2010 as well as the upgrade of the major components of the network as part of the regional pipeline upgrade project.
- 4.2 These projects provided a sound basis to demonstrate actual construction costs that could be used to underpin the valuation process.
- 4.3 The valuation process included the justification of the asset register and the asset valuation register.
- 4.4 The close association of the valuer with the operation and maintenance contractor, the contractors responsible for the 2010 primary clarifier upgrade, the design team for the regional pipeline upgrade project and previous involvement as a peer reviewer of internal revaluations were the principal reasons for their appointment to complete the valuation.
- 4.5 The proposal received from the valuer provided details of a robust process that included a team of experts and the involvement of experienced professional valuers as part of the quality control.

Issues Raised by Audit New Zealand

- 4.6 During the period of the valuation the team proposed by the consultant to carry out this work was significantly affected by staff changes that affected the ability of the consultant in completing the work.
- 4.7 Audit New Zealand staff reviewed the valuation and requested further clarification from the NRSBU regarding specific value movements that they considered unreasonable and inconsistencies between the valuation report and the valuation spreadsheets.
- 4.8 Detailed checking of the valuation spreadsheets by NRSBU staff revealed further significant errors that were addressed by the valuer.

Valuation Requirements

- 4.9 The Disposal of Tradewaste Agreement require that a "reevaluation of the facilities must be undertaken by an independent registered valuer at not more than five yearly intervals in accordance with international financial reporting standards". (Schedule 4, Cost Allocation Pricing Model)

Future Valuations

- 4.10 NRSBU staff will adjust the valuation annually to reflect changes in the assets, review of remaining life of assets and adjust the value by an NRSBU Joint Committee approved Construction Index. (Revaluation: Attachment 2).

- 4.11 This valuation will then be reviewed by a registered valuer who will issue a valuation certificate for the revaluation.
- 4.12 The valuer will be selected by the NRSBU Joint Committee from a panel of registered valuers.
- 4.13 Any "prime" valuation will be carried out by a registered valuer.
- 4.14 This service will be procured through a tender process and will include a peer review of the valuation by an independent valuer chosen by the Joint Committee from a list provided by the successful tenderer.

5. Conclusion

- 5.1 That NRSBU staff continue to carry out annual revaluations through adjusting the asset valuation register for any asset movement, changes in remaining life, redundancy and applying the NRSBU Construction Index.
- 5.2 That the NRSBU Joint Committee considers and approves the NRSBU Construction Index annually.
- 5.3 That the NRSBU Construction Index be based on Statistic New Zealand indexes for the period April to March.
- 5.4 That the services of a local registered valuer be retained to review the valuation and issues a valuation certificate for the valuation carried out by NRSBU staff.

Johan Thiar
Engineering Adviser

Attachments:

Attachment 1: Audit New Zealand: Management Report 1440804

Attachment 2: Revaluation 946213

ATTACHMENT 1

15 January 2013

RECEIVED

17 JAN 2013

NELSON CITY COUNCIL
Records

PO Box 2, Christchurch 8140

www.auditnz.govt.nz

Freephone: 0508 AUDITNZ

(0508 283 4869)

Fax: 03 359 4128

Donna Hiser
Chairperson
Nelson Regional Sewerage Business Unit
C/- Nelson City Council
PO Box 645
Nelson 7040

cc J Thiant, Engineering Advisor
A Bishop, Accounting Supervisor

Dear Donna

Report on the audit of Nelson Regional Sewerage Business Unit for the year ended 30 June 2012

We have finalised the management report arising from the recently completed audit. The report is enclosed.

We wish to thank you and your staff for the assistance and cooperation extended during the course of the audit. If you have any questions please contact me directly on 021 222 8463.

Yours sincerely



Scott Tobin
Director

#1440804

Report to the Board on the audit of
Nelson Regional Sewerage Business Unit
for the year ended 30 June 2012

Management report

Audit New Zealand has carried out this audit on behalf of the Auditor-General

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

We carry out our audit in accordance with generally accepted audit standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Board and management are responsible for implementing and maintaining your systems of controls for detecting these matters.

Statement of auditor independence

We confirm that, for the audit of the Nelson Regional Sewerage Business Unit's financial statements for the year ended 30 June 2012, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have not undertaken any engagements for the Nelson Regional Sewerage Business Unit during the year ended 30 June 2012. Further, we have no relationships with, or interests in, the Nelson Regional Sewerage Business Unit.

Unresolved disagreements

We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the financial statements. Management has not sought to influence our views on matters relevant to our audit opinion.

Other relationships

We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Nelson Regional Sewerage Business Unit that is significant to the audit.

We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the Nelson Regional Sewerage Business Unit during or since the end of the financial year.



Scott Tobin
Audit Director
15 January 2013

Report to the Board

for the audit for the year ended 30 June 2012.



We have completed the audit for the year ended 30 June 2012. This report sets out our findings from the audit and draws attention to areas where Nelson Regional Sewerage Business Unit (the Business Unit) is doing well or where we have made recommendations for improvement.

Contents

Key messages.....	2	4	Sector matters.....	8
1 Our audit opinion	3	5	Status of issues from prior year's audit	8
2 Assessment of your control environment	3			
3 Business risks/issues	5			



Key messages

Audit opinion

We issued an unmodified audit opinion on 14 December 2012. This means that we were satisfied that the financial statements fairly reflected the Business Unit's activity for the year and its financial position at the end of the year.

Assessment of the business unit's control environment

We performed a high-level review of the Business Unit's control environment. We reconfirmed that the control environment remained effective during the year.

Our review of the control environment identified a few areas of enhancement:

- The Business Unit's Memorandum of Understanding is out of date and should be reviewed and updated. This could also be a good opportunity for the Business Unit to review its existing governance practices.
- The Business Unit does not have a treasury policy. The joint venture councils also assigned interest rate swaps to the Business Unit. We recommend at a minimum, the Board formally acknowledge the assignment of the swaps.

Valuation of asset

The Business Unit revalued its sewerage network this year. We confirmed that the valuation was prepared in accordance with NZ IAS 16 and relevant valuer standards, and it was suitable for inclusion in the financial statements.

We found a number of significant misstatements in reviewing the revaluation. Some of these were also reported in our 2011 management report. These misstatements were subsequent corrected. However, we recommend that the Business Unit review its processes surrounding property, plant and equipment valuations.

Due to the valuation issues that we worked through, we will be requesting recovery of the additional costs that we incurred. We will advise management of our proposed recovery amount in 2013.

Thank you

We would like to thank the Board and management for their assistance in completing our audit work.

1 Our audit opinion

1.1 We issued an unmodified audit opinion

We issued an unmodified audit opinion on 14 December 2012. This means that we were satisfied that the financial statements fairly reflected the Business Unit's activity for the year and its financial position at the end of the year.

1.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions.

2 Assessment of your control environment

We performed a high-level review of the Business Unit's control environment. This included considering management's overall attitude toward, awareness of, and actions in establishing and maintaining effective management procedures and internal controls.

The purpose of our review was to:

- identify aspects of the control environment that can be relied on during the audit; and
- identify potential areas for improvement.

Our conclusions are made in the context of our work in conducting the audit. They are not an assessment of overall

management performance or of the Business Unit's effectiveness in achieving its objectives.

Overall, we reassessed the control environment as effective.

Particular aspects of the control environment that we comment on are:

- A capable and experienced Board, providing appropriate oversight of the operations of the Business Unit.
- A commitment to effective organisational management and governance, including monthly monitoring and reporting to the Business Unit.

2.1 Internal controls

We reviewed the internal controls in place for key financial systems. Internal controls are the policies, procedures, and activities that are in place to provide reasonable assurance that processes operate as designed. They are important because effective controls help to minimise the risk of fraud or error.

Overall, we found that the systems are well designed. We did not identify any matters to bring to your attention.

2.2 Areas of improvement

During our assessment, we identified a few areas that we believe the Business Unit could further enhance its control environment. These are outlined below.

2.2.1 Memorandum of understanding

The Business Unit has a Memorandum of Understanding (MOU), signed between Nelson City Council and Tasman District Council, which outlines how the Business Unit is run. We understand that the MOU initially expired in 2009 and has been rolled for a number of years. The Business Unit's current governance practice has also departed from the expectations in the MOU.

Good practice is to regularly review and approve policies. This is especially relevant for the MOU, as the Business Unit is technically not being run in accordance with the MOU. For example, the MOU requires someone to be employed as a "general manager" while there has not been anyone in the role since 2010.

We recommend that the Business Unit review and update the MOU. We also note that this could be a good opportunity to review the Business Unit's existing governance practices. This will allow the Board and the joint venture councils to consider whether the existing governance practices are meeting their needs and determine whether changes are required. Any changes determined could be incorporated into the updated MOU.

Management comment

The Joint Committee submitted a revised draft MOU for consideration by Councils on 1 July 2009 and has continued to urge the two Councils to review and revise the governance structure since that time. The Joint Committee reluctantly agreed to the disestablishment of the General Manager role in a staff restructure which took place at NCC in September 2010 on the basis of written assurance from the then NCC Chief Executive that this would be a short term arrangement. The Joint Committee regularly raises concerns relating to this 'interim' arrangement.

2.2.2 Treasury policy and the approval of interest rate swaps

Tasman District Council has been delegated the overall treasury function for the Business Unit. In 2012, the joint venture councils each entered into four \$2 million notional value interest rate swaps. Each swap pairing had the same swap terms and conditions. Both joint venture councils assigned these swaps to the Business Unit.

In discussions with management, we understand that the Board has not formally acknowledged or approved the assignment of the swaps. Given the value of the swaps assigned, we would have expected some formal acknowledgement or approval depending on existing delegations.

We were further advised that the Business Unit does not currently have a treasury policy in place. A treasury policy will set out the processes and procedures an entity will take

to manage its debt and investment instruments. This will incorporate both the type of instruments that can be entered into and the formal delegations in place.

We recommend that:

- the Business Unit develops a formal treasury policy; and
- the Board at a minimum formally acknowledge the assignment of interest rate swaps from its joint venture councils. The Board may also want to retrospectively approve the swaps, given their size and significance.

Management comment

Tasman District Council has undertaken to present a draft Treasury Policy to the Board's March 2013 meeting.

3 Business risks/issues

3.1 Valuation issues

The Business Unit annually revalues certain property, plant and equipment (PPE) asset classes. In 2011, we identified issues with the approach taken to revalue the sewerage network. This included the full review of replacement costs of only certain assets, rather than all assets due for revaluation, and some minor methodology application matters.

The Business Unit again revalued its sewerage network in 2012. It engaged CPG New Zealand Limited (CPG) to complete the valuation. We confirmed that the valuation was prepared in accordance with NZ IAS 16, PPE, and relevant valuer standards, and it was suitable for inclusion in the financial statements.

CPG completed its valuation on a similar basis to 2011. All assets constructed after 2007 were subject to a "prime" valuation (a full review of replacement costs back to recent construction cost information). If this work indicated that some of the older value's replacement costs needed amending, they were also updated. Else, the assets constructed on or before 2007 were increased in-line with relevant inflation indices.

We and management identified a number of issues with the valuation. These are summarised below:

- A client-identified error found that a 20 meter pipe had been incorrectly valued at \$1,420,000 when it should have been \$59,000.
- A series of assets had double counted professional fees, overstating the valuation by \$990,000.
- Some unit rates used were incorrect. CPG had appropriately compared the unit rates determined in the 2012 prime valuation to those used in 2011 (plus inflation). The 2012 unit rates were found to be lower than the adjusted 2011 rates; however,

CPG did not correctly adjust for this. Management estimated that correcting for this change reduced the valuation by \$861,000.

- CPG had inappropriately optimised resource consent costs on the new pipeline installed during the year. This meant that the resource consent costs were understated by \$301,000.
- There were also other immaterial errors that we identified which were not adjusted. This included the incorrect inflation index being applied (estimated overstatement of \$147,000 and the DRC calculation applied was incorrect (estimated understatement of \$100,000). These adjustments were not made as they were small and offset each other.

Some of the points that we had identified in 2011 had also not been corrected. For example, the demolition rates applied in the valuation spreadsheet continued to differ from the rates outlined in the valuation report.

In our view, these issues were relatively straightforward to identify and rectify. These were unusual movements in the valuation that did not make sense from our understanding of the asset classes. These errors indicate a relatively poorly prepared valuation by CPG and a lack of robust internal quality assurance review relating to the valuation.

We recommend that the Business Unit reviews its processes surrounding PPE valuations. It may want to review the valuer

involved in the process. One who is more familiar with the Nelson/Tasman region could provide a better valuation, as they would have a greater understanding of the local conditions.

Our expectations are that the Business Unit should perform an independent review of all valuations once received from the valuer. This review should include confirming all significant movements in valuations by asset group and considering the reasonableness of the movements. We note that the Business Unit already does some of this, although the process can be improved.

Due to these issues that we worked through, we will be requesting recovery of the additional audit costs that we incurred. We will advise management of our proposed recovery amount in 2013.

Management comment

Nelson Regional Sewerage Business Unit staff will review the valuation process and propose a revised valuation methodology for consideration by the Joint Committee at their quarterly meeting in March 2013.

3.2 Regional pipeline upgrade strategy

The Business Unit has been upgrading its regional pipeline. This involved building a pipeline parallel to the existing one across the estuary. We understand that the pipeline upgrade has been completed and is now completely operational. The only remaining items are the retentions,

which will be withheld until appropriate monitoring has been completed.

We reviewed how the update was treated in the financial statements. We were satisfied that the amount capitalised was materially correct, and the upgrade was appropriately depreciated once it was operational.

3.3 Prior period error

Management identified a prior period error that the Business Unit had overcharged the five major customers in 2009/10 to the tune of \$411,000. This was due to an incorrect weighted average cost of capital (WACC) being applied in calculating the value of the capital portion of the charge to the customers.

We reviewed the calculation of the prior period error and confirmed that it was materially correct. We also confirmed that the prior period error was appropriately treated in the financial statements, by adjusting the comparative balances. The financial statements appropriately disclosed the prior period error.

3.4 Owners distribution

The Business Unit annually distributes its operating surpluses to its joint venture council partners. In prior years, the operating surplus distributed had been the net surplus, as reported in the statement of comprehensive income. In 2012, the operating surplus used for the purpose of calculating the owner distribution excluded certain non-cash items, such as

abandoned assets and the fair value movements in interest swap.

We confirmed with the Board that the term 'operating surpluses' excludes unfunded non-cash expenditure. We understand that the items excluded from the calculation are excluded from the Business Unit's funding model, which means neither joint venture council fund these types of expenditure.

Given the confirmation from the Board, we accepted that the amount of the distribution is fairly stated.

3.5 ENZA overcharge

In February 2011, the Business Unit was advised by ENZAFOODS (ENZA) that it had overcharged ENZA for the amount discharged. The Business Unit completed testing and confirmed that it had been overcharging, as the flow meter was over-reading by up to 18%.

We followed up on the status of the amount payable to ENZA in 2012. We understand that management reviewed its invoicing and identified that the overcharge was only \$42,000, which was less than the \$102,000 estimated in 2011.

We reviewed the calculation and assessed it as being materially accurate. We also confirmed that it was appropriately treated in the financial statements as a credit in the current year.

4 Sector matters

We completed reviews on behalf of the Auditor-General. Our comments are as follows:

4.1 Fraud consideration

No instances of fraud have been reported to us. There was no fraud assessment reviews completed by the Business Unit in the last twelve months for us to review the findings of.

4.2 Conflicts of interest

We also remained alert for conflicts of interest in the course of our audit work. No issues arose that we need to bring to your attention.

4.3 Sensitive expenditure

We reviewed the general ledger for areas of sensitive expenditure incurred during the period and reviewed them for compliance with the Business Unit's practices and accepted good practice in the public sector.

We found no matters to report in this area.

5 Status of issues from prior year's audit

Other than aspects related to the PPE valuation discussed in 3.1, no matters outstanding were noted from the prior year audit.

REVALUATION

1. Purpose of Report

- 1.1. Mr Wilson questioned the dramatic increase in the value of assets after the 2008/09 asset re-valuation and commissioned a report by Harrison Grierson on the use of the Capital Goods Price Index (CGPI) to adjust the value of assets.

2. Confidential

- 2.1. Report contains commercially sensitive information.

3. Recommendation

THAT a NRSBU Construction Index averaging Capital Goods Price Index indices, which includes only construction, maintenance and operational indices that are related to the construction industry, be calculated and used to adjust the valuation from 2008/09 onwards where no more reliable indicators are available.

AND THAT the adjustment in valuation be backdate to 1 July 2009.

4. Background

- 4.1. CPG re-valued the NRSBU assets in July 2009 and certified the valuation in their letter dated 14 August 2009.
- 4.2. Mr Wilson requested Harrison Grierson to review the methodology and indices used in the 2009 valuation and the NRSBU received their report dated 1 April 2010.

5. Discussion

CAPITAL GOODS PRICE INDEX

- 5.1. An analysis of the valuation sheets show that CPG has consistently used the same mix of indices since 2004 when the publishing of Construction Cost Index's were discontinued by OPUS.
- 5.2. In 2004 CPG selected a mix of indices from the CGPI that in their view best represented the CCI values at the time and calculated indices for their identified asset groupings – Civil (C), Mechanical (M), Structural (S), Electrical (E) and Pipeline (P).
- 5.3. The Harrison Grierson report concludes that this approach is reasonable provided that the assets used to form the grouping have cost of increase

ratios that are not widely differing and points out how the use of the index for fencing skews the Civil index.

- 5.4. The report also indicated that the CPGI includes indices that will be more appropriate to use for specific assets where the asset can be directly associated with an index such as a metal tank where the CGPI index is 1.07 and the valuation used the structural grouping with a calculated index of 1.22.
- 5.5. The report further points out that the classification of some assets in a particular group is debateable.

CONSIDERATION OF THE HARRISON GRIERSON REPORT

- 5.6. It is acknowledged that the classification of assets is problematic as it will always be difficult to fit specific assets into a specific category as one will have to use a best fit approach.
- 5.7. The influence of a single index has the potential to skew a grouped index significantly and can lead to an erratic movement of value for assets.

FUTURE USE OF CGPI

- 5.8. The CGPI contains an all group index which is an average of all the indices. However, the all group index includes such items and surgical equipment, glass and glass products, motorcycles, domestic furniture etc.
- 5.9. Deleting the indices that are clearly unrelated to the construction and infrastructure maintenance industry and calculating a "NRSBU construction index" that can be applicable to all assets will eliminate the need to group assets and mitigate the impact of a single index on the average.
- 5.10. Using the "construction index" to recalculate the 1 July 2009 valuation resulted in the following changes to the fixed cost for 2009/10:

The information in the table and paragraph below has been removed due to its commercially sensitive nature.

	Original fixed Cost	Revised Fixed Cost	Difference
Total			

- 5.11. The depreciation will also decrease by \$_____ for the year.

6. Conclusion

- 6.1. Using the "NRSBU construction index" to adjust the valuation where more appropriate information is not available will lead to less volatility in

the results of future valuations and eliminate the need to categorise specific assets into asset groups.

- 6.2. The process can be considered more equitable in that manipulation of asset groupings will be eliminated.
- 6.3. The cost to contributor will decrease for the past year.

Contact officer: Johan Thiart

M Schruer

General Manager

Nelson Regional Sewerage Business Unit

P E V O S E O T

Nelson Regional Sewerage Business Unit

Balance Sheet as at 31st January 2013

	Current	Last Month	June 2012
Equity			
Opening Equity (July)	35,587,766	35,587,766	32,940,047
Plus Net Income YTD	1,093,436	988,575	141,124
Plus Revaluation	0	0	2,506,596
Closing Equity	<u>36,681,202</u>	<u>36,576,341</u>	<u>35,587,766</u>
Contingency Reserve	100,000	100,000	100,000
	<u>36,781,202</u>	<u>36,676,341</u>	<u>35,687,766</u>
Which was Invested as follows -			
Current Assets			
Bank	1,676	140,926	76,067
Debtors	39,077	45,409	(540,850)
NCC Current account	408,571	307,976	0
Total Current Assets	<u>449,323</u>	<u>494,311</u>	<u>(464,783)</u>
Fixed Assets	54,650,272	54,766,652	55,306,900
Current Liabilities			
Creditors	(542,401)	(408,630)	(593,132)
Current Portion of Term Debt	0	0	0
NCC Current account	0	0	(1,435,227)
Total Current Liabilities	<u>(542,401)</u>	<u>(408,630)</u>	<u>(2,028,358)</u>
Term Liabilities	(17,700,000)	(18,100,000)	(17,050,000)
Derivative Financial Instruments	(75,992)	(75,992)	(75,992)
	<u>36,781,202</u>	<u>36,676,341</u>	<u>35,687,766</u>

Nelson Regional Sewerage Business Unit

Financial Report

Income Account for the period to 31st January 2013

	Income Account for the period to				2012/13 Budget		YTD Variation	Comments on year to date variations	
	Actual Month	Budget Month	Actual YTD	% YTD	% Year	YTD			Annual
Income									
Contributions Fixed	364,079	421,500	2,548,553	86	50	2,950,500	5,058,000	401,947	Reduced WACC due to lower Interest rate
Contributions Variable	246,047	272,900	1,986,509	104	61	1,910,100	3,274,400	(76,409)	
Other Recoveries	25,746	14,300	113,779	113	66	100,300	172,000	(13,479)	EECA Grant
Interest	27	80	110	18	11	600	1,000	490	
Forestry Income	-	-	-			-	-		
Total Income	635,899	708,780	4,648,951	94	55	4,961,500	8,505,400	312,549	
Less Expenses									
Management	23,197	13,500	143,703	152	89	94,600	162,200	(49,103)	Increased staff time on Valuation and WACC
Electricity	51,713	62,850	404,056	92	54	439,800	754,000	35,744	
Contract Maintenance	107,748	115,900	766,133	94	55	810,900	1,390,100	44,767	
General Maintenance	30,945	10,400	136,612	184	108	74,100	127,000	(62,512)	Reallocation to projects and equipment installed for interruptible power supply
Project Maintenance	5,103	13,050	62,580	63	37	99,800	171,000	37,220	
Monitoring	20,835	14,000	108,777	112	65	97,500	167,100	(11,277)	
Consultancy	13,129	8,300	97,631	167	98	58,300	100,000	(39,331)	Work programed for start of year/valuation
Insurance	5,006	3,500	35,043	143	83	24,500	42,000	(10,543)	
Sundry	2,619	6,450	34,202	76	44	44,900	77,000	10,698	
Biosolids Disposal	49,088	37,950	276,282	104	61	266,000	456,000	(10,282)	
Operating & Maintenance Expenses	309,383	285,900	2,065,019	103	60	2,010,400	3,446,400	(54,619)	
Financial	70,097	100,750	429,580	61	36	705,300	1,209,000	275,720	Interest rate savings
Depreciation	151,559	171,800	1,060,917	88	51	1,202,800	2,062,000	141,883	
Total Expenses	531,039	558,450	3,555,515	91	53	3,918,500	6,717,400	362,985	
Net Income before Rebate	104,860	150,330	1,093,436	105	61	1,043,000	1,788,000	(50,436)	
Owners rebate	0	0	0						
Net Income after rebate	104,860	150,330	1,093,436			1,043,000	1,788,000	(50,436)	
Capital Expenditure									
Renewals	35,179	47,700	95,301			333,670	572,000		
New Capital Expenditure	-	137,300	308,989			960,750	1,647,000		
Total Capital Expenditure	35,179	185,000	404,289			1,294,420	2,219,000		