

Review of Mercury Bay Capital Projects

Thames Coromandel District Council Audit Committee



19 February 2013

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1. Disclaimer and Limitations

This report has been amended subsequent to our earlier report dated 19 December 2012. Since then further information has been brought to our attention by management and we have amended our report to reflect this.

1.1. Reliance on information

In preparing this report with information as provided by Thames Coromandel District Council (“Council”), we have relied upon and assumed, without independent verification, the accuracy and completeness of all information as furnished to us by you. We have evaluated this information through analysis, enquiry and examination for the purposes of providing our report. However, we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence on the accounting or other information provided to us for this review. We do not warrant that our enquiries will identify or reveal any matter which a due diligence review or extensive examination might disclose.

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2. Executive Summary

2.1. Purpose of review

The project was carried out to evaluate the Mercury Bay Capital Projects through reviewing the history of each project and the decisions made in order to make recommendations on what 'lessons could be learned' from the review. The review considered 'what actually happened' within each project and 'what we would expect to have happened' following best practice. Where required we have identified lessons that could be learned and applied to Council's current capital project management systems to improve any areas that pose a risk to the Council. Our review was conducted under the terms of our engagement letter dated 23 October 2012.

2.2. Scope and structure

For the purpose of this report we have completed a walkthrough review of the current capital asset management process, reviewed documentation on each individual project from the ECM system and interviewed relevant Council staff members and former Council staff members involved in the projects.

The report includes a review of the following key projects:

1. Mercury Bay sporting complex - reviewed the project, tracked its history and the decisions made to show what 'lessons could be learned'.
2. Mercury Bay sports facility land purchase – reviewed the impacts resulting from the change in the Whitianga Water Ways Limited contributions deed.
3. Mercury Bay waste water discharge - reviewed the capital project to be completed to identify improvements to Council's current procurement and project management processes.

The report is structured relative to these three key projects.

2.3. Summary of findings

A summary of our findings is set out below.

Mercury Bay waste water discharge

The consent for the discharging of treated waste water from the Whitianga Waste Water Treatment Plant was identified as needing to be renewed in late 2004, with the actual consents expiring in late 2010. It was identified that the renewing of the consent needs to also incorporate upgrades to the Whitianga Waste Water Treatment Plant which were completed in 2009. OPUS International Consultants were engaged to identify and investigate the different options available for discharge of treated waste water. A report was presented to Council on 4 November 2009 showing 11 different options for disposal of treated waste water. Council resolved to pursue a discharge to water based disposal method of treated waste water from the upgraded Whitianga Waste Water Treatment Plant. Council also resolved to lodge resource consents with Environment Waikato on a water based disposal basis. In applying for the resource consent Council had to undertake stream rehabilitation works to cater for additional volumes expected to be discharged from the Waste Water Treatment Plant into the Ngarahutunoa Stream at peak times.

As part of obtaining the resource consent with Environment Waikato, Council agreed to provide the Mercury Bay Golf Club with two permanent heavy traffic bridges, to enable machinery access to undertake the stream profiling work and also replace any foot bridges which will not span the new stream bank profile, with the bridges being capable of supporting electric golf carts. Additionally the agreement with the Mercury Bay Golf Club also included provisions to supply treated waste water for irrigation purposes and also the construction of wet wells for the storage of this.

From our interviews with Council staff and further enquiries including correspondence from the Mercury Bay Golf Club to Council, it is unclear as to why the grass growing was undertaken on the golf club land rather than neighbouring Council land. We have verified from a site visit and through review of Council land title records that the current site of the Multi Sports Complex grass is adjacent to Council owned land. We have not been able to locate any other documentation concerning this arrangement in Council records. A contract is currently being drafted between Council and the Mercury Bay Golf Club for the Growing of Grass for the Mercury Bay Multi Sports Complex.

Mercury Bay Multi Sports Complex land acquisition

The Mercury Bay Community Board identified the need for a multi sports complex in the late 1990's. Council approved the purchase of a 28.7 hectare block of land from the Sheriff family located on Moewai Road in Whitianga ("Sheriff Block") in late 2000 as a potential site for the Multi Sports Complex.

In 2004 the Mercury Bay Community Board received an offer from Whitianga Water Ways Limited ("WWL") for an alternative site of eight hectares. The land acquisition cost of the proposal was for the vesting of land to Council in lieu of a set amount of reserve contributions that would have been paid by WWL on their developments within the Thames Coromandel area. Council entered into a reserve contribution deed with WWL in late 2004 as a means of securing the WWL site for the purpose of constructing a multi sports complex. The 2004 Reserve Contribution Deed with WWL was signed off by Chris Lux (Mayor at time) and Pam Howat (Group Manager Support Services) under Council Seal on 8 October 2004. The Seal Register showing this was tabled at Council on 22 October 2004, with no concerns being minuted.

By 2005 the Mercury Bay Community Board had identified the need for a site larger than the eight hectares provided for within the original 2004 Reserve Contribution Deed with WWL. In June 2010 Council resolved that the site for the Multi Sports Complex was to be on a ten hectare WWL site. Council subsequently entered into a Development Contribution Deed with WWL with the provision for ten hectares of land in September 2010. The 2010 deed was advantageous to Council due to the actual potential land cost being limited to \$6.5 million and also through the removal of a number of other provisions included within the 2004 Reserve Contribution Deed with WWL and the resolution of other matters that were outstanding between Council and WWL.

Contained within the 2004 Reserve Contribution Deed with WWL (Clause 3) was the provision for the developer to elect to construct and develop the facilities in accordance with Councils determination. This intent of this provision carried over to the 2010 Reserve Contribution Deed with WWL. Application of this clause was inconsistent with Councils Procurement Policy.

In June 2010 when considering the draft 2010 WWL agreement Council made the following determinations:

- That the Council would enter into a contract with Hopper Construction Ltd for construction of the Mercury Bay Multi Sport Complex and noting that this decision was inconsistent with its Procurement Policy and, therefore, constituted an inconsistent decision in accordance with the provisions of section 80 of the Local Government Act 2002;

- Determined that the Council made this decision due to the contractual commitment that it had with WWL to allow that company to have first right of refusal to progress development of the Multi Sport Complex and the significant savings, estimated as being in the order of \$700 thousand that could be made by progressing development of the Multi Sport Complex in conjunction with the works that WWL needed to complete to prepare the site for its vesting in Council;
- Determined that the Council would not review its Procurement Policy as a result of making this decision.

Mercury Bay Multi Sports Complex

Council approved the construction of the Mercury Bay Multi Sports Complex on 30 June 2010 with a budget of \$6 million noting no further business case was required in making this decision. What was included within the original \$6 million approved for the construction of the Multi Sports Complex was not clear from Council minutes. The lack of a business case as to what was to be delivered for the \$6 million has significantly reduced the level of control that has been able to be exercised over subsequent stages of this project. Additionally the \$6 million that was approved appeared to be based on “rough costings” prepared by the project manager in April 2010. The costings excluded \$680 thousand of grass/turf costs and also included a building for amenities with a size of 800 square meters at a cost of \$2,500 per square meter which equated to \$2 million.

At the time of Council approving the construction of the Mercury Bay Multi Sports Complex, there was approximately \$583 thousand of costs associated with the development of previous detailed business cases for a Multi Sports Complex for the Sheriff Block of land in capital work in progress. This was not accounted for in the \$6 million budget. Under current accounting standards, these costs should have been expensed as incurred and not capitalised against the Mercury Bay Multi Sports Complex capital project.

Between June 2010 and October 2010 the Mercury Bay Multi Sports Complex Project Team (“Project Team”) added grass/turf costs to the project, reduced the amenities building from 800 square meters to 500 square meters at a rate of \$1,500 (total updated cost for the building equated to \$750 thousand or savings of \$1.25 million) and also reduced other planning, utilities, design and landscaping costs by \$230 thousand. These changes created a contingency amount of \$800 thousand within the project. The Chief Executive at the time also notified the Project Manager by email that this \$800 thousand contingency could not be spent without his approval.

The proposed contracting rates with Hopper Construction were reviewed by Alan Bickers from Jayal Enterprises. The proposed rates for getting Hopper Construction to perform work on the development of the sports ground in conjunction with the work they were already required to do to get the sports ground

land up to a standard were deemed to be acceptable. The potential savings as noted by Alan Bickers was estimated to be in the order of \$1 million (please note that the report presented to Council on 30 June 2010 estimated these savings to be \$700 thousand). The report from Alan Bickers also recommended a fixed price contract, rather than a time and materials contract. This advice was followed by Council.

The contract with Hopper Construction for the development of the sports grounds (excluding the development of the amenities building) was signed on 8 October 2010 for a total contracted price of \$3.85 million. The signed contract was for the construction of five playing fields and eight hard courts. This scope of the sports grounds was in line with the range of facilities included in an Opus business case prepared by Opus consultants in September 2009.

The Project Team were presented with a preliminary design of the amenities building on 18 August 2011. The preliminary designs presented indicated that the building size had been increased to 800 square meters and the building had also been “future proofed”. On 21 November 2011 the Project Team were informed that the estimated building cost of the building was now \$1.5 million. The Chief Executive was not present at the project team meeting where this was discussed. By November 2011 the Project Team were aware that the “Scope” of the building was increased to 800 square meters at an estimated price of \$1,875 per square meter, bringing the updated estimated cost of the building to \$1.5 million. The actual value of future proofing was not specified. Reporting of project costs to the Project Team which included costs incurred to date and costs to complete the project were generally reported verbally with no supporting figures. When actual figures were reported to the Project Team, reporting was brief and not in accordance with best practice. Refer to section 5 of this report for recommendations proposed in regards to project monitoring and reporting at the project team level.

Additionally by September 2011, the Project Team was aware of the \$583 thousand of costs carried over from before 30 June 2010 with the Project Team discussing that this could be covered by the contingency of \$800 thousand created in October 2010. However the contingency had been utilised by the increasing of the amenities building size and also through the planned future proofing of the amenities building (please see above).

The Project Team commissioned the design of the building that was subsequently approved by the Project Team to form the basis of the eventual tender for construction of the amenities building. The final design included some element (unspecified) of “future proofing”. The successful building tender of \$2.27 million was \$770 thousand in excess of planned building costs. We can see no evidence that the \$770 thousand variance between planned building costs and the successful building tender was recognised or reported to the Project Team. The Project Team meeting minutes at the time of the selection of tenders still referred to the \$800 thousand contingency as being available. The Project Team meeting dated 23 February 2012 identified the Project Manager would need

to discuss the \$800 thousand contingency with the new Chief Executive. Chief Executive approval was to be obtained for the sign off of the tender award memo which was to include details of the contingency.

The final amenities building contract was signed by the Chief Executive in May 2012 based on a report dated 1 May 2012. The report was produced by the Project Manager which was signed off by the Tender Evaluation Team Leader, the Budget Holder and the Chief Executive. The report suggested the contract estimate for the building was \$2.5 million which was incorrect and to our knowledge had never been this amount. The report also suggested that the \$2.27 million contract price was within the Mercury Bay Multi Sports Complex budget which was also incorrect.

Council monitoring and control for this project over the project period are in our view not in accordance with best practice (Please refer to appendix 5 and 6 for examples of appropriate project reporting). The documentation of procurement decisions concerning the size of the amenities block is not in accordance with Councils procurement policy or best practice. We have included some suggestions as to how this can be improved within section 5 of this report.

2009 Internal Audit Report

In December 2009 Deloitte, as an internal audit project for TCDC, reported to the Audit Committee the results of a review of capital expenditure systems and processes. This report was referred to the Group Manager, Service Delivery to respond to and inform the Audit Committee of progress.

The review identified, among other things, short comings in the reporting of capital budgets against actual capital expenditure and a lack of reporting on a whole of project basis for capital projects. Management advice was that Mars (now Track 24) at that time did not support the recommended process changes and a manual process would need to continue until this could be resolved.

These recommendations were received, action plans developed to address each one and progress against these reported to the Audit Committee from March 2010 onwards. To address a number of recommendations a strategic decision was required as to the appropriate software platform to move Council forward in this area. This decision was not made until 2012.

2.4. Summary of observations and recommendations

Documentation of formal decisions

Decisions in relation to significant capital projects and approved budgets for the projects we have reviewed have not been documented in appropriate detail. The approval of the \$6 million budget for the Mercury Bay Multi Sports Complex and the approval of the \$2.8 million budget for the Whitianga Waste Water Disposal project as documented within Council minutes did not include specific detail as to the actual deliverables that Council expected. As a result this has impacted on overall reporting and monitoring of projects against approved budgets at an Executive Management level and Project Team level. We recommend that Council decisions in relation to significant capital projects be clearly defined. Decisions should be documented in a manner that makes it clear to management as to the actual deliverables of capital projects. Detailed recommendations have been included within Section 5 of this report.

Project Team monitoring of capital projects

The overall reporting and review of the Mercury Bay Multi Sports Complex project by Project Teams assigned to monitor and review the overall status of projects was not in accordance with best practice. Reporting of project financial position was generally on an informal and mostly verbal basis in nature. Actual financial reviews and budget monitoring for the Mercury Bay Multi Sports Complex was not being performed on a monthly basis and also did not include committed expenditure or contingency balances. In our view project components were not broken down into sufficient detail and excluded committed expenditure. We recommend that reporting and monitoring of significant capital projects be formalised at the project team level. Project monitoring should include a formal financial update of capital projects on a whole of project basis to include the following:

- Spend to date
- Committed expenditure
- Committed but not spent expenditure
- Forecast costs to complete supported by progress updates
- Remaining contingency monies

Detailed recommendations have been included within Section 5 of this report.

Capital project reporting at council and executive management level

The current reporting of capital expenditure at the Council level is at a very high level. The current financial reporting at the Council level for capital expenditure between September 2010 through to September 2012 showed actual capital expenditure based on Council's current groups of activities. Council's capital expenditure balance can fluctuate materially in any given year and has been known to exceed \$30 million. High level reporting and monitoring of capital projects will not effectively identify potential budget variations. Lack of commentary also reduces the level of accountability Council has over management.

Reporting and monitoring of actual results to budget at the Council level is a key control in maintaining the overall integrity of Councils internal control environment. Given that stewardship of assets is a core activity of Council we recommend that financial reporting to the Council be changed to include more detailed Capital expenditure information. Reporting should be performed on status of significant capital projects and capital projects that ratepayers will be sensitive to. Commentary should be included for variations from budget on an annual basis and also on a whole of project basis. Detailed recommendations have been included within Section 5 of this report.

Segregation of duties – expenditure approval

A review of expenditure to date within the Track 24 project management system for the Mercury Bay Multi Sports Complex (Track 24 project number 1027) and the Whitianga Waste Water Disposal project (Track 24 project number 2131) has identified that a large number of cost items have been entered into and approved by the same staff member being the Project Manager. Given the poor financial reporting and monitoring of Councils capital expenditure identified in this report the risk of fraud is heightened due to poor segregation of duties. We recommend that for all items of expenditure Council adopts a "one up" approach to expenditure approval, where a staff member with one level of authority higher approves all expenditure items entered into by all members of staff. Detailed recommendations have been included within Section 5 of this report.

Track 24 controls

Track 24 is the project monitoring system that is currently being used by Management to track the progress and financial spend on all capital projects. We have identified that this system is currently not automatically interfaced with the Council General Ledger. As a result Track 24 information does not reconcile to the general ledger capital work in progress accounts, and has not done so for the duration of the Mercury Bay Multi Sports Complex project. Additionally milestones are set within Track 24 when budgets are approved by Council. There is no formal review to ensure budgets have been entered into Track 24 accurately. As a result this reduces the level of integrity over variance reporting within Track 24. Management has identified that the key control over Track 24 is that costs cannot be coded against a project once the total budget has been exceeded. Furthermore costs to complete projects are not being reported within Track 24. Council is currently relying on a project management system that is not being reconciled to the general ledger resulting in inconsistent information being used to manage capital projects. Whilst management intentions behind Track 24 are reasonable the key control of a budget ceiling will not identify cost risks in timely manner, and will only identify issues once the budget ceiling has been reached. This hinders Councils ability to manage cost risk proactively by minimising exposure to additional expenditure before total budgets are exceeded.

We recommend that the Track 24 system is interfaced with Council General Ledger. This will remove the necessity to manually input data into Track 24 thereby reducing the risk of data input errors. A reconciliation of track 24 balances to capital work in progress accounts within the general ledger should be performed on a monthly basis to ensure data within the Track 24 system is accurate. We also recommend that an independent review be performed of budgets loaded within Track 24 by a person independent from service delivery to add more comfort over the accuracy of variance reporting within Track 24.

Use of manual spreadsheets outside of Council systems

We have identified that the project manager for the Mercury Bay Multi Sports Complex and Whitianga Waste Water Disposal project was using a stand-alone spread sheet system and not Councils Track 24 project management system to manage costs in these projects. Forecasting and monitoring of project progress through the use of spread sheets is prone to error. The use of a spread sheet system outside of Council systems also reduces Councils ability to monitor, control and hold management accountable for the overall progress and successful completion of capital projects. This contributed to the inaccurate reporting of project costs to the Project Team and Executive Management.

We recommend that the use of project management systems independent of Councils systems be discontinued. A consistent and comprehensive project management approach should be implemented for all capital projects.

Accounting treatment of capital expenditure items before business case approval

Items included within Capital Expenditure accounts for the Mercury Bay Multi Sports Complex of \$583 thousand do not meet the recognition criteria of *NZ IAS 16 Property plant and Equipment*. All expenditure incurred as part of preparing a business case should be reviewed and assessed to ensure items of a feasibility nature are not treated as capital expenditure. Only expenses that meet the recognition criteria of *NZ IAS 16 Property Plant and Equipment* should be capitalised.

We recommend that management review all expenses being capitalised before the approval of a business case to ensure expenses being capitalised are of a nature that will deliver future economic benefits to Council. Should costs being incurred not meet the recognition criteria of *NZ IAS 16 Property Plant and Equipment*, items capitalised before the business case approval they should be expensed as incurred.

3. Our Approach

3.1. Mercury Bay waste water discharge

We reviewed the following key aspects of the Mercury Bay waste water discharge project:

- Original business case
- Resource consent conditions
- Alternative solutions presented to Council to meet consent conditions
- Cost benefit analysis presented to Council for each discharge option
- Project management
- Budget monitoring
- Actual project build against the approved budget and consenting requirements

In addition to these aspects of the project we also investigated:

- The approval and monitoring processes applied by Council on this project
- Whether any variations to the original business case had been reviewed, approved and authorised by the appropriate delegated authority
- How and who approved the widening of the creek running through the golf course into which Council is discharging its wastewater

The arrangement between Council and the Mercury Bay Golf Club for turf currently being grown on golf club land for the Mercury Bay Multi Sports Complex has also been investigated through discussion with relevant Council staff and corroborated through review of supporting Council documentation.

3.2. Mercury Bay Multi Sports Complex land acquisition

We reviewed documentation and held interviews with the relevant Council staff and former Council staff to establish a timeline and history in regard to the final Council decision to develop a 10 hectare site on WWL land. Where possible we have corroborated information gathered in interviews to supporting Council documentation. We have reviewed the process followed by Council in entering the original 2004 WWL Reserve Contributions Deed including the delegated authority of the individuals signing the 2004 Deed on behalf of Council. As part of understanding the history behind the final Council decision to proceed with the 10 hectare option on WWL land, we have reviewed the alternative options presented to Council, including the risks and advantages associated with each of the options

We have compared the financial implications of the 2004 Reserve Contribution Deed with WWL and the 2010 WWL Development Contributions Deed through a detailed review of the respective agreements and also through interviews held with relevant Council Staff. Additionally as part the process we have assessed the variations between the 2004 and 2010 Deeds with WWL and have identified the key changes including financial implications between the two deeds. A review of the decisions made by Council and also Councils assessment of the different options has been assessed with regard to best practice.

3.3. Mercury Bay Multi Sports Complex

We reviewed the Mercury Bay Multi Sports Complex project from preparation of the initial business case approved by Council to detailed design, procurement, project management and completion. We then compared the processes used by Council against recommended best practice for projects of this size and nature. The review included walkthrough's of Councils project management process for this project and interviews with relevant Council staff. We have also performed a review of the project management team meeting minutes and the level of reporting performed for this project and also when key decisions in regards to the project were made. We have tracked the overall financial status of the project, including taking into account key decisions in regard to the amenities building size and the overall impact on the financial position of the project. Please refer to appendix 5 for a reconciliation of the approved budget and financial implications of project changes over the period from 30 June 2010 through to October 2012.

4. Findings

4.1. Mercury Bay waste water discharge

The consent for discharging of treated waste water from the Whitianga Waste Water Treatment Plant was identified as needing to be renewed in late 2004, with the actual consents expiring in late 2010. It was identified that the renewing of the consent needed to also incorporate upgrades to the Whitianga Waste Water Treatment Plant which were completed in 2009.

The Whitianga Wastewater Disposal Community Focus Group (“Focus Group”) was set up to ensure adequate consultation was undertaken with key stake holders as part of the application for renewing resource consents for the upgraded Whitianga Wastewater Treatment Plant. At the 23 May 2008 Focus Group meeting concerns were raised from the Mercury Bay Golf Club representative in regards to impact of the increased flows into the Ngarahutunua Stream should the option to discharge into the stream be adopted. Additionally it was advised that the stream would have to be upgraded should this option be pursued.

OPUS International Consultants were engaged to identify and investigate the different options available for discharge of treated waste water. A report was presented to Council on 4 November 2009 showing 11 different options for disposal of treated waste water. Council resolved to pursue a discharge to water based disposal method of treated waste water from the upgraded Whitianga Waste Water Treatment Plant. Council also resolved to lodge resource consents with Environment Waikato on a water based disposal basis. In applying for the resource consent Council had to undertake stream rehabilitation works to cater for additional volumes expected to be discharged from the Waste Water Treatment Plant into the Ngarahutunua Stream at peak times. The report presented to Council included the findings from Opus International Consultants. The preferred option as endorsed by the Whitianga Wastewater Focus Group was for the disposal through a water based basis through the Ngarahutunua Stream. The report also included the Mercury Bay Golf Clubs concerns in regards to resolving stream enhancement and also access to other Council services such as water supply.

The summary of options presented to Council estimated that the total Capital Cost was \$2.8 million. The summary of options also identified that the passage through land needed to be extended.

Subsequent to Council approval of the disposal method, discussions were held with the Mercury Bay Golf Club to resolve any consenting conditions that the Golf Club may have raised with the consenting authority, Environment Waikato. A letter dated 19 December 2010 from the Project Manager was sent to the Mercury Bay Golf Club agreeing to carry out the following (please note the list is not limited to items noted below):

- Stream restoration- establish bank stabilisation, planting, and landscaping as set out in an Opus Landscape design
- Stream Crossings- provide two heavy traffic bridges to enable construction vehicles to cross the Ngarahutunoa Stream
- Replace foot bridges which will not span the new stream profile with bridges capable of supporting electric golf carts
- Provide a 50MM potable water connection to the Mercury Bay Golf Club
- Construct a wet well and provide an automatic system to ensure the storage facility (wet well) is kept full

The Mercury Bay Golf Club withdrew its objection with Environment Waikato in regards to the Resource Consent for the disposal of discharge from the Whitianga Waste Water Treatment plant on 18 January 2011.

The Eastern Seaboard Wastewater Projects Team was established by Council as a standing Committee on 14 July 2005. The terms of reference for this committee was to ensure implementation of approved business cases for the upgrading of wastewater treatment and disposal facilities. The terms of reference also included the roles and responsibilities of the Project Manager which included managing the process of obtaining resource consents. We have identified that the Eastern Seaboard Wastewater Project Team was aware of agreements being in place with the Mercury Bay Golf Club (as per the project team meeting minutes on 28 September 2010) and also for the contracting work to be carried out by Hopper Construction (as per the project team meeting minutes on 22 March 2012).

Overall financial reporting of the project does not appear to be comprehensive with financial reporting being of a similar nature to the Mercury Bay Multi Sports Complex. The schedule of costs for this project as at October 2012 was for a total estimated cost of \$1.4 million against a budget of \$2.8 million. We have identified that the overall costs as per the project financial schedule, Track 24 and capital projects report do not reconcile to each other. Please refer to section 5 of this report for observations and recommendations in regards to overall financial reporting for capital projects.

From our interviews with Council staff and further enquiries including correspondence from the Mercury Bay Golf Club to Council, it is unclear as to why the grass growing was undertaken on the golf club land rather than neighbouring Council land. We have verified from a site visit and through review of Council

land title records that the current site of the Multi Sports Complex grass is adjacent to Council owned land. We have not been able to locate any other documentation concerning this arrangement in Council records. A contract is currently being drafted between Council and the Mercury Bay Golf Club for the Growing of Grass for the Mercury Bay Multi Sports Complex.

4.2. Mercury Bay Multi Sports Complex land acquisition

The Mercury Bay Community Board identified the need for a multi sports complex in the late 1990's. Council approved the purchase of a 28.7 hectare block of land from the Sheriff family located on Moewai Road in Whitianga in late 2000 as a potential site for the Mercury Bay Multi Sports Complex. In 2004 the Mercury Bay Community Board received an offer from WWL for an alternative site of eight hectares. The land acquisition cost of the proposal was for the vesting of land to Council in lieu of a set amount of reserve contributions that would have been paid by WWL on their developments within the Thames Coromandel area. Council entered into a Reserve Contribution Deed with WWL in late 2004 as a means of securing the WWL site for the purpose of constructing a multi sports complex. The 2004 Reserve Contribution Deed with WWL was signed by Chris Lux (Mayor at time) and Pam Howat (Group Manager Support Services) under Council Seal on 8 October 2004. The Seal Register showing this was tabled at Council on 22 October 2004, with no concerns being minuted.

The decision to proceed with the final WWL 10 hectare site took 10 years from the purchase of the Sheriff Block of land. In July 2002 WWL approached the Mercury Bay Community Board with an offer of 8 hectares. The Mercury Bay Community Board discussed the offer in detail in August 2002. It was identified that the Whitianga and Mercury Bay Reserve Strategy needed to be finalised to incorporate the WWL land offer. The Mercury Bay Community Board agreed in principle to the WWL offer in September 2002 and formally accepted the offer in September 2003.

In September 2004 the Mercury Bay Community Board finalised the Whitianga and Mercury Bay Reserves Strategy, with a focus on developing the WWL site in the short term. The service delivery chair was also notified at this time to take this proposal to Council. Council entered into a Reserve Contribution Deed with WWL under Council Seal in October 2004. In March 2005 the Mercury Bay Community Board had identified that 8 hectares would not be sufficient for the purposes of a multi sports complex and required an additional 2 hectares. Over the 2007 financial year the Mercury Bay Community Board discussed in detail its options in relation to developing a multi sports complex on either the Sheriff Block site or the WWL site. On 8 July 2008 the Mercury Bay Community Board resolved for Council to find a preferred site and also sought Council approval for the project to be fully scoped with a business case to be prepared.

From July 2008 onwards, Council had taken over decision making in regard to the Mercury Bay Multi Sports Complex. By 2010 Council had started investigating options available for a site larger than the eight hectares provided for within the original 2004 Reserve Contribution Deed with WWL. In June 2010 Council resolved that the site for the Multi Sports Complex was to be on a ten hectare WWL site.

Council subsequently entered into a Development Contribution Deed with WWL with the provision for ten hectares of land in September 2010. The 2010 deed was advantageous to Council due to the actual potential land cost being limited to \$6.5 million and also through the removal of a number of other provisions included within the 2004 Reserve Contribution Deed with WWL (i.e. Council would forgo development contributions to this value). Additionally within the 2010 Deed Council was able to remove the option for WWL to sell any surplus credits to third parties, with surplus credits on conclusion of the WWL development being forfeited. The 2004 Reserve Contributions Deed was also based on reserve credits being equivalent to 130 square meters per household equivalent of demand which was based on Councils previous Reserve Contribution policies. The 2010 Development Contributions Deed was based on Councils Development Contributions Policy which is based on 20 square meters per lot.

The 2004 Reserve Contribution Deed required WWL to vest 8 hectares of land to Council in exchange for 606 reserve contribution credits. Additionally no value for the land was explicitly stated within the 2004 deed. Based on Councils old Reserve Contributions policy the maximum contribution that was able to be levied per lot within the Mercury Bay area amounted to \$11,019. On this basis the maximum potential liability for Council in 2004 dollar terms amounted to \$6.69 million for 8 hectares of land. The 2010 Development Contributions Deed has valued the full 10 hectares of land to be vested from WWL at \$6.5 million. An additional 110 credits were created and valued by Council at \$734 thousand for the 2 additional hectares over and above the 2004 Reserve Contribution Deed requirements, and an additional 75 Retirement Village credits were created valued at \$1.6 million. From a Council perspective the additional credits created within the 2010 Development Contributions Deed with WWL has the effect of diluting the value of credits associated with the original eight hectares in the 2004 Reserve Contribution Deed to \$4.17 million.

As part of the 2010 Development Contributions Deed with WWL Council was able to resolve historical disputes with Hopper Construction in regards to Development Contributions for Joan Gaskell Drive and the Cooks Beach Development. While these disputes do not appear to have any bearing on the overall agreement with WWL, Council was exposed to legal risk and associated expenses to resolve these disputes outside of the 2010 Development Contribution Deed. Overall the 2010 Development Contributions Deed appeared to be favourable for Council.

There have been questions raised as to whether any value should be attached to the resolution of disputes between Council and Hoppers that were included in the 2010 deed. Our interviews indicated that this was not the case. We have also sighted legal advice from Council's lawyers that support the view that Council had minimal exposure arising from these claims and so our view is that the 2010 deed was primarily concerned with the acquisition of the 10 hectare of land.

4.3. Mercury Bay Multi Sports Complex

Council approved the construction of the Mercury Bay Multi Sports Complex on 30 June 2010 with a budget of \$6 million noting no further business case was required in making this decision. What was included within the original \$6 million approved for the construction of the Multi Sports Complex was not clear from Council minutes. The resolution was not clear in terms of the deliverables that was to be included in the \$6 million approved such as the number of sports fields, hard courts and also the overall size and scope of the building.

It appears the \$6 million that was approved was based on "rough costings" prepared by the Project Manager in April 2010. These costings excluded \$680 thousand of grass/turf costs and also included a building for amenities with a size of 800 square meters at a cost of \$2,500 per square meter which equated to \$2 million for the building. On 24 February 2010 Council had approved a business case for the Development of the Mercury Bay Multi Sport Complex on the Sheriff Block site. A full detailed business case was prepared for this site by Opus Consultants but did not specify a size for the amenities building. The decision by Council on 24 February 2010 was subject to the successful resolution of the 2004 Reserve Contribution Deed with WWL. On 15 June 2010 Council was notified of a new offer that WWL was willing to settle for in relation to the development of the Mercury Bay Multi Sport Complex and resolution of issues identified with the 2004 Deed. The development of the multi sports complex on a ten hectare WWL site was more advantageous in terms of consenting, location and also land development costs than the Sheriff Block site. The updated offer from WWL led to the Council decision and final approval of the construction of the Mercury Bay Multi Sport Complex on the ten hectare WWL site for a total budget of \$6 million. We have been told that the timeframe between the February 2010 Council resolution and 30 June 2010 council resolution did not allow for a detailed schedule of costs to be developed for the ten hectare WWL site, resulting in the approved budget being based on "rough costings". Council at the time of approving the \$6 million business case did not wish for a full business case to be developed for the ten hectare WWL site.

At the time of Council approving the construction of the Mercury Bay Multi Sports Complex, there was approximately \$583 thousand of costs associated with the development of previous detailed business cases for a multi sports complex for the Sheriff Block of land in capital work in progress. This was not accounted for in the \$6 million budget. Under *NZ IAS 16 Property Plant and Equipment* the initial costs of \$583 thousand that relate to business case development and cost estimates for the development of the Sheriff Block site prior to Council approval of the final business case should not be capitalised. The initial \$583 thousand should have been expensed as these costs are not able to be capitalised under the accounting standards.

Between June 2010 and October 2010 the Mercury Bay Multi Sports Complex Project Team ("Project Team") added grass/turf costs to the project, reduced the amenities building from 800 square meters to 500 square meters at a rate of \$1,500 (total updated cost for the building equated to \$750 thousand or savings of \$1.25 million) and also reduced other planning, utilities, design and landscaping costs by \$230 thousand. These changes created a contingency amount of \$800 thousand within the projected schedule of prices. The Chief Executive at the time also notified the Project Manager by email that this \$800 thousand contingency could not be spent without his approval.

The 2010 WWL Deed (clause 5) like the 2004 Deed (Clause 3) before it, contained provision to appoint the "developer" as the preferred contractor for development works to be undertaken in connection with the Sports Ground subject to the cost of any development works being in accordance with market conditions at competitive pricing.

This provision was outside of Councils Procurement Policy and as such Council Made the following Determinations on June 2010:

- That the Council would enter into a contract with Hopper Construction Ltd for construction of the Mercury Bay Multi Sport Complex, noting that this decision was inconsistent with its Procurement Policy and, therefore, constituted an inconsistent decision in accordance with the provisions of section 80 of the Local Government Act 2002;
- Determined that the Council made this decision due to the contractual commitment that it had with WWL to allow that company to have first right of refusal to progress development of the Multi Sport Complex and the significant savings, estimated as being in the order of \$700 thousand that could be made by progressing development of the Multi Sport Complex in conjunction with the works that WWL needed to complete to prepare the site for its vesting in Council;
- Determined that the Council would not review its Procurement Policy as a result of making this decision.

The proposed contracting rates with Hopper Construction were reviewed by Alan Bickers from Jayal Enterprises. The proposed rates for getting Hopper Construction to perform work they were already required to do to get the sports ground land up to a standard were deemed to be acceptable. The potential savings identified by Alan Bickers was estimated to be in the order of \$1 million (please note that the report presented to Council on 30 June 2010 estimated these savings to be \$700 thousand). The report from Alan Bickers also recommended a fixed price contract, rather than a time and materials contract. This advice was followed by Council.

The contract with Hopper Construction for the development of the sports grounds (excluding the development of the amenities building) was signed on 8 October 2004 for a total contracted price of \$3.85 million. The signed contract was for the construction of five playing fields and eight hard courts. This scope of the sports grounds was in line with the range of facilities included in an Opus business case prepared by Opus Consultants in September 2009. Project reporting to the Project Team which included costs incurred to date and costs to complete the project were generally reported verbally. When actual figures were reported to the Project Team, reporting was generally brief and verbal in nature, which in our opinion is not in accordance with best practice. While the actual business case did not include the full list of facilities that have been delivered we have identified above that the actual costs approved were based on 'Rough Costing'. Please refer to Section 5 of this report for recommendations proposed in regards to capital project monitoring and reporting at the project team level.

Over the period from 2007 through to 2010 a total of 8 reports have been presented discussing the different options, facilities and pricing for the construction of the Mercury Bay Multi Sports Complex. The dates of when these reports were presented are as follows:

- 11 September 2007- report presented to Mercury Bay Community Board
- 11 December 2007- report presented to Mercury Bay Community Board
- 8 July 2008- report presented to Mercury Bay Community Board
- 13 August 2008- report presented to Council
- 5 November 2008- report presented to Council
- 24 February 2010- report presented to Council
- 15 June 2010- report presented to Council
- 30 June 2010- report presented to Council

Over this time the overall composition of the Council and Mercury Bay Community Board changed twice due to Local Government Elections being in October 2007 and October 2010. Additionally throughout the decision making time period including the decision of the actual site from 2000, the Mercury Bay Community Board and Council has changed a total of four times. On this basis it makes it difficult to track the actual physical facilities that were to be delivered due to changes in each of the reports and options being presented. The actual facilities delivered were in the range of facilities identified in the Opus Business Cases developed in September 2009 and in September 2007.

The Project Team were presented with a preliminary design of the amenities building on 18 August 2011. The preliminary designs presented indicated that the building size had been increased to 800 square meters and the building had also been “future proofed”. On 21 November 2011 the Project Team were informed that the estimated cost of the building was now \$1.5 million. The Chief Executive was not present at the project team meeting where this was discussed. By November 2011 the Project Team were aware that the “scope” of the building was increased to 800 square meters at an estimated price of \$1,875 per square meter, bringing the updated estimated cost of the building to \$1.5 million. The actual value of “future proofing” was not specified.

By September 2011, the Project Team was aware of the \$583 thousand of costs carried over from before 30 June 2010 with the Project Team discussing that this could be covered by the contingency of \$800 thousand created in October 2010. However the contingency had been utilised by the increasing of the amenities building size and also through the planned future proofing of the amenities building (please refer to appendix 4 for a detailed reconciliation of financial movements of the project).

The Project Team commissioned the designing of the building that was subsequently approved by the Project Team to form the basis of the eventual tender for construction of the amenities building. The final design included some element (unspecified) of “future proofing”. The successful building tender of \$2.27 million was \$770 thousand in excess of planned building costs. We can see no evidence that the \$770 thousand variance between planned building costs and the successful building tender was recognised or reported to the Project Team. The Project Team meeting minutes at the time of the selection of tenders indicated that the \$800 thousand contingency as being available. The Project Team meeting dated 23 February 2012 identified that the Project Manager would need to discuss the \$800 thousand contingency with the Chief Executive. Chief Executive approval was to be obtained for the sign off of the tender award memo which was to include details of the contingency.

The final amenities building contract was signed by the Chief Executive in May 2012 based on a report dated 1 May 2012. The report was produced by the Project Manager which was signed off by the Tender Evaluation Team Leader, and also the Budget Holder and Chief Executive. The report suggested the

contract estimate for the building was \$2.5 million which was incorrect and to our knowledge had never been this amount. The actual estimate at the time the tenders were requested was for an estimated building cost of \$1.5 million. The report also suggested that the \$2.27 million contract price was within the Mercury Bay Multi Sports Complex budget which was also incorrect due to the actual accepted tender being \$700 thousand higher than updated building cost of \$1.5 million.

Please refer to section 5 of this report for recommendations to improve Councils current processes for capital expenditure controls.

5. Observations and Recommendations

The following observations recommendations have been developed from comments made by staff during interviews and from the results of the testing that was undertaken. We have relied upon the accuracy of the comments made to us during the interview process supported by reviewing specific documentation.

Documentation of formal decisions

Observation

Decisions in relation to significant capital projects and approved budgets for the projects we have reviewed have not been documented in appropriate detail. The approval of the \$6 million for the Mercury Bay Multi Sport Complex and the approval of the \$2.8 million for the Whitianga Waste Water Disposal project as documented within Council minutes did not include specific detail as to the actual deliverables that Council expected and did not specify the scope of the projects.

Implication

Poorly documented decisions in relation to capital projects will result in “Scope Creep”, where actual projects may change in scope from Council intentions. Additionally poorly documented decisions in relation to Capital Projects will result in a loss of oversight controls from the time of the decision being made, making it harder for Council to hold staff accountable for successful delivery of capital projects within a defined scope.

Recommendation

We recommend that Council decisions in relation to significant capital projects be clearly defined. Decisions should be documented in a manner that makes it clear to management as to the actual deliverables of approved capital projects. At the approval stage for capital asset projects, decisions should clearly note the scope of the capital project. Defining the scope of capital projects within Council resolutions could be attained by referring to specific items within business cases presented to Council. Additionally in approving capital projects with multiple components such as the Mercury Bay Multi Sports Complex, a

componentised approval should be documented. Should Council not have all available information in making its decisions, Council should request additional detailed information to be provided from management.

Project Team monitoring of capital projects

Observation

The overall reporting and review of the Mercury Bay Multi Sports Complex project by Project Teams assigned to monitor and review the overall status of projects was not in accordance with best practice. Reporting of project financial position was generally on an informal and mostly verbal basis. Actual financial tracking and budget monitoring for the Mercury Bay Multi Sports Complex was not being performed on a monthly basis and also did not include actual committed expenditure or contingency balances. In our view project components were not broken down into sufficient detail and excluded committed expenditure. Project reporting appeared to be focussed on the annual budgets and not the full project budgets. Budget carry forwards from previous years also removed clarity from the actual project budget to actual reporting. Additionally reporting and monitoring of projects on a componentised basis was not evident.

Implication

Poor reporting and review of capital projects at the project team level will result in a lack of overall oversight and control of capital projects. Poor reporting and oversight at the project team level will result in a reduction in the amount of accountability for Project Managers on significant capital projects. Council is at risk of not being able to identify significant budget variations and control capital spending on a project basis until the near completion of a project and cost control options are limited.

Recommendation

We recommend that reporting and monitoring of significant capital projects be formalised at the project team level. Project monitoring should include a formal financial update of capital projects on a whole of project basis to include the following:

- Spend to date
- Committed expenditure
- Committed but not spent expenditure
- Forecast costs to complete supported by progress updates
- Remaining contingency monies

Monitoring of significant capital projects on a whole of project basis including committed, committed and not spent expenditure, and robust forecasts for costs to complete will give a more accurate picture of actual project tracking against budgets.

In addition we recommend that significant capital projects should also be reviewed against budget on a componentised basis. Reporting and monitoring significant capital expenditure on this basis will also facilitate the early identification of cost risk on a project by project and component basis.

We also recommend that contingency balances included within budgets be reconciled against the items noted above. This will provide more meaningful information to project teams and will also result in more informed decisions being made in respect of awarding and committing to additional contracts to complete significant capital projects.

Capital Project reporting at Council and Executive Management level

Observation

The current reporting of capital expenditure at the Council level is at a very high level. The current financial reporting at the Council level for capital expenditure from September 2010 through to September 2012 showed actual capital expenditure based on Council's current groups of activities being:

- Strong Communities
- Planning for the future
- Safeguarding the environment
- Community leadership

Capital expenditure for Water and Waste was also being reported split into Solid Waste, Storm water, Wastewater and Water activities. The actual reporting to Council did not show variances to budget or project status. We did note, that in some instances a variance report was included for major capital projects, however we were unable to ascertain the level of commentary in regards to Capital project variances. The Capital expenditure reporting being reported was also on an annual basis, and in some cases also included budget variations from previous years making it hard to ascertain what the actual variances against budget were. The total capital expenditure balance and capital budgets being presented were also presented in a graphical format. This format of reporting also makes it hard to ascertain the total level of Capital Expenditure on any given month. High level reporting and monitoring of capital expenditure will not help identify potential budget variations.

Capital expenditure reporting has been aggregated even higher to a whole of Council basis as at September 2012.

A capital project report based on individual project numbers is produced by area and also by group of activities. The report shows actual spend to date and also the approved budget for the year. The report is used to prepare actual capital expenditure balances reported to Council on a Group of Activity basis. The Capital project reports we have sighted do not show any evidence of review by a person independent of the preparation process.

Implication

Council is exposed to financial risk due to the potential for Capital projects of a significant nature running over budget and will require additional funding over and above approved budgets. Given the large capital expenditure balance of Council, it will be difficult to identify variances to budget for significant projects in a timely manner. Capital expenditure reporting on a whole of Council basis and also on a Group of Activity basis reduces Councils ability to monitor and track the overall progress significant capital projects. Lack of commentary and clear variance reporting of capital projects will hinder Council's ability to hold management accountable for budget overruns.

Recommendation

Reporting and monitoring of actual results to budget at the Council level is a key control in maintaining the overall integrity of Councils internal control environment. Given that stewardship of assets is a core activity of Council we recommend that financial reporting to the Council be changed to include more detailed Capital expenditure information. Reporting should be performed on the status of significant capital projects and capital projects that ratepayers are sensitive to. Commentary should be included for variations from budget on an annual basis and also on a whole of project basis. Monitoring of actual capital expenditure against budgeted expenditure for significant projects will also allow Council to hold Management accountable for ensuring ratepayer money is not wasted through poor financial management, whilst reducing the likelihood of making decisions based on poor information.

We also recommend the Capital Project Report being prepared by the Finance Department which forms the basis of reporting capital expenditure on a Group of Activity basis to Council be reviewed and reported to budget holders as part of month end financial reporting processes. The report should be modified to include life to date spend against the approved budget. Commentary from budget holders should also be included explaining variances to budget on an annual basis and also on a life to date basis.

Segregation of duties – expenditure approval

Observation

A review of expenditure to date within Track 24 for the Mercury Bay Multi Sports Complex (Track 24 project number 1027) and the Whitianga Waste Water Disposal project (Track 24 project number 2131) has identified that a large number of expense items have been entered into and approved by the Project Manager.

Whilst the transactions that have been identified have been within the Project Managers delegated authority, best practice for approval of expenditure for the Project Manager should be approval of expenditure from the reporting/budget manager.

Implication

Council is exposed to fraud risk as a result of poor segregation of duties over capital expenditure approvals. Given the poor financial reporting and monitoring of Councils capital expenditure identified in this report the risk of fraud is heightened due to poor segregation of duties. Delegated authority limits do not remove the requirement for segregation of duties over the expenditure approval process. The delegated authority limits is the amount that a staff member can commit expenditure to on behalf of Council, however all expenditure items should be approved by a staff member with one level of authority higher than the individual that has committed the expenditure.

Recommendation

We recommend that for all items of expenditure Council adopts a “one up” approach to expenditure approval, where a staff member with one level of authority higher approves all expenditure items entered into. Invoices being entered into the accounts payable ledger and Track 24 project monitoring system should be reviewed at time of input to ensure the relevant physical sign off and expenditure approval is evident. Missing approvals should be investigated in a timely manner.

Track 24 controls

Observation

Track 24 is the project monitoring system that is currently being used by Council management to track the progress and financial spend on all capital projects. We have identified that this system is currently not automatically interfaced with the Council General Ledger. As a result Track 24 information does not reconcile to the general ledger capital work in progress accounts and has not done so for the duration of the Mercury Bay Multi Sports Complex project. Capital Work in progress accounts are currently directly interfaced with the accounts payable sub ledger, with the accounts payable clerks coding (based on codes documented on invoices) items to capital work in progress accounts as invoices are received to be paid.

All cost information entered into the Track 24 system is entered in manually. Additionally milestones are set within Track 24 when budgets are approved by Council, however there is no formal review to ensure budgets set within the Track 24 system are accurate. This reduces the overall integrity of variance reporting within Track 24. Management has identified that the key control over Track 24 is that costs cannot be coded against a project once the total budget has been exceeded. Additionally costs to complete projects are not being reported within Track 24.

Implication

Council is currently relying on a Project Management system that is not being reconciled to the general ledger resulting in inconsistent information being used to manage capital projects. Whilst management intentions behind Track 24 are reasonable the key control of a budget ceiling will not identify cost risks in timely manner, and will only identify issues once the budget ceiling has been reached. This hinders Councils ability to manage cost risk proactively by minimising exposure to additional expenditure before total budgets are exceeded.

Recommendation

We recommend that the Track 24 system is interfaced with Council General Ledger. This will remove the necessity to manually input data into Track 24 thereby reducing the risk of manual data input errors. With Track 24 being interfaced with the General Ledger, Capital Work in Progress accounts as being reported to Council will reconcile to the underlying project management system Council is using to manage projects and will ensure completeness of data

within Track 24. A reconciliation of Track 24 balances to capital work in progress accounts within the general ledger should be performed on a monthly basis to ensure data within the Track 24 system is accurate.

We also recommend that an independent review be performed of budgets loaded within Track 24 by a person independent from service delivery team to add more comfort over the accuracy of variance reporting within Track 24. As part of reviewing budgets, componentised budgets should also be reviewed to which will give council the ability to isolate budget fluctuations on a component basis and better manage cost risk.

Track 24 functionality should also be investigated by Council to include actual costs to complete information. This information will provide more meaningful information in regards to overall project tracking and monitoring by showing the actual life to date status of capital projects which will allow for budget holders to make more informed decisions.

Use of manual spreadsheet systems outside of Council systems

Observation

We have noted that the project manager for the Mercury Bay Multi Sports Complex and Whitianga Waste Water Disposal project was using a standalone spread sheet system and not the Track 24 system being Councils project management system to manage costs on these projects. Forecasting and monitoring of project progress through the use of spread sheets is prone to error. The use of a spread sheet outside of Council systems also reduces Councils ability to monitor, control and hold management accountable for the overall progress of capital projects. This contributed to the inaccurate reporting of project costs to the Project Team and Executive Management.

Implication

Capital project management through the use of spread sheets may not be accurate due to spread sheet errors. Decisions made on information containing errors could have material financial impacts on overall project budget compliance. Spread sheet use outside of Council systems also makes financial progress reporting by project unreliable due to the risk of inconsistent information and due to lack of manual controls over data input.

Recommendation

We recommend that the use of project management systems independent of Councils systems be discontinued. A consistent and comprehensive project management approach should be implemented for all capital projects. A consistent approach to project management will allow Council to review Capital projects progress with more clarity, and will also allow for better management of potential cost risks.

Accounting treatment of capital expenditure items before business case approval

Observation

Items included within Capital Expenditure accounts for the Mercury Bay Multi Sport Complex of \$583 thousand do not meet the recognition criteria of *NZ IAS 16 Property plant and Equipment*. All expenditure incurred as part of preparing a business case should be reviewed and assessed to ensure items of a feasibility nature are not treated as capital expenditure. Only expenses that meet the recognition criteria of NZ IAS 16 should be capitalised.

Implication

Capital work in progress balances may be overstated due to incorrect accounting treatment resulting in large variances against approved capital budgets. Depreciation expenses may also be misstated due to overstatement of costs being capitalised.

Recommendation

We recommend that management review all expenses being capitalised before the approval of a business case to ensure expenses being capitalised are of a nature that will deliver future economic benefits to Council. Should costs being incurred not meet the recognition criteria of *NZ IAS 16 Property Plant and Equipment*, items capitalised before the business case approval they should be expensed as incurred.

6. Conclusions

Continued development of controls over the Capital Expenditure processes is required for Council to strengthen the robustness and efficiency of current project management practices. Based on our findings we recommend that Council can achieve this through:

1. Better documenting formal decisions in relation to Capital Projects, thereby reducing risks of “scope creep” as a result of ambiguous documentation of decisions. Council should ensure that when projects are approved it is clear what is to be delivered from the approved expenditure.
2. Improving project monitoring at a Project Team level to incorporate commitment accounting and monitoring of contingency money as part of assessing the progress of projects and also reviewing capital projects on a whole of project basis will improve Councils ability to manage cost risk.
3. Capital project reporting at the Council level should be more detailed and include reporting of progress for all material capital projects on an individual basis. This will facilitate better decision making and management of capital expenditure.
4. Review segregation of duties over expenditure approval and implement a “one up” approval system which allow for the identification of abnormal expenditure items in a more timely manner.
5. Review controls surrounding Track 24 to ensure that information within Track 24 is accurate, complete and reliable. Should Council continue to rely on Track 24 as a capital project management tool, the overall functionality of the system should be reviewed to incorporate componentised reporting and commitment accounting to ensure more useful and timely information is being reported out of Track 24.
6. Use of project management systems outside of Council standard systems should be discontinued, which will provide consistent, accurate and reliable project reporting.

7. Reviewing the accounting treatment of all costs capitalised before a business case should be assessed to ensure capitalised costs are compliant with Councils financial reporting framework.

Appendix 1- Document listing

We have reviewed the following documentation from Council records in performing our review of the Mercury Bay Golf Club Waste Water Discharge project, Mercury Bay Multi Sport Complex Land Acquisition and Mercury Bay Multi Sport Complex project:

| Document used | Obtained from/ Doc number |
|---|------------------------------------|
| Thames Coromandel District Council Meeting 25 October 2000 | N/A pre document management system |
| Business Case - Whitianga Sports Field and Extension to Waste Water Plant | N/A pre document management system |
| Mercury Bay Community Board Workshop Minutes 26 August 2002 | DWS633350 |
| Mercury Bay Community Board Workshop Minutes 10 September 2002 | DWS6333555 |
| Mercury Bay Multi Sports Committee Meeting Minutes 23 August 2004 | DWS235517 |
| Mercury Bay Community Board Ordinary Meeting Minutes 14 September 2004 | DWS228516 |
| Mercury Bay Community Board Ordinary Meeting Minutes 7 March 2005 | DWS288149 |
| Mercury Bay Community Board Ordinary Meeting Minutes 10 October 2006 | DWS589540 |
| Mercury Bay Community Board Workshop Minutes 18 June 2007 | DWS720604 |
| Mercury Bay Community Board Ordinary Meeting Minutes 11 September 2007 | DWS807107 |
| Mercury Bay Community Board Ordinary Meeting Minutes 11 December 2007 | DWS869274 |
| Mercury Bay Community Board Workshop Minutes 11 December 2007 | DWS858636 |
| Mercury Bay Community Board Ordinary Meeting Minutes 11 March 2008 | DWS906647 |
| Mercury Bay Community Board Ordinary Meeting Minutes 8 July 2008 | DWS1018438 |
| Thames Coromandel District Council Ordinary Meeting 13 August 2008 | DWS1052740 |
| Thames Coromandel District Council Ordinary Meeting 5 November 2008 | DWS1111862 |
| Thames Coromandel District Council Ordinary Meeting 24 February 2010 | DWS1111862 |
| Thames Coromandel District Council Public Excluded Meeting 15 June 2010 | DWS1595077 |
| Thames Coromandel District Council Public Excluded Meeting 30 June 2010 | DWS2389109 |

| Document used | Obtained from/ Doc number |
|---|-------------------------------------|
| Copy of letter from Service Delivery Committee Chair Brian Grant to TCDC Planning Manager David Lamason dated 22 January 2004 RE: Whitianga Waterways – Proposed Recreation Reserve | DWS191212 |
| Letter dated 16 September 2003 from Mercury Bay Community Board to Evans Young RE: Acceptance of WWL offer | DWS113864 |
| Mercury Bay Multi Sports Complex Report to Council - 22 June 2012 (Presented 30 June 2012) | DWS1599548 |
| Mercury Bay Multi Sports Complex Report to Council - 30 April 2012 (Presented 15 June 2012) | DWS1570920 |
| Mercury Bay Multi Sports Complex Report to Council - 30 October 2009 (Presented 24 February 2010) | DWS1439845 |
| OPUS Report to Mercury Bay Community Board - 8 July 2008 | DWS972456 |
| Report to TCDC for scope of Mercury Bay Multi Sports Complex - Council Meeting 5 November 2008 | DWS1075836 |
| Mercury Bay Multi Sports Complex - Report to MBCB - 22 November 2007 (Presented 11 December 2007) | DWS715860 |
| Mercury Bay Multi Sports Complex - Report to MBCB - 29 August 2007 (Presented 11 September 2007) | DWS761245 |
| Mercury Bay Multi Sports Complex - Report to MBCB - 2 October 2006 (Presented 10 October 2006) | DWS550663 |
| 2004 Signed WWL Deed | Doc#234470 |
| Thames Coromandel District Council Meeting 22 October 2004 | DWS223714 |
| Seal Register Report presented to Council 22 October 2004 | DWS216445 |
| 2010 Signed WWL Development Contributions Deed | DWS1831572 |
| Extract from TCDC Rating Database for Reserve Contributions | Obtained from management |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 19 March 2009 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 18 June 2009 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 16 July 2009 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 17 September 2009 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 15 October 2009 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 17 June 2010 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 28 September 2010 | Obtained from service delivery team |

| Document used | Obtained from/ Doc number |
|--|-------------------------------------|
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 21 October 2010 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 29 November 2010 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 30 March 2011 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 5 May 2011 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 30 June 2011 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 18 August 2011 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 29 September 2011 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 21 November 2011 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 7 December 2011 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 23 February 2012 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 23 March 2012 | Obtained from service delivery team |
| Mercury Bay Multi Sports Complex Project Meeting Minutes - 7 June 2012 | Obtained from service delivery team |
| Signed contract with Hopper Construction for sports field development | Obtained from management |
| Construction drawings - Included with signed contract with Hopper Construction | Obtained from management |
| Schedule of costs included with signed contract with Hopper Construction | Obtained from management |
| Signed contract (extracts) with Latham Construction | Obtained from management |
| Memo to CEO for tender approval | Obtained from management |
| Memo to Council in regards to budget increase | Obtained from management |
| Email from Steve Ruru noting \$800k contingency needing CEO approval | Obtained from management |

| Document used | Obtained from/ Doc number |
|--|---------------------------|
| Memo: Mercury Bay Golf and Country Club use of wastewater | Obtained from management |
| Letter dated 22 May 2007 from Mercury Bay Golf and Country Club to the Property Manager of TCDC RE: Wastewater for irrigation purposes | Obtained from management |
| Letter dated 12 May 2010 from the Mayor of TCDC to New Zealand Transport Agency RE: Mercury Bay Golf and Country Club – Culvert SH25 Ngarahutunoa Stream | Obtained from management |
| Letter dated 16 June 2010 from Gordon Reynolds to Mercury Bay Golf and Country Club RE: Whitianga discharge consent renewal | Obtained from management |
| Tax invoice for purchase of bridges | Obtained from management |
| Letter dated 2 September 2010 from Gordon Reynolds to Mercury Bay Golf and Country Club RE: Ngarahutunoa Stream and flooding | Obtained from management |
| Letter dated 29 September 2010 from Gordon Reynolds to Mercury Bay Golf and Country Club RE: Agreement of activities | Obtained from management |
| RMA submission | Obtained from management |
| Letter dated 12 May 2011 from Environmental Services to TCDC RE: Whitianga wastewater treatment and disposal site | Obtained from management |
| Letter dated 14 September 2010 from TCDC to Mercury Bay Golf and Country Club RE: Agreement of activities | Obtained from management |
| Letter dated 18 December 2011 RE: TCDC agrees to carry out the following activities | Obtained from management |
| Letter dated 18 January 2011 from Mercury Bay Golf and Country Club to TCDC RE: Mercury Bay Golf and Country Club wishing to withdraw submission | Obtained from management |
| Report to Mercury Bay Community Board 8 May 2007 - Whitianga waste water disposal resource consent | DWS678s202 |
| Whitianga Wastewater Disposal Project Community Liaison Group terms of reference 12 June 2007 | DWS702081 |
| Eastern Seaboard wastewater project terms of reference | DWS318846 |
| Minutes of the Eastern Seaboard Wastewater Project Team 22 February 2007 | DWS642582 |
| Minutes of the Whitianga Wastewater Disposal Community Focus group 23 May 2008 | DWS966193 |
| Whitianga Wastewater disposal and consenting options report to Council 4 November 2009 | DWS1347375 |
| Thames Coromandel District Council Ordinary Meeting 4 November 2009 | DWS1395607 |
| OPUS Consultants Project Update ES3 Project 20 January 2010 | DWS1445509 |

| Document used | Obtained from/ Doc number |
|---|---------------------------|
| OPUS Consultants Project Update ES3 Project 22 March 10 | DWS1470615 |
| Report to Eastern Seaboard Wastewater Project Team 22 March 2010 | DWS1469212 |
| Minutes of the Eastern Seaboard Wastewater Project Team 22 March 2010 | DWS1850178 |
| OPUS Consultants Project Update ES3 Project 23 April 2010 | DWS1585237 |
| OPUS Consultants Project Update ES3 Project 24 June 2010 | DWS158237 |
| Resource Consent (121318) Discharge treated wastewater to the Ngarahutunoa Stream | DWS2134962 |
| Resource Consent (121319) Discharge seepage from a calamity storage pond to land | DWS2134963 |
| Resource Consent (121320) Maintain and alter rock diffuser structure in bed of Ngarahutunoa Stream | DWS2134964 |
| Resource Consent (121321) Discharge treated wastewater onto and into land and any associated discharge to air, by way of irrigation of a 9ha stand of Eucalyptus trees and areas within the Whitianga Wastewater Treatment Plant site | DWS2134965 |
| Resource Consent (121322) Discharge treated wastewater onto and into ground, and any associated discharge to air for irrigation of the Mercury Bay Multi-Sport Complex | DWS2134966 |
| Resource Consent (121323) Undertake bank restoration planting and earthworks on and in the bed of the Ngarahutunoa Stream, where it passes through the Mercury Bay Golf and Country Club | DWS2134967 |
| Resource Consent (121324) Discharge contaminants, including odour to air from the Whitianga Wastewater Treatment Plant | DWS2134968 |
| Resource Consent (121992) Discharge treated municipal wastewater onto and into ground, and any associated discharge to air, for golf course irrigation at the Mercury Bay Golf and Country Club | DWS2134969 |
| Mercury Bay Multi-Sport Complex - Building Contract C11/29 | DWS2603999 |
| Contract Documents: Mercury Bay Multi-Sport Complex Whitianga - Construction of Ablutions & Utilities Building | DWS2787505 |
| Letter dated 13 January 2013 from Mercury Bay Golf and Country Club to Sam Marshall of TCDC RE: Nursery on the golf course | Obtained from management |
| OPUS Report: Erosion and Sediment Control Plan: Ngarahutunoa Stream Enhancement Works | Obtained from management |
| Chief Executive Monthly Report - August 2010 | Obtained from management |
| Ordinary Meeting of the TCDC Judicial Committee 21 September 2007: To report on reserve credits at Cooks Beach and request for initiation of negotiations | Obtained from management |

| Document used | Obtained from/ Doc number |
|--|---------------------------|
| Letter dated 29 June 2006 from Brookfields Lawyers to Mark White RE: Reserve credit issues - Cooks Beach Developments Limited | Obtained from management |
| Notice of meeting Hopper Development Ltd - Briefing to Council 15 August 2006 | ECM Ref 476088 |
| Letter dated 13 July 2007 from Brookfields Lawyers to Steve Ruru RE: Reserve credit issues - Cooks Beach Developments Limited | Obtained from management |
| Letter dated 28 June 2005 from Cooks Beach Developments Ltd to the Chief Executive of TCDC RE: Reserve Credits | Obtained from management |
| Letter dated 1 June 2005 from TCDC to Evans Young RE: Reserve Credit for land vested in Council above the 20% AEP flood level - Cooks Beach Developments Ltd | Obtained from management |
| Internal memorandum from Dean Glen to Mark White RE: Reserve credit issues - Cooks Beach Development Ltd | Obtained from management |
| Minutes of the Mercury Bay Community Board Recreation and Leisure Facilities Planning Committee Meeting 20 June 2011 | Obtained from management |
| Mercury Bay Multi-Sport Complex (Resolution to Exclude the Public) 30 April 2010 RE: Mercury Bay Multi-Sport Complex. Steve Ruru to TCDC | Obtained from management |

Appendix 2- Interviewee listing

As part of performing our review of the Mercury Bay Golf Club Waste Water Discharge project, Mercury Bay Multi Sport Complex Land Acquisition and Mercury Bay Multi Sport Complex project we have interviewed the following individuals:

| Name | Title |
|------------------|---------------------------------|
| Steve Baker | Chief Financial Officer |
| John Whittle | General Manager Infrastructure |
| Pam Howatt | Group Manager Support Services |
| Lesley McCormick | Former Mercury Bay Area Manager |
| Gordon Reynolds | Project Manager |
| Steve Ruru | Former Chief Executive |

Appendix 3- Timeline of Key Decisions

As part of reviewing the Mercury Bay Multi Sport Land Acquisition and Mercury Bay Multi Sport Complex project, we have identified when key decisions have been made by Council. Please see below for a listing of decisions made by Council in chronological order relating to the Mercury Bay Multi Sports Land Acquisition and Multi Sport Complex Project:

| Date | Discussions held |
|---|--|
| Mid 1990's | Mercury Bay Community Board first identified need to secure land for the development of a single sports ground facility (multi- sports complex). |
| 25 October 2000 | Council approved the purchase of Sherriff block for 28.7 hectares of land on Moewai Rd. Council's approval to purchase a single large block of land for the future development of a Mercury Bay Multi Sports Park was sought. The Chairperson of the Mercury Bay Community Board Committee of Council presented an executive summary of the business case whilst the Area Manager (Mercury Bay) briefed Council on the background and detail of the business case. |
| July 2002- not in minutes formal letter | Whitianga Water Ways Ltd ("WWL") approached the Mercury Bay Community Board and offered to vest, in lieu of the cash payment of reserve contributions, an area of 8 hectares in Council for development of a new sports ground. |

| Date | Discussions held |
|-------------------|--|
| 26 August 2002 | <p>Mercury Bay Community Board Workshop Minutes:</p> <p>Mike Harper, Evans Young (WWL) joined the meeting. Evans Young referred to his letter to the CEO dated 4 July advising that this letter summarised what WWL were proposing for provision of reserves in the development at this stage. WWL have lots of land and are trying to meet some of the objectives highlighted by Council.</p> <p>Evans Young advised that as Council has not finalised a Financial Contributions policy, we should come to an understanding whereby WWL provide land under the Local Government Act and run a ledger on capital improvements on the land, which can eventually fall under the gamut of the policy. WWL are seeking an agreement in principal with TCDC.</p> |
| 10 September 2002 | The board agreed in principle to the proposal in September 2002. |
| 16 September 2003 | Mercury Bay Community Board formally confirmed that it would accept the WWL offer. |
| 22 January 2004 | WWL proposal approved by the Service Delivery Committee Chair under delegated authority from the Service Delivery Committee. |
| 23 August 2004 | Mercury Bay Multi Sports Committee (Sub Committee of the Mercury Bay Community Board)- Resolved and nominated Chris Cooper & Diane Collins to work with Lesley McCormick to progress establishing Councils position with respect to access and availability of the Whitianga Waterways land as soon as possible. |

| Date | Discussions held |
|-------------------|---|
| 14 September 2004 | <p>Mercury Bay Community Board resolved the following in regard to the Whitianga & Mercury Bay Recreation Reserve Strategy</p> <ul style="list-style-type: none"> * Change priorities 1 and 2 of the strategy so that the boards focus is on the development of the Waterways reserve land in the immediate short term. * Does not support the sale of Moewai Park Recreation Reserve * Recommends that the recreation reserve strategy for Mercury Bay to the Policy & Planning Committee to be used as a reference for all future reserve management planning in the Whitianga and Mercury Bay area. |
| 8 October 2004 | Reserves contribution deed entered into between Council and WWL. |
| 22 October 2004 | Council meeting approved application of Council Seal to 2004 WWL Deed entered into 8 October 2004. No concerns minuted. |
| 7 March 2005 | Mercury Bay Community Board reviewed submissions in regards to the Mercury Bay Multi Sports complex. It was identified that the size proposed of 8 hectares was not sufficient and that an additional 2 hectares would be needed. |
| 15 August 2006 | Hopper Development Ltd – Briefing to Council with discussion on 2004 WWL Deed and Mercury Bay Sports Complex. |
| 10 October 2006 | Mercury Bay Community Board reviewed a business case submitted to the board, identifying issues associated with the option of developing the new sports ground on the WWL site, and the pros and cons associated with the 2 options available to acquire the land and fund the development. Community Board deferred formal consideration of the business case to a subsequent workshop meeting. |

| Date | Discussions held |
|-------------------|---|
| 18 June 2007 | Mercury Bay Community Board Workshop, the Chief Executive summarised the matters to be completed including Engineering detail, Review of funding options, Review of Whitianga Waterways Land structure plan, full review of the business case options and a full business case to be prepared for the September meeting |
| 11 September 2007 | Mercury Bay Community Board: The results of further work were outlined in a business case presented to the Mercury Bay Community Board. WWL presents a new proposal which appeared to be different from the original WWL position. The Mercury Bay Community Board resolved to receives the report, through the Chief Executive, seeks Whitianga Waterways Ltd to confirm in writing the proposal in relation to the vesting of the sports ground land and seeks the Chief Executive to report back with an updated business case. |
| 11 December 2007 | Mercury Bay Community Board confirmed its objective to progress the development of a single multi sports complex in Whitianga on either the proposed Whitianga Waterways Ltd site or the Council owned Moewai Rd site, and determined that it preference to proceed with the development of the new multi sports complex is on the 28 Ha site located at Moewai Rd that is owned by Council and also determined that it wishes to undertake a further round of community consultation on its preferred option before it makes a final decision to recommend that option to Council. |
| 11 March 2008 | Mercury Bay Community Board noted that Opus International Consultants have been appointed to carry out an in depth study with full information. They will look at the Sheriff land as well as Waterways land. Once full information has been obtained than the report can be released to the public. |

| Date | Discussions held |
|----------------|---|
| 8 July 2008 | <p>The Mercury Bay Community Board received the Opus International Consultants report. Moewai Rd (Sheriff Site) was the recommended as the preferred option. Specifically noted by Opus was the recommendation for a singular multi-purpose site at Moewai Rd (Sheriff Site) with a 3 court indoor facility and a 4 field external (1 at national standard and 3 full sized practice pitches) and with a 25 metre heated swimming pool.</p> <p>The Board resolved to recommend to Council a preferred location for the sports field, and seeks Council approval to enable the Project to be fully scoped and costed in preparation of a business case; and that Council appoints a project manager.</p> |
| 13 August 2008 | <p>Thames Coromandel District Council Minutes resolved to receive the Whitianga Sports Development Assessment Report prepared by Opus Architecture, confirms the Mercury Bay Multi sport complex as a project in the 2006/16 LTCCP and to go forward for consideration in the 2009/19 LTCCP which provides for the establishment of a single recreational facility in Whitianga. Agrees in principle to the proposed Mercury Bay Multi Sports Complex Project being progressed as a project on the Moewai Rd (Sheriff site), approves the development of a comprehensive business case that consultation be undertaken with all Community Boards to ascertain the recreational facility requirements of their communities.</p> <p>The Council also resolved that the development of the business case through the planning stages, including community consultation, is to be funded from the budget included in the 2008/09 annual plan and asks the Chief Executive to appoint a project manager, acknowledges the WWL reserve contribution deed needs to be re-negotiated and delegates authority to the Chief Executive to commence discussions with WWL.</p> |

| Date | Discussions held |
|------------------|--|
| 5 November 2008 | Thames Coromandel District Council resolved approves the business case scope. |
| 24 February 2010 | <p>Thames Coromandel District Council resolved the following:</p> <ul style="list-style-type: none"> * Receives the report (Business case), Determines that this decision is a significant decision in accordance with the provisions of the LGA 2002, Determines that it believes it has complied with the decision making provisions of the LGA 2002 to the extent necessary in relation to this decision; and in accordance with the provisions of section 79 of the act determines that it does not require further information prior to making a decision on this matter * Determines that it wishes to develop a multi sports complex on the Moewai Rd land to serve the Mercury Bay ward as proposed in the business case * Determines that the development of the multi sports complex should be progressed as per the schedule in table 4 of the business case * Delegates authority to the chief executive to complete negotiations with WWL to replace the existing deed for WWL land and to agree alternative arrangements for reserve development contributions. Instructs the Chief Executive to initiate discussions with WWL forthwith to attempt to resolve the matter by 19 May 2010 * The resolution is conditional upon Council approval of any agreement with WWL. Council will further consider the matter with or without such agreement on 19 May 2010. |

| Date | Discussions held |
|--------------|---|
| 15 June 2010 | <p>Thames Coromandel District Council resolved to receives the report with updated WWL offer, and also resolved the following:</p> <ul style="list-style-type: none"> * Determines that this decision is a significant decision in accordance with the provisions of the LGA 2002 * Determines that it believes it has complied with the decision making provisions of the LA 2002 to the extent necessary in relation to this decision; and in accordance with the provisions of section 79 of the Act determines that it does not require further information prior to making a decision on this matter * Determines that its preferred option is to proceed with the development of the multi sports complex on a 10 Ha WWL site subject to the satisfactory negotiation of a new Reserve Contribution Deed and subject to the payment of all facility contributions * Delegates authority to the Chief Executive to complete negotiations with WWL in relation to a new Reserve Contribution Deed subject to the final deed being confirmed by Council. |

| Date | Discussions held |
|--------------|---|
| 30 June 2010 | <p>Thames Coromandel Council resolved the following:</p> <p>* Receives the report (updated report with WWL reserve contribution deed offer), Determines that the decision it is making in relation to this matter constitutes a significant decision, Determines that it believes it has complied with the decision making provisions of the LGA 2002 to the extent necessary in relation to this decision; and in accordance with the provisions of section 79 of the Act determines that it does not require further information prior to making a decision on this matter, Determines that it wishes to proceed with the development of the multi sports complex on the 10 Ha WWL site and that it does not require a further business case to be developed before making this decision, Notes that following execution of the Deed, there will be a need to record the financial implication of the transaction in Councils financial records including recognition of the debt Council will have to WWL until they have completed the subsequent stages of their development, Approves the following allocation of funding for the development of the Mercury Bay Multi Sport Complex:</p> <p>Land Development- \$3M</p> <p>Roading and Other Facilities \$2.2M</p> <p>Facility Development \$800K</p> <p>Total \$6M</p> <p>Please note that included within the minutes was the following: "The Chief Executive advised Council that if it wishes to have a full understanding of all costs involved in developing the Multi Sports complex on WWL site that it should ask for a further business case to be developed"</p> |

Appendix 4 – Reconciliation of sports complex project financial position

| Date | Narration | Tracking of Actuals | | | | Tracking to Budget | | | Reconciliation of Estimated Component Costs- Based on price & Quantity schedules reviewed | | | | | | |
|--------------------------------|--|---------------------|--|-----------------------|----------------------------|-----------------------|---------------------------|--------------------|---|--------------------------|----------------------------|----------------------|------------------|----------------|--------------------|
| | | Approved Budget | Project Schedule - Estimate (Excl Contingency) | Estimated Contingency | Balance Per General Ledger | Committed Expenditure | Total Spend + Commitments | Remaining Budget | Remaining Budget Excluding Costs pre 30 June 2010 | Estimated Building Costs | Sports Ground Construction | Grass and Turf Costs | Other Costs | Contingency | Total Project Cost |
| 30/06/2010 | Council Approves Multi Sport Complex | 6,000,000 | 5,965,800 | - | 583,397 | - | 583,397 | 5,416,603 | 6,000,000 | 2,000,000 | 1,238,172 | - | 2,727,628 | - | 5,965,800 |
| Sub total June 2010 | | 6,000,000 | 5,965,800 | - | 583,397 | - | 583,397 | 5,416,603 | 6,000,000 | 2,000,000 | 1,238,172 | - | 2,727,628 | - | 5,965,800 |
| 30/10/2010 | Building Size Adjusted from 800m2@ \$2,500, to 500m2 @ \$1,500 | | (1,250,000) | 1,250,000 | | | | | | (1,250,000) | | | | 1,250,000 | - |
| 30/10/2010 | Inclusion of Grass Growing and Turf costs excluded from June 2010 Estimate | | \$ 678,400.00 | -\$ 678,400.00 | | | | | | | \$ - | \$ 678,400.00 | | -\$ 678,400.00 | |
| 30/10/2010 | Changes in estimated Utilities, Landscaping, Planning and Design expenses | | -\$ 228,150.00 | \$ 228,150.00 | | | | | | | | | -\$ 228,150.00 | \$ 228,150.00 | |
| 30/10/2010 | Costs incurred to date Oct 2010 to June 2010 | | | | 209,169 | | 209,169 | (209,169) | (209,169) | | | | | \$ - | |
| 30/10/2010 | Contract Entered into with Hopper Construction for Construction of Sports Fields | | | | | 3,850,975 | 3,850,975 | (3,850,975) | (3,850,975) | | 738,172 | | (738,172) | \$ - | |
| Subtotal October 2010 | | 6,000,000 | 5,166,050 | 799,750 | 792,566 | 3,850,975 | 4,643,541 | 1,356,459 | 1,939,856 | 750,000 | 1,976,344 | 678,400 | 1,761,306 | 799,750 | 5,965,800 |
| 30/09/2011 | Building Size Increased to 800m2 @ \$1,875 | | 750,000 | (750,000) | | | | | | 750,000 | | | | (750,000) | |
| 30/09/2011 | Additional Costs incurred between Sep 2011 and October 2010 | | | | 2,154,751 | | 2,154,751 | (2,154,751) | (2,154,751) | | | | | | |
| 30/09/2011 | Hoppers Billing to Date Sep 2011 to October 2011 | | | | | (2,125,595) | (2,125,595) | 2,125,595 | 2,125,595 | | | | | | |
| Subtotal September 2011 | | 6,000,000 | 5,916,050 | 49,750 | 2,947,317 | 1,725,380 | 4,672,697 | 1,327,303 | 1,910,700 | 1,500,000 | 1,976,344 | 678,400 | 1,761,306 | 49,750 | 5,965,800 |
| 31/05/2012 | Costs incurred between May 2012 and October 2010 | | | | 1,402,744 | | 1,402,744 | (1,402,744) | (1,402,744) | | | | | | |
| 31/05/2011 | Hoppers Billing May Sep 2011 to May 2012 | | | | | (1,174,438) | (1,174,438) | 1,174,438 | 1,174,438 | | | | | | |
| 31/05/2011 | Building Contract Entered into with Latham Construction | | 772,692 | (772,692) | | 2,272,692 | 2,272,692 | (2,272,692) | (2,272,692) | 772,692 | | | | (49,750) | 722,942 |
| Subtotal May 2012 | | 6,000,000 | 6,688,742 | (722,942) | 4,350,061 | 2,823,634 | 7,173,695 | (1,173,695) | (590,298) | 2,272,692 | 1,976,344 | 678,400 | 1,761,306 | - | 6,688,742 |
| 31/10/2012 | Costs Incurred between May 2012 and October 2012 | | | | 1,625,386 | | 1,625,386 | (1,625,386) | (1,625,386) | | | | | | |
| 31/10/2012 | Hoppers Billing May 2012- Oct 2012 | | | | | (146,173) | (146,173) | 146,173 | 146,173 | | | | | | |
| 31/10/2012 | Latham's Billing May 2012- Oct 2012 | | | | | (1,250,768) | (1,250,768) | 1,250,768 | 1,250,768 | | | | | | |
| 31/10/2012 | Council Approved budget increase - prefeasibility | 583,395 | | | | | | 583,395 | - | | | | | | ** |
| 31/10/2012 | Council approved budget increase- Other Expen | 417,800 | | | | | | 417,800 | 417,800 | | | | | | |
| Subtotal October 2012 | | 7,001,195 | 6,688,742 | (722,942) | 5,975,447 | 1,426,693 | 7,402,140 | (400,945) | (400,943) | 2,272,692 | 1,976,344 | 678,400 | 1,761,306 | - | 6,688,742 |

Deloitte Comments:

- * The initial \$583K spend before 30 June 2010 should not have been capitalised and should have been expensed due to not complying with the requirements of NZ IAS 16 Property Plant and Equipment
- * There is an assumption that all committed expenses (the contracts with Latham Building and Hopper Construction) will be on budget
- * Should any of the committed expenditure come in under budget the actual project is within the updated budget as set by Council
- * Committed expenses are expenses that have been identified from review of Council documentation and only includes the contract with Hopper Construction and Latham Construction, no other committed expenditure have been identified from the documents we have reviewed
- * Additionally the \$800K that has been identified initially was also noted by Steve Ruru (Former CEO) as needing his approval before being spent (Please refer to work paper 3207(M) for a copy)

** - Please note that no adjustment has been made to the remaining budget figure as the Council approval removes the \$583K imbalance at the inception of the project.

Appendix 5- Example recommended project reporting- commentary

Please see below for an example of a capital project report showing commentary:

| | |
|-------------------------|--|
| Distribution | CEO Council |
| Reporting Period | Monthly |
| Report Author | XX |
| Project status | Green |
| Status Legend | <p>Green – on schedule and proceeding as planned;</p> <p>Yellow – not progressing as scheduled but have ‘get well’ plan in place;</p> <p>Brown – major problems are escalating; management awareness required</p> <p>Red – project off track; management action required</p> |
| Project Summary | Development of Stage XX of XX (including XX) for XX on the XX site, corner of XX Rd and XX, Thames |

| | |
|--------------------------------|---|
| <p>Current Progress</p> | <p>Design and Construction</p> <p>All Design is complete, with reviews on-going to identify errors and omissions, which will continue until completion of construction.</p> <p>The external envelope and first-fix services are complete, with final fit-off of services (i.e. wc and sink fittings) well advanced.</p> <p>All major plant is on site.</p> <p>Internal linings are fixed and finishing trades are going well.</p> <p>Another audit by XX gave the site a 98% grading (same as last 2 months), which is very high.</p> <p>Time</p> <p>Civil works are substantially complete, but wet weather is having a big impact on the progress of site works, particularly related to finishing car parks and adjacent areas.</p> <p>The completion date of XX has been locked in, with XX intending to move in on XX and to commence operations on XX.</p> <p>XX were advised to be due one week later than planned.</p> <p>Commissioning and balancing of major services have commenced.</p> <p>Cost</p> <p>XX reconcile budgets and actual costs continuously and they advise that these measures continue to align.</p> <p>XX Financial Report No.8 dated XX continues to project a total development cost of XX (including approximately XX of future-proofing and enhancement).</p> |
|--------------------------------|---|

| | |
|-------------------------|---|
| | <p>This is also inclusive of contingency allowances of XX, which are under the control of XX. This contingency allowance has decreased since the last financial report from XX.</p> <p>The major concern over the past month was the large soft spot referred to in last month's report. This has been resolved within the provisional allowance in the budget and is no longer a risk to the budget.</p> |
| Risk | <p>There have been no further risks identified since the last report and the Risk Register continues to be monitored.</p> |
| General Comments | <p>The project, under XX management, is progressing well and XX may expect a satisfactory outcome in terms of both cost and quality.</p> <p>The project control group have brought their next meeting forward, in recognition of the impending completion date for construction, to exercise governance oversight of the project.</p> |

Appendix 6- Recommended project reporting- financial reporting

Please see below for an example of a capital project report showing financial tracking of a capital project:

| Line Items | BUDGET | Committed and expended (see note 3 below) | | ACTUAL but not yet committed | TOTAL | VARIANCE |
|--|-----------------|---|-----------------------|------------------------------|-------|----------------|
| | | Committed and expended (see note 3 below) | but not yet committed | | | |
| 1 XX DESIGN & BUILD CONTRACT | | | | | | |
| | \$ 8,600,000.00 | \$ 7,244,883.76 | \$ 1,706,303.77 | \$ 8,951,187.53 | | \$ 351,187.53 |
| 1.01 Base Contract (\$8.6m as per signed contract) | \$ 8,600,000.00 | \$ 6,876,981.32 | \$ 1,673,018.68 | \$ 8,550,000.00 | | -\$ 50,000.00 |
| 1.02 Variations | \$ - | \$ 367,902.44 | \$ 33,285.09 | \$ 401,187.53 | | \$ 401,187.53 |
| 1.03 Other | \$ - | \$ - | \$ - | \$ - | | \$ - |
| 2 CLIENT DIRECT COSTS | \$ 150,000.00 | \$ 133,441.50 | \$ 170,888.64 | \$ 170,888.64 | | \$ 20,888.64 |
| 2.01 XX Cost Management | \$ 139,811.00 | \$ 107,909.00 | \$ 26,902.00 | \$ 134,811.00 | | -\$ 5,000.00 |
| 2.02 XX Landscape | \$ 6,870.00 | \$ 6,870.00 | \$ - | \$ 6,870.00 | | \$ - |
| 2.03 XX Concept Design | \$ - | \$ 18,622.50 | \$ - | \$ 18,622.50 | | \$ 18,622.50 |
| 2.04 Other - XX | \$ 3,319.00 | \$ - | \$ 10,525.14 | \$ 10,525.14 | | \$ 7,206.14 |
| 3 BUILDING CONSENT FEES | \$ 100,000.00 | \$ 29,421.00 | \$ 43,301.70 | \$ 72,722.70 | | -\$ 27,277.30 |
| 3.01 Building Consent Fees | \$ 100,000.00 | \$ 29,421.00 | \$ 43,301.70 | \$ 72,722.70 | | -\$ 27,277.30 |
| 4 RESOURCE CONSENT COSTS | \$ 100,000.00 | \$ 88,089.00 | \$ 11,911.00 | \$ 100,000.00 | | \$ - |
| 4.01 XX Fees | \$ 17,918.00 | \$ 19,293.00 | \$ - | \$ 19,293.00 | | \$ 1,375.00 |
| 4.02 XX Design and Site Masterplanning | \$ 15,173.00 | \$ 15,173.00 | \$ - | \$ 15,173.00 | | \$ - |
| 4.03 XX Fees etc. | \$ 66,909.00 | \$ 53,623.00 | \$ 11,911.00 | \$ 65,534.00 | | -\$ 1,375.00 |
| 4.04 Other | \$ - | \$ - | \$ - | \$ - | | \$ - |
| 5 STAGES 2A & 3 TRANSFERS/JOURNAL | \$ - | \$ 120,000.00 | \$ - | \$ 120,000.00 | | -\$ 120,000.00 |
| 5.01 Future proofing pipework for future larger chillers | \$ - | \$ 50,000.00 | \$ - | \$ 50,000.00 | | -\$ 50,000.00 |
| 5.02 Increase boiler size from 190kw to 475kw | \$ - | \$ 16,500.00 | \$ - | \$ 16,500.00 | | -\$ 16,500.00 |
| 5.03 Larger chiller and associated transformer | \$ - | \$ 45,000.00 | \$ - | \$ 45,000.00 | | -\$ 45,000.00 |
| 5.04 Additional length of vibration wall | \$ - | \$ 8,500.00 | \$ - | \$ 8,500.00 | | -\$ 8,500.00 |
| SUBTOTAL | \$ 8,950,000.00 | \$ 7,375,835.26 | \$ 1,798,943.61 | \$ 9,174,778.87 | | \$ 224,778.87 |
| 6 CLIENT CONTINGENCY | \$ 453,000.00 | \$ - | \$ 228,221.13 | \$ 228,221.13 | * | -\$ 224,778.87 |
| 6.01 Client contingency | \$ 290,000.00 | | | | | -\$ 290,000.00 |
| 6.02 Escalation Contingency | \$ 163,000.00 | | | | | -\$ 163,000.00 |
| PROJECT TOTALS | \$ 9,403,000.00 | \$ 7,375,835.26 | \$ 2,027,164.74 | \$ 9,403,000.00 | | \$ - |

Notes:

i All figures are exclusive of GST

ii *Denotes current Client Contingency remaining

iii 'Committed and Expended' includes amounts invoiced up to 31 July 2012 /to be paid approx 20 August 2012

iv Items excluded from this report/budget - XX

v \$25,729,52 transferred from 'XX' to 'XX Contract', as some Consent Fees have been paid by XX.

The following are currently excluded from this Report: XX

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