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# Review of North Canterbury Fish and Game Council

New Zealand Fish and Game Council  
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## An audit pursuant to section 26C(j) of the Conservation Act 1987

### An audit under the Conservation Act 1987

1. The Conservation Act 1987 includes a function which enables the New Zealand Fish and Game Council (NZC) “to audit the activities of Fish and Game Councils”. This “audit function” is separate from the role carried out by the Auditor-General to audit the external financial statements included in a council’s Annual Report.<sup>1</sup>
2. The audit of the North Canterbury Fish and Game Council (NCFGC) initiated by the NZC has been specified through a Terms of Reference (TOR). The TOR require the auditor to focus on a number of set questions, which arose because of a letter of complaint written to the NZC by 5 members of the NCFGC governing body.

### Terms of Reference for the audit

3. Appendix 1 contains the complete TOR. They also contain the answers established in the course of this review and form a full part of this report.

### Review process and outcome

4. In establishing the basis for the audit, the reviewer agreed with the NZC that the audit would be conducted through:
  - Interviews of the NCFGC elected and appointed members and staff. In the course of the audit, the majority of councillors and staff were interviewed.
  - Review of the records – especially the minutes of NCFGC meetings and its financial records.
5. Of its nature, this is not an audit that gives rise to a standard audit opinion. The audit is a review requiring the type of the reporting which follows.
6. This report is provided to the NZC. The reviewer’s responsibility is solely to the NZC. It is recognised this report may be more widely distributed at the discretion of the NZC.

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<sup>1</sup> The Annual Report is prepared pursuant to section 26X of the Conservation Act and the requirements of the Crown Entities Act 2004 and the Public Finance Act 1989.

## Manifest issues at North Canterbury Fish and Game Council

### A break down in trust and confidence

7. The letter written by the 5 councillors<sup>2</sup>, and subsequently received and acted on by the NZC, has been attributed to causing a near-total breakdown in trust and confidence within the NCFGF – at least at a governance level. This is the dominant view of those who did not sign the letter and whose actions are effectively questioned in it. For the 5 authors, it was a growing sense of distrust in their governing colleagues' action that caused them to write the letter.
8. The interviews have confirmed that, while council business is still being transacted and field operations continue, there are clearly “sides” or divisions among council members and the quality of any working relationship is low. The relationship between members is better characterized by mistrust and deep suspicion of the other “side’s” motives. The situation is critical and is affecting negatively on NCFGF’s performance.
9. Discussions with individual members suggest there is a significant level of “second guessing” of motives or actions going on.
10. There is an impact on staff. As most attend the council meetings in carrying out their operational roles, they are fully aware of these issues at council level – and to an extent become involved. Some would argue that the behaviour around the board table is affecting their roles, if not themselves. They also said that the supporters of the NCFGF – the anglers, in particular – are aware and concerned as well.

### Strongly divided views

11. At the centre of the breakdown are two polarising key issues<sup>3</sup>:
  - The place and funding of the youth programme (and especially the “Fish in Schools<sup>4</sup>” programme which is conducted through the Water and Wildlife Habitat Trust (WWHT)); and

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<sup>2</sup> Among the 5 were elected and appointed members of the NCFGF

<sup>3</sup> It was argued by a number of those that did not sign the letter that there has been no issue or polarisation around these issues. In fact, they argue the matters have been discussed openly and voted on with near unanimity up to early 2018. This review still chooses to characterise the situation as polarised, whether because of different philosophical views about the merits of the programmes or because restricted funding is making it difficult to deliver on all desired work. The polarisation is a matter of substance and reality now, even if arguable that it was not the case before the letter was written.

<sup>4</sup> The work of the WWHT in conducting the Youth Programme is carried out by the Trust’s sole employee who up to the recent 2018 elections was an elected member of the NCFGF council.

- The ongoing operation of the NCFGC hatcheries and their role, cost and efficacy in maintaining sports fish stocks.
12. In the face of restricted funding, the councillors are having trouble reconciling priorities between the two programmes. Reconciliation is impeded by views which were described to the review as being held passionately. They also represent fundamental differences between perceived benefits of each programme and their relative worth.

## The context

### Environmental challenges

13. The recent Cawthron report<sup>5</sup> succinctly states the environmental issues faced by all Fish and Game Councils:

*New Zealand's trout and salmon fisheries are becoming increasingly degraded from multiple pressures, including intensive land use, climate change and increased angling pressure.*

The review was told by NCFGC councillors and staff that these generalised effects are particularly acute in Canterbury, clearly affecting fish stocks, habitat and angler enjoyment.

### Fiscal pressures

14. NCFGC shows substantial pressure to maintain its operations sustainably:
- For the last two financial years ending 31 August 2016 and 2017<sup>6</sup>, NCFGC's audited annual report shows negative cash flows from operations (\$93,832 and \$159,529 respectively). Its activity reporting highlights substantial negative balances for the hatchery. This performance is unsustainable and, if the trend continues unchecked, it represents worrying, poor performance.
  - While the WWHT accounts are not published as part of the NCFGC annual report, the Fish in Schools Programme has faced on going funding issues. It has been granted a gift of the equivalent of 12 months' interest anticipated being earned by NCFGC on its McIntyre bequest, and recently it was indicated to the review that further personal funding has been put into the WWHT to enable it to continue to meet its commitments.

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<sup>5</sup> Page i, Cawthron Institute (Report No. 3207) A review of contemporary salmonid stocking practices in New Zealand; July 2018

<sup>6</sup> NCFGC's latest balance date is 31 August 2018. At the time of the review's fieldwork, audited financial information was not available for 2018.

## Findings

### Overriding comment

15. In considering the findings of this review, it is important to keep in mind the size and scale of NCFGC. It is not a large organisation with an annual turnover of only about \$1.85m. It has limited resources and must continually seek to deliver its outputs in the most efficient manner. It relies heavily on volunteers – including effectively at council level. Councillors are not remunerated and are elected from the NCFGC full season licence holders who have a long history of providing volunteer support and are passionate about their angling and hunting sports and the sporting habitat. The capacity, and to an extent the capability, of such an organisation to deal with issues as fundamental as those described in this report is limited.

### Appendix 1 – Terms of Reference and review responses

16. Appendix 1 contains the findings under the specific questions contained in the TOR. Inquiring into these has been important in enabling the following findings to be made. The findings which follow are seen as the most critical ones, and on which the review's conclusions and recommendations are reached.

### Lack of a completed strategic vision

17. The divisions at Council level are now real – both in terms of approach and personal convictions. There appears to be limited prospect to reconcile these views, and certainly to reconcile their views by themselves. Unless an approach can be developed which enables consensus on a new vision for NCFGC to be reached, it is likely these issues will continue to ferment at council – even after the 2018 NCFGC elections<sup>7</sup>.
18. There are also apparent divisions at a staff level as well. From the interviews conducted with staff, there are also clearly different views about future approaches in light of both the environmental challenges and funding pressures. Both could conflate to affect the levels or nature of employees required. In this situation, it is understandable that the review was told of signs of stress among employees.
19. As could be expected in a small organisation and in the nature of a review such as this, there was substantial comment about governance and management style from staff as they work closely with both councillors and the Manager. There is certainly a level of dissatisfaction for some staff with the Manager. It is difficult to put weight on individual criticism, recognising there was some support as well for the Manager. In the absence of a clear strategic vision and effective prioritization and direction, there is uncertainty. This can, as it appears to with

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<sup>7</sup> The election has resulted in some change of elected members. The newly elected members, not part of the prior triennium, have not been contacted in the finalisation of this report. However, the divisions are still evident in the make up of the new council.

NCFGC, exacerbate views held by staff about management – in this case views of the Manager’s style and performance.

20. The review concludes there is a need for NCFGC to reset its direction through adoption of a new strategic vision, one where terms and implications are understood, as well as the high-level goals of the Council. The reset needs to be based on sound intervention logic and on an evidence-base for all outputs. This should include the activities of the WWHT. They should be subjected to the same questions.
21. Earlier in 2018, a strategy day, led by a then-councillor, gave the potential for this reset. But it has not been completed yet in any form considered as a suitable strategy on which to set priorities, future direction and establish the impacts on the organisation including staff.
22. It is acknowledged there are some external factors that may have prevented completion of the early 2018 strategy day – this review and the advent of the Cawthron review are two matters which are heavily affecting NCFGC’s future direction.
23. The reset would only be possible if both Council and staff were prepared to commit to undertake the process and commit to the results. However, until this happens, it is difficult to envisage the current manifest problems being resolved. The review concludes that, without outside assistance, the differences and breakdown in relationships may be too much to expect resolution by NCFGC alone.

#### The need for upgraded accounting practice

24. The NCFGC is small and yet its accounting processes lack simplicity, efficiency and transparency. The review considers the accounting for outputs requires a substantial overhaul as the budget appears prepared on an output basis while, in reality, actual financial results reflect cash flowing through as inputs. The two are different.
25. Not as a formal part of the report findings, but as stimulus to thinking about improving accounting and financial management within NCFGC, Appendix 2 contains some discussion notes on the matter of budgeting, accounting and transparency.

#### Clarity on the WWHT

26. Throughout the last year, the WWHT has developed into a key entity contributing to the broader goals of NCFGC – specifically, it has within its portfolio of work the Youth Programme, the Winnemem Wintu (WW) contract to repatriate Chinook salmon to the MacLeod River in the USA and the Snake River Restoration Project in partnership with the Ministry for the Environment. These all appear consistent with the aims of NCFGC but the relationship between the NCFGC and WWHT is poorly defined.
27. The relationship must be defined better. The WWHT rationale for existence has been described as to enable attraction of external, non-game licence funding which the NCFGC would not be able to attract in its own right. Yet despite raising money externally through its own efforts, WWHT has not been able to be self-sustaining in terms of its Youth

Programme and requires substantial direct support from the NCFGC, as evidenced by a grant in 2018 plus an offer of a loan, which the Trustees declined.

28. There are key related parties between the NCFGC and WWHT governance (although the latter does have non-related trustees as well). In particular, the Chair of NCFGC is also Chair of WWHT and the NCFGC Manager provides full administrative support to the WWHT. The operational and funding needs of NCFGC and WWHT are closely aligned and managed.
29. And yet there is limited visibility to the NCFGC of the complete operations of the WWHT. There has been regular reporting on the operation of the Youth Programme, but very limited financial or other information. Furthermore, it is noted that for external accountability purposes, the WWHT is treated as not associated and its financial results are not consolidated with those of NCFGC<sup>8</sup>.

#### Concluding comment on findings

30. NCFGC faces a substantial hurdle to develop a coherent pathway forward that ensures all agree on a unified approach. The review's conclusion is that this can be achieved with the new Council working with the Manager and staff. However, it will require respect for one another, repairing the lost trust and confidence in one another and a preparedness for there to be substantial change in the way NCFGC governs and manages itself.
31. However, for the manifest issues identified above, serious consideration should be given to external assistance being made available as the NCFGC undertakes such a course of action. To have assurance that a reset process can be undertaken successfully, the review concludes that outside assistance should be actively considered as a minimum. This support should go beyond external facilitation of a strategy process. It would be wise to consider the value of the Council being enabled to appoint an independent member – ideally the Chair, if legislatively possible - to work with the NCFGC through this process. This would be for the benefit of both councillors, the Manager and staff.
32. Failure to act will impair the work and effectiveness of NCFGC and its objectives for the quality of the fish habitat as well as the support and growth of its sport and angler community.

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<sup>8</sup> In the course of the review, this matter was discussed with the Office of the Auditor-General. Because of the changed and enlarged nature of the WWHT operations, the Office was, with its auditor of the NCFGC, relooking at this position. These matters are often complex. The Office has concluded that the WWHT is a separate entity and should not be consolidated into the annual accounts of the NCFGC. This only further cements the need for the practical relationship between the Council and WWHT to be better defined.

## Recommendations

33. The following recommendations are based on the entire report, including the appendices.

### Leadership

34. That, with the support of NZC, that NCFGC appoints a professional and experienced governor to the Council. Key roles for the appointee are to provide guidance to the Chair<sup>9</sup> and council members on the “reset” process – this will include meeting protocols and behaviour, strategic thinking and implementation, and building an effective governance/management split. The appointee should work with the Chair, Manager and NZC to set up a defined “reset” process agreed to by all the Council.
35. That the appointee’s position be for the first full year of the new Council. Ongoing engagement should be reviewed and considered at the point of review.
36. That specific governance training should be arranged for the newly elected council and must include the governance expert. This may be a matter that NZC can provide support in.
37. That the new Council sets a new strategic plan setting out its priorities over the next three years. It is important that the plan be for a minimum of three years, be based on the best available information and have identifiable targets for achievement.
38. That the Manager work with staff to develop an operational plan which implements the strategy and strategic priorities plus matching annual budget. Staff resources need to be aligned with the operational plan and priorities. The operational plan and budget must be approved by the Council (and NZC as appropriate).

### Management

39. That the Council oversee a review of the NCFGC office and administrative function. In light of the issues noted in this report, the review needs to ensure processes are *fit for purpose* and include in its scope the performance of the Manager and staff, staff satisfaction and financial results (informed by the audited results at 31 August 2018, when available).
40. That particular focus is given to aligning budget setting and financial reporting at a management, Council and NZC level. The objective is transparency and understanding at all levels based on one commonly understood set of financial statements.
41. That an effective and proper performance management framework is put in place for all staff, including a Manager Performance and Remuneration Review Committee of Council.

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<sup>9</sup> Advice from NZC is that it is legislatively difficult to enable an appointed member to be chair. Hence this recommendation is therefore for the appointee to be Deputy Chair of the Council.

### Water and Wildlife Habitat Trust

42. The Council work with the Trustees to undertake a formal review of the activities in relation to its own objectives – including the purpose of the Trust, its role as a charitable fund raiser and whether its current activities should be undertaken by the Council.
43. That, subject to the review concluding successfully for the Council and Trustees, a memorandum of understanding is agreed between the two entities setting out their respective roles and how they might work together effectively, while remaining independent.
44. That the review note the Winnenmen Wintu project is currently being undertaken by the WWHT. There needs to be an agreement between the Council and the Trustees as to all arrangements including use of Council staff on the project and the nature of any repatriation of surpluses on the contract to the Council.

### McIntyre bequest

45. That the Council work with its external auditors as part of the 2017/18 annual audit to confirm that the bequest now forms part of Council reserves and in light of all information on authorised reserves movements up to balance date, confirms whether the bequest is still intact to the amount of the original bequest.
46. That the Council develop an effective policy on the bequest including defining what “intact” means, including the appropriate use of interest derived from the investment of surplus bequest funds.

## Appendix 1 – Terms of Reference and review response

The following is the fully reproduced Terms of Reference. The review's specific findings are matched against each question and are noted in bold blue font.

### Audit of North Canterbury Fish and Game by NZ Fish and Game Council - Terms of Reference

#### Powers of the New Zealand Fish and Game Council

The New Zealand Fish and Game Council have agreed to audit North Canterbury Fish and Game Council under Section 26C(j) of the Conservation Act 1984.

#### Purpose

The purpose of the audit is look into the issues raised by five councillors in the North Canterbury Fish (NCFG) relating to the performance of that Council.

#### Scope of Audit – specific audit queries

##### 1. Water and Wildlife Habitat Trust

- a. What funds transfers have taken place between NCFG and the Water and Wildlife Habitat Trust (WWHT)?

**The Fish in Schools programme does not pay for costs of a NCFG-supplied pool vehicle or administrative support provided by the Manager while fish used in the programme (and comes from the NCFG hatcheries) are not charged for (It is noted that the hatchery provides ova to the Fish in Schools programme, not mature fish).**

**The WWHT seeks to source revenue from grants within the community, which are used to meet all other costs for Fish in Schools. However, NCFG approved a grant for the anticipated interest accruing on the McIntyre bequest for one year (estimated at \$16,875), and also a loan of \$10,000. The loan was subsequently declined by the Trustees.**

- b. What were these funds transfers for?

**The main amount recently transferred was the forecast interest on the McIntyre bequest, noted in 1.a. above.**

**The funds were transferred to fund the operations of the Fish in Schools programme.**

- c. Has any financial support of the Trusts employees or contractors been given by NCFGC?

One matter that was difficult to ascertain was when the Trust took over the programme. The NCFGC 2015/16 annual report does include costs of \$89,022 related to Fish in Schools and other WWHT activity. The majority of these costs were for the Fish in School manager's wages but includes fundraising and legal fees.

It is uncertain whether this was prior to the transfer of the programme to the WWHT or whether it did in fact constitute a transfer from the NCFGC to the WWHT. Despite the ambiguity, it represents NCFGC funds contributed to the Fish in Schools programme, whether from NCFGC's income or reserves.

- d. Has any non-financial support of the Trusts' employees or contractors been given by NCFGC?

Fish in Schools does not pay the hatchery for fish used as part of the programme, nor for the motor vehicle owned by NCFGC which is used by the WWHT. There is administrative support – especially from the Manager – which is also not funded by the WWHT.

It is argued that the majority of the funding for the Fish in Schools programme has been raised externally by WWHT.

- e. Has support (if any) been appropriately recorded in the NCFGC meeting and financial records?

Financial reporting of outputs for the entity as a whole is limited. Budgets are prepared on a full allocation model. And while there is reasonable separation of the costs on a funds accounting basis for reporting, the full costs of programmes are not evident. This practice in NCFGC is also reflected in the accounting for the WWHT.

On this basis, the review concludes that the accounting for support is incomplete.

The matter of support for the Fish in Schools programme was noted in minutes.

- f. Have the interactions between the Trust and NCFGC been appropriate?

The review considers that the relationship between NCFGC and WWHT is ill-defined or, at least, not commonly understood. It needs clarity. WWHT's

status as separate entity has been established and yet there is a close tie between all the activities of WWHT and the role of NCFG. There is, what amounts to operational reporting on WWHT to the Council at each of its meetings.

While this is good communication it may be blurring the independence of each entity, and a complete understanding of each entity's role.

## 2. McIntyre Bequest

- a. What funds have been received by bequest in the last year?

### Two receipts

- 7 March 2018 \$500,000
- 26 June 2018 a second receipt titled "Balance of bequest" \$23,935.24

- b. What information was given to Councillors on the bequest?

First raised in confidence on 16 August 2017 with high-level advice that a bequest from James Walter McIntyre of approximately \$600,000. The Chair advised NCFG was not bound by the estate wishes.

The matter was next raised in confidence on 11 April 2018 and 18 April 2018. The 18 April 2018 meeting was a follow-up meeting to the prior one as it was decided on 11 April that not enough information was on hand to make a decision on funding for the Fish in Schools.

- c. Was there a formal vote at a Council meeting to agree on receiving the bequest?

Uncertain other than the points noted in prior question.

- d. Was the bequest discussed in a Council meeting?

Evidence of it being discussed in two meetings. The matter was not subject to a resolution but use of some funds for the building (\$49,500) has occurred. This was recorded in the financial records as "Transfer to Building Account as per Council Decision". The transfer occurred on 13 March 2018.

On 27 April 2018, \$10,000 was transferred with the notation "Paid WWHT as per Council Resolution April 18 2018". On 12 June 2018, a further transaction of \$6875 with the notation "Transfer balance of Bequeth [sic]

Interest to 01 Account for Trust” was made. These two transactions make up \$16,875 covered by the resolution made on 18 April 2018, which stated:

*“that an immediate loan of \$10,000 be offered to the Trust to cover the next few months’ expenses and this be treated as a loan to be repaid. It was agreed that a donation of one year’s interest in advance (est.\$16,875) from the McIntyre bequest fund be made to the trust. It was considered that in return regular financial updates be proved [sic]to NCFGC and this be conveyed to the trust.”*

It is noted that the WWHT subsequently declined the loan.

- e. When were the funds received?

**March and June 2018.**

- f. Into what account were the bequest funds banked?

**NCFGC Fish and Game account “Term Deposit 1. Ac No 3890 1402 35215 003.**

- g. Where are the funds now?

**The remaining funds are still in that Bank Account noting \$49,900 was used for Johns Road improvements and interest for the first year has been agreed to be paid to the Trust (\$16,875).**

- h. What are the conditions of the bequest?

**“The bequest states “I gift – my residuary estate to Fish and Game NZ North Canterbury. Without imposing any trust, I request that a member of the NZ Salmon Angler’s Association be present when Fish and Game NZ North Canterbury make any decision on using the benefit received under this will and that the benefit received be used to restock the Waimakariri and Rakaia Rivers with salmon.”**

**The reasonable reading of this paragraph shows clearly that Mr McIntyre sought for the proceeds of his estate to be used in restocking the Waimakariri and Rakaia rivers. The 5 complainants consider the use of a portion of the proceeds on the head office building as morally cutting across Mr McIntyre’s wishes.**

**However, in indicating his wish for the use of money, he did leave their use legally open by the use of the phrase “Without imposing any trust”.**

- i. Have the conditions of the bequest been met?

**The majority of the funds are still intact.**

**The use of the funds in a way that appeared to differ from Mr McIntyre's wishes was claimed to have been researched by the NCFG Chair. He told the Council that he had contacted a lawyer he considered reputable and with knowledge of estate law. The advice was verbal to the NCFG meeting of 11 April 2018.**

- j. Has the bequest been appropriately handled by NCFG?

**Refer above. The balance of the funds effectively sits in a reserve. However, it is noted that Council recently resolved that the interest on the bequest for the current year (estimated at \$16,875) be gifted to the WWHT for the Fish in Schools programme.**

**In clearance of this report and in direct discussion with the whole Council, there is considerable confusion about what Council discussed and ultimately did with recent claims that the entire McIntyre bequest is still "intact" – implying that no monies have been drawn down. Evidence was provided that other reserves were used on the building and not the bequest, or that possibly the bequest only provided internal "bridging finance".**

**This is unsatisfactory.**

**In light of the confusion, it is considered that the Council should work with its external auditors as part of the 2017/18 annual audit to confirm that the bequest now forms part of Council reserves and in light of all information on authorised reserves movements up to balance date, confirms whether the bequest is still intact to the amount of the original bequest and the other reserves are at levels they are expected to be after authorised drawdowns.**

### **3. Winnemem Wintu (WW)**

- a. Has any agreement been made between the Winnemem Wintu organisation and NCFG?

**There is an agreement between "The Water & Wildlife Habitat Trust" and the "Indian Cultural Organization". The agreement was signed by Caleen Sisk on 8 June 2018 and Charlotte Berla on 9 June 2018 for the Indian**

Cultural Organization, and by Trevor Isitt and Rod Cullinane on 12 June 2018 for the WWHT.

The review was advised by one councillor that at an NCFGC meeting in April 2018, the WW contract was discussed, and it was agreed it would be carried out by the WWHT. There was no motion recording this decision.

- b. What are the financial arrangements between WW and NCFGC?

Financial arrangements are with the WWHT. Appendix 1 of the agreement establishes the chargeable maximum for the project as \$258,288. Comprised of the following:

Labour NCFGC and externally contracted biologists	118,950
Labour Central South Island FGC	54,450
Materials	18,600
Helicopter	19,500
Dry tissue handling	1,000
Freight to USA	1,000
NCFGC management fee	26,688
Contingency	<u>18,100</u>
<b>Total</b>	<b>\$258,288</b>

We were also provided with an internal calculation sheet which shows a “Trust Margin” column for all NCFGC staff components. The total of that Margin is \$41,350. There is no margin added to the Central South Island FGC (CSI) staff costs involved in the project. That worksheet reconciles to the charging schedule in the contract.

If the margins are achieved, they belong to the WWHT, which given the contract is reasonable.

- c. What are the financial arrangements between the Trust and NCFGC regarding the WW?

The review did not sight any formal arrangements between WWHT and NCFGC concerning the WW contract. The only evidence of the relationship is in the documentation with WW. Costings rely on NCFGC resources being used and paid directly to the NCFGC staff by WWHT. In this case, the staff are being treated as contractors, having taken leave from NCFGC while working on the WW contract. These resources have an on-cost which goes to the WWHT.

- d. Are the arrangements between the WW and NCFGC and the Trust appropriate?

Arrangements with the WWHT and the Indian Cultural organization (WW) are robust. There is one contract of approximately 60 pages covering all reasonable aspects of the project.

Documentation between the WWHT and NCFGC does not exist. Details made available show that there is a management fee within the contract which is for “Fish and Game Management fee” of \$26,688, payable to NCFGC. Also, the agreement shows that \$118,950 is charged for NCFGC staff (but who in reality are on leave from NCFGC). The worksheet mentioned above shows that this includes a margin of \$41,150 (to be retained by the WWHT), but there is no margin added to the CSI staff involved in the project. There should be some formal arrangement between NCFGC and the Trust.

#### 4. Governance

- a. Was the appointment of Water and Wildlife Habitat Trustees carried out appropriately from all NCFGC Councillors perspectives?

The minutes show several decisions and updates to the Council on the Trust. The first advises that the WWHT is expected to be wound up. However, the second is to update Council on the charitable status and what would be needed to retain the charitable status. There are on-going updates on fundraising and also the progress of the Fresh Water programme. Then there are updates on engaging a corporate fundraiser.

The Council was advised by the Chair that the Trust was taking on new Trustees and was kept the Council informed about progress on these appointments.

The NCFGC minutes do not cover the names of the new Trustees, nor do they record a resolution to their appointment.

The review considers the relationship with the WWHT to not be suitably defined and it needs to be.

- b. How much transparency is there for NCFGC councillors on the finances of the organisation?

The topic of the Youth Programme/Fresh Waters programme has been a standing item on the Council agenda since 2012.

The Council is updated on activity progress with the programme and with the funding needs of the programme. Except for one period where the Council was asked to approve funding of \$75,000 (this relates to February 2014, when the NCFGC ran the programme, and not WWHT) for the programme, there is no evidence of financial information being provided or requested.

In the month when that \$75,000 funding was sought and approved, one councillor expressed concern about not having any financial information about the trust.

- c. What decisions are made in executive committees or sub committees of the NCFGC and which are made by the whole council?

The review did not sight evidence of decisions being made by any executive committees. From the interviews conducted, there is a clear view that a group of councillors (effectively those that support the Fish in Schools programme) and sometimes the Manager “make decisions” or caucus to achieve a result.

In the current context of NCFGC, where there is a breakdown of trust and confidence, it is difficult to draw conclusions about this. It is clear that those not in any of these (non-recorded) meetings believe decisions are effectively made based on the way the Chair is said to conduct business, including “pushing matters through” Council meetings.

The review is unable to conclude sufficiently on the matter of council conduct and process. There were sufficient comments received to suggest that in any formal reset (refer the body of the report) meeting procedures and standing orders should be revisited and consulted on with the new Council, regardless of the election results.

On balance, the comments indicate that meeting procedures are not helping the conduct of business, the robust discussion of key matters or developing trust and confidence.

- d. What information has been made available about the contracting details of the Manager to all councillors, when and in what form?

No information was identified in the minutes and may have preceded the time scope of this review.

**Any arrangements for performance review appear informal. In public sector organisations there need to be clear arrangements in place for a chief executive (the equivalent role of the Manager) – including engagement and, review of performance. This may well be undertaken by a “Performance” Sub-committee of NCFGC, but it would enable the Council to maintain awareness of the Manager’s performance.**

- e. What resolutions has NCFGC made about the contracting arrangements of the Manager to NCFGC?

**Refer above.**

- f. What information was shared with Councillors relating to the impact on NCFGC of the Managers appointment to ECAN?

**No formal minute was noted. However, the matter was raised with the prior CEO of NZC and was also said to have been discussed (and by implication cleared) with the NCFGC.**

**This is also the sort of matter this review would be expect to be covered by a Performance Sub-committee. This would enable full oversight of the matter and appropriate communication with Council and staff.**

**The review did receive substantial concern at council and staff level over the role of the Manager. However, no evidence was provided that this meant the performance of the Manager role within NZFGC was impaired, other than his physical presence on site.**

- g. What is the performance reviews process for the NCFGC’s Managers and has it been followed?

**Refer above.**

- h. Has the level of transparency within NCFGC been appropriate in relation to the Trust, the organisations finances, delegation of decision making and the contracting of the Manager?

**Based on the apparent informality, the review’s conclusion is that the arrangements risk being too informal. There should be at least a Manager Performance and Remuneration Review Committee of Council for the Manager, and transparency on the results to Council.**

**It is also noted from discussions with staff that performance management of staff is informal at best and irregular. (Equally there was evidence staff**

were prepared to go to the Manager with issues). This too should be formalised and made certain consistent with good HR practice.

The review notes above the issues with financial transparency.

## 5. Budget deficits

- a. In the last eight financial years what budgets have been set by NCFGC for Management to meet?

The review covered the annual reports for each of the financial years from 2011/12 to 2016/17. It also reviewed the budget for the current financial year which ends on 31 August 2018. Over these 8 years, the NCFGC budgeted for a break-even or better profit and loss position. The sum of the profit and loss budgets for that period up to 31 August 2017 is \$292,243 while the sum of the net profits achieved is \$1,441,047.

However, it should be noted that there is an extraordinary year in 2012/13 where there were gains on the property insurance and land sale, as a result of the earthquakes.

In the last two completed years there is a disturbing trend where the budget surplus combined was \$163,238 while the actual result was a loss of \$428,085.

- b. In the last eight financial years what directions, as recorded in meeting minutes, has been given by the NCFGC to its Manager to operate within the budget allocated by the NZFGC?

The minutes reflect that the Council and Manager are conscious of the financial constraints. Finance is a standing item on the agenda and the Operational Work Plans show the organisation targets at least a break-even position. However, the review of the Annual Reports shows that some significant expenditure is not included in the budget. For 2015/16 and for 2016/17 the table below shows items in budgets which are anomalies:

Item	2015/16 Budget	2015/16 Actual	2016/17 Budget	2016/17 Actual
Licence sales commission	0	\$94,538	0	\$93,235
Depreciation	0	\$69,062	0	\$76,461
Whiskey Creek	0	\$8576	0	\$18,335
Mt White Station	0	0	0	\$10,000

Youth Programme	0	\$89,022	n/a	n/a
<b>Total</b>	<b>0</b>	<b>\$261,198.00</b>	<b>0</b>	<b>\$198,031.00</b>

- c. In the last eight financial years what discussions have been recorded in meeting minutes regarding over spending the budget allocated by the NZFGC?

**Council discusses the budget and results on a regular basis. Despite recent poor results, the commentary behind them is positive. This seems to stem from the justification above for unbudgeted items. When the unbudgeted items are rationalised as either being non-cash or spending from reserves, then Council holds the view that the total of budgeted items does fall within the actual for those items. The 2016/17 Annual Report included the following statement:**

*“It is noted that the expenditure associated with Whiskey Creek (\$18,335) and the Mt White fencing project (\$10,000) are funded from reserves although they are shown as expenses for the year in the Annual Report.”*

**Also, expenditure on the Youth Programme in 2015/16 is recorded as having no budget, yet this is despite Council agreeing to provide \$60,000 for the programme in its meeting held to debate the budget for that year. This meeting took place in August 2015 prior to the start of the 2015/16 financial year. The discussion took place in the context of the Operational Work Plan.**

**There is a need to reconsider the quality of the budgeting process. For further discussion refer the main report and Appendix 2 notes.**

- d. Has the NCFGC appropriately set budgets and discussed overspending in the last eight financial years?

**The budgets have been set on an annual basis with discussion by the Council. A separate meeting is scheduled for consideration of the Operational Work Plan. The budgets are set to break-even or have better results. However, the process for setting and monitoring budgets has a significant weakness. There are a number of major items which are not budgeted for (refer the prior item). These include depreciation, commission costs for licence sales and work which is approved to come from a reserve.**

**The response to section 5.b. shows the extent of the items excluded from the budgets and from the monitoring reports. This means that the**

organisation has the view that it is living within the approved budgets but discloses results which are significant deficits when the Annual Report is produced.

The items excluded are not new items and have been in the Annual Reports for a number of years, and yet they continue to be excluded from the budgets. This could occur for one year if costs are new and unknown, as budgets for the following year are set prior to knowing the final result for the previous year. However, they should not be presented as unbudgeted items years later.

## 6. Use of Contestable Fund Money

- a. Have funds allocated by NZFGC for CPI staff salaries in NCFG (in the last five years) been passed onto staff?

An analysis of payroll costs shows there have been salary increases for staff over the period of this review. They have more than matched the CPI amounts approved by NZFGC. The primary years in which increases have been awarded are 2014 and 2017, with some others in the intervening years.

- b. Has the use of the funds for CPI been used appropriately in the last five years?

Salary increases have been awarded which account for the CPI adjustments approved. Refer 6.a.

## 7. Hatchery

- a. What does the NCC financial records say on the net cost/gain to NCFG in dollar terms each year over the last eight years?

Records on output reporting do not appear to be strong (refer comments above and Appendix 2). Revenue for the hatchery sales is in the general revenue. Fish used for NCFG purposes and for the WWHT Fish in Schools programme does not give rise to revenue for the hatchery operation. Financial recording does not have separate recording for the sales for the hatchery, but the Annual Report does include an analysis of the revenue with a line for hatchery revenue.

The regular monitoring report does not show revenue for the hatchery separate and so it is not possible to know the net cost of the hatchery.

The hatchery is shown in the records of the entity as a cost. However, it exists to support the programme of objective 1.1.4.1 “To supplement stocks of sports fish by operating a hatchery to raise salmon, rainbow and brown trout for release.” The extent of the actual results of this is recorded in the Annual Report including a breakdown of the releases of different categories of fish. The linkage between the objective and the costing is weak.

- b. What costs have been allocated to the hatchery each year for the last three years.

The hatchery pays the direct costs of all inputs into the hatchery. This includes power, vehicle running and maintenance, fish food and the cost of staff.

- c. Has the allocation of costs to the hatchery been appropriate?

Attribution of direct costs seems reasonable, from an overall review. One category of costs charged to the hatchery which does not seem reasonable is the costs to release fish into lakes and waterways. However, this is a small proportion of the hatchery costs.

## Appendix 2 – Accounting discussion notes for reference

### Purpose

In the course of the review, the differences between budgeting, accounting and accountability have been noted. They create confusion at governance level and between the NCFGC and NZFGC. The review considers that it is timely to reconsider the alignment to ensure clarity and the ability to better discuss the financial issues evidenced in the reporting and not the data.

This discussion paper sets out 5 core issues and 5 suggested solutions, which would involve both the NCFGC and the NZFGC.

### Issues

1. The review was provided with a copy of the draft budget submitted. There is a fundamental mismatch between the budget process and the accounting and Annual Report. The budget process clearly identifies expenditure and allocates it all to outputs, while the Annual Report identifies direct costs of outputs and shows overheads as line input costs. This is a major gap, as all management reporting is done on the inputs basis.
2. Revenue and costs associated with revenue seem to be confused. The budget process contains little revenue - it has direct outputs revenue and interest but does not include license revenue or costs incurred to administer license revenue. The budget process identifies a line for “Regional bulk funding”. The Annual Report identifies that while licence revenue sits with the NCFGC, it pays costs for collection of the licence fee and it shows a line for Levies to NZFGC. This is a fundamental flaw. The budget indicates that revenue from licenses is revenue of the NZFGC, which gives a distribution to the regions. However, the reporting and accounting for licences indicate that it is revenue of the region who then pay a levy to the NZFGC. So, budgets and annual reports are fundamentally prepared on two different bases.
3. For the size of the entity, the reporting and accounting mechanisms are too complex. There are a number of different bank accounts and reserves. The reporting tries to reflect a “funds-accounting” basis for financials. This is reinforced by the budgeting process where funding is for base funding with a separate column for “From reserves - additional to base fund”. There is a danger with this approach that expenditure which is paid from reserves, does not have the same importance and rigour as approved budgeted expenditure. NCFGC did not include this type of expenditure in budgets.
4. Financial management does not align with the outputs basis for the budgets. This means that the Council is not fully aware of the costs of its services. This lack of

awareness is apparent in discussions over the use of the bequest. A key part of the NCFGC programme is breeding and releasing fish. The Council is aware of the costs of the hatchery but appears to be unaware as to how that reflects into the costs of the fish breeding and release programme. This is apparent from the discussion of the bequest being used to meet losses from the hatchery. However, in an output accounting basis, the hatchery cannot have a cost as this should be attributed to the output of releasing fish. The Annual Report in outputs highlights well the breeding and release programme - but this is not reflected in the financial management practice of NCFGC.

5. The budgeting programme is for a single year and focuses on costs. It is normal for the budget process to focus on all financial information. The mismatch of what revenue and costs belong in the budgets of which entity exacerbates a problem of incomplete budgeting, as it means the Annual Reports of the entities do not match the budget management process of NZFGC.

## Solutions

1. The budgets for NCFGC should continue to be on the outputs basis, and management accounting and the Annual Reports should also show the financial results on an outputs basis.
2. Clarity should be provided as to which entity “owns and accounts” for license revenue and costs. This should then be more clearly reflected in the budgeting and reporting and review processes. If revenue from licenses sits with NCFGC and they pay a levy then the risk of revenue reductions and the benefits of increased revenue sits with the region, and the focus should then be on the net result rather than a focus on expenditure analysis.
3. Holding separate bank accounts for each reserve is complex. Reserves that need to be reflected in cash holdings could be in a single investment pool. The Annual Report clearly identifies the individual reserve balances, so it is no longer necessary for each balance to be in a separate bank account. This creates a need for any bank transfers, which makes the accounts more complex and increases the risk that something may be missed from expenses.
4. NCFGC financial management should be more focused on the clarity of the output costs. The annual activity programme is to undertake a level of work in clearly identified activity groups. Managing the finances of the entity on the basis of these outputs would provide for better decisions on the interventions the NCFGC focus on. The causal link between cost and value is not as robust as it could be.
5. A focus on the complete accounting picture would provide a more robust process for both the NCFGC and the NZFGC. Introduction of half-year financial statements with the reporting of outputs and costs on a programme basis would allow better management and monitoring of the entities.