
Minutes of a meeting of the Audit, Risk and Finance Subcommittee

Held in Ruma Mārama, Level 2A, Civic House, 110 Trafalgar Street, Nelson

On Thursday 12 November 2015, commencing at 9.09am

Present: Mr J Peters (Chairperson), Her Worship the Mayor R Reese, Councillors B McGurk and Mr J Murray

In Attendance: Councillor P Matheson (Deputy Mayor), Chief Executive (C Hadley), Group Manager Infrastructure (A Louverdis), Group Manager Corporate Services (N Harrison), Senior Accountant (T Hughes), Administration Adviser (E-J Ruthven)

Apology: Councillor Ian Barker

By agreement of all members present, Mr Murray assumed the Chair.

1. Apologies

Resolved AUD/2015/049

THAT an apology be received and accepted from Councillor Ian Barker.

Reese/McGurk

Carried

2. Confirmation of Order of Business

There was no change to the order of business, although it was noted that the order of business may alter to accommodate the Council's Treasury Adviser, Brett Johanson's, presentation to the Subcommittee.

3. Interests

There were no updates to the Interests Register, and no interests with items on the agenda were declared.

4. Public Forum

There was no public forum.

5. Confirmation of Minutes

5.1 14 October 2015

Document number M1529, agenda pages 6 - 10 refer.

Resolved AUD/2015/050

THAT the minutes of the meeting of the Audit, Risk and Finance Subcommittee, held on 14 October 2015, be confirmed as a true and correct record.

McGurk/Murray

Carried

6. Status Report - Audit, Risk and Finance Subcommittee - 12 November 2015

Document number R5107, agenda pages 11 - 12 refer.

Resolved AUD/2015/051

THAT the Status Report Audit, Risk and Finance Subcommittee 12 November 2015 (R5107) and its attachment (A1324298) be received.

McGurk/Murray

Carried

CHAIRPERSON'S REPORT

7. Chairperson's Report

There was no Chairperson's report.

8. Internal Audit Plan and Procedure

Document number R5045, agenda pages 13 - 22 refer.

Group Manager Corporate Services, Nikki Harrison, presented the report. She explained that the risk register captured organisational risks, and that an audit of the top ten organisational risks was expected to be completed by 30 June 2016.

In response to questions, Ms Harrison explained current internal checks in relation to financial policies such as the payroll system. She added that the internal audit system would involve a review of internal processes, and may include data checking.

In response to a further question, the Chief Executive explained that no issues had been raised through the whistle-blowing system, and as a result, no review of this had been undertaken. Ms Harrison added that

any issues arising as a result of internal audits would be brought to the subcommittee's attention.

Attendance: Mr Peters joined the meeting at 9.21am, and assumed the chair.

In response to a question, the Chief Executive explained that regulatory risk was captured in the risk register, but was not considered to be one of the top ten risks requiring internal audit in the short term. She said that some elements of regulatory risk were monitored via external auditing procedures, but that other aspects would require internal audit.

In response to further questions, Ms Harrison explained that the interest schedules for both elected members and staff were updated on an on-going basis. She said that the schedule recording elected members' interests was carefully reviewed by Audit New Zealand, but that an audit had not been undertaken regarding the staff interests' register.

Following discussion, it was agreed that, in the Internal Audit Procedure under the heading 'Extension for Action Plans', the words "or organisational risk" should be added after the words "no safety-related issues".

Resolved AUD/2015/052

THAT the report Internal Audit Plan and Procedure (R5045) and its attachments (A1452073 and A1428836) be received.

Murray/McGurk

Carried

Recommendation to Governance Committee and Council AUD/2015/053

THAT the Internal Audit Plan to 30 June 2016 (A1452073) be approved, with the amendment:

- Under the heading 'Extension for Action Plans', insert the words "or organisational risk" after the words "no safety-related issues".***

McGurk/Murray

Carried

9. Corporate Report to 30 September 2015

Document number R5067, agenda pages 23 - 40 refer.

Group Manager Corporate Services, Nikki Harrison, presented the report.

In response to a question, Group Manager Infrastructure, Alec Louverdis, explained the quantum involved in studies delayed until the New Zealand Transport Agency Southern Arterial Investigation was released.

In response to a question regarding the Nelson School of Music, Ms Harrison explained that the expenditure being behind budget was largely a timing issue. She added that there were a number of open purchase orders, which indicated work underway.

In response to a question regarding the Nelson Plan and the Air Plan, the Chief Executive explained that, dependent on timing of hearings, there was likely to be an overspend in the Air Plan as a result of bringing the Plan Change forward.

The Committee considered the report attachments in turn.

In response to a question regarding the Capital Expenditure Graph, Ms Harrison explained that the actual spend trending behind the budget was largely an invoicing timing issue.

In response to questions regarding the Major Projects Status Report, Mr Louverdis gave an update of the process surrounding Cultural Impact Assessments. With regards to the Trafalgar Centre re-opening, Mr Louverdis confirmed that the budget column reflected stages 1-3, but that the next report would have updated costs.

There was a discussion regarding marina maintenance dredging. In response to a question, Mr Louverdis explained the process of calling for tenders, and noted that responses to the tender exceeded the available budget. He said that the next Corporate report would address this issue.

In response to a question regarding debtors to Council, the Chief Executive advised that debt recovery steps were being undertaken. She added that the meeting would need to move into public excluded session in order to provide further details.

Resolved AUD/2015/054

THAT the report Corporate Report to 30 September 2015 (R5067) and its attachments (A1448646, A1311288, A793514, and A1437431) be received and the variations noted.

Murray/McGurk

Carried

Resolved AUD/2015/055

THAT the subcommittee notes that funding of \$8,900 has been allocated to Isel House in 2015/16 for the operational costs of running the House.

McGurk/Reese

Carried

10. PwC Presentation

Brett Johanson, Council's Treasury Adviser, gave a Power Point presentation on treasury risk management (A1458485).

He spoke about changes to the domestic and global interest rate markets, and explained additional movements in the financial market which impacted on the manner in which local authorities managed their treasury functions.

Mr Johanson provided an update regarding the Local Government Funding Agency (LGFA). He explained the change in policy allowing bonds to be issued out to 12 years at a lower cost than bank funding, and noted that there may be an even longer-term bond offering in the future. He spoke about the effect that longer-term bonds had on local authorities' ability to manage debt risks.

The subcommittee discussed whether Council was too risk adverse to taking on debt, given that current market conditions were favourable to taking on further debt. In response to a question, Ms Harrison explained that pre-funding future projects when interest rates were low was not necessarily advantageous to Council, as margins would be lost when such funds were re-invested. Mr Johanson added that pre-funding also raised the risk of over-hedging and creating inflexibility, and that external agencies, such as the LGFA and Standard and Poors, appreciated local authorities behaving in a financially prudent manner. He added that pre-funding activities by taking on debt now could potentially affect Council's credit rating, which would have flow on effects for relative interest rates.

There was a further discussion regarding whether asset management and deferred maintenance, particularly of infrastructure assets, should be brought forward, in order to take advantage of lower interest rates, and the capacity of Council to deliver such projects was discussed. It was noted that Council's current debt to total revenue ratio was approximately 65%, well below Council's policy limit of 150% and the Standard and Poor's limit of 175%, at which a down-grade of the credit rating would be indicated. In response to a question, Ms Harrison explained that the Long Term Plan indicated a ratio of approximately 140% around years six to seven, and that this should be kept in mind if any alterations to Council's current debt management were to be considered.

Mr Johanson then explained updates to Council's Liability Management Policy. He said that this was now managed out to 12 years, as a result of the longer term LGFA funding available, but that any debt beyond this time period would require Council approval.

He added that the 5-year-plus limit had moved from 40% to 60%, as this provided the greatest flexibility for Council to manage growing debt. There was a discussion regarding Council's exposure to banks through interest rate swaps, and whether it was appropriate for local authorities

to invest with local building societies or credit unions. In response to a question, Ms Harrison clarified that Council was a net borrower, and was not in a position to invest in such agencies per se.

In response to questions, Mr Johanson explained that prudent financial management was a key objective, and that overall Council was fit for purpose and meeting best practice standards in relation to its liability and investment policies, and disciplined approach to managing risks.

Attachments

- 1 Power Point Presentation - A1458485 - Treasury Management Update

11. Liability Management Policy amendment

Document number R5077, agenda pages 41 - 56 refer.

Resolved AUD/2015/056

THAT the report Liability Management Policy amendment (R5077) and its attachment (A1450461) be received.

Murray/McGurk

Carried

Recommendation to Governance Committee and Council AUD/2015/057

THAT the amended Liability Management Policy (A1450461) be adopted.

Murray/McGurk

Carried

12. Exclusion of the Public

Recommendation

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

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

Item	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
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Item	General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Particular interests protected (where applicable)
1	Corporate Report to 30 September 2015 – discussion regarding debtor	Section 48(1)(a) The public conduct of this matter would be likely to result in disclosure of information for which good reason exists under section 7.	The withholding of the information is necessary: <ul style="list-style-type: none"> • Section 7(2)(a) To protect the privacy of natural persons, including that of a deceased person.

The meeting went into public excluded session at 11.20am and resumed in public session at 11.25am.

13. Re-admittance of the Public

Resolved AUD/2015/058

THAT the public be re-admitted to the meeting.

McGurk/Murray

Carried

There being no further business the meeting ended at 11.25am.

Confirmed as a correct record of proceedings:

_____ Chairperson _____ Date