



Hastings District Council

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OPEN MINUTES

RISK AND AUDIT SUBCOMMITTEE

Meeting Date: **Monday, 19 June 2017**

**Minutes of a Meeting of the Risk and Audit Subcommittee held on
Monday, 19 June 2017 at 2.30pm**

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HASTINGS DISTRICT COUNCIL

MINUTES OF A MEETING OF THE RISK AND AUDIT SUBCOMMITTEE HELD IN THE LANDMARKS ROOM, GROUND FLOOR, CIVIC ADMINISTRATION BUILDING, LYNDON ROAD EAST, HASTINGS ON MONDAY, 19 JUNE 2017 AT 2.30PM

PRESENT: Mr J Nichols (Chair)
Mayor Yule
Councillors Hazlehurst, Kerr and Travers

IN ATTENDANCE: Chief Executive: (Mr R McLeod)
Executive Advisor/Manager: Office of the Chief Executive
(Mr M Maguire)
Chief Financial Officer (Mr B Allan)
Group Manager: Planning and Regulatory (Mr J
O'Shaughnessy)
Group Manager: Asset Management (Mr C Thew)
Manager, Strategic Finance (Mr B Chamberlain)
Management Accountant (Mr J Tieman)
Financial Controller (Mr A Wilson)
Client Services and Operations Manager (Mr K Dresser)
Chief Information Officer (Mr A Smith)
Building Consents Project Officer (Mr G van Veen)
Committee Secretary (Mrs C Hilton)

ALSO PRESENT: Mr S Lucy – Audit Director, Audit New Zealand
Ms J Noiseux - Audit Supervisor, Audit New Zealand

1. APOLOGIES

There were no apologies from members of the Risk and Audit Subcommittee.

It was noted that Mr J Dixon and Ms S Hay, from PricewaterhouseCoopers, had been unable to attend today's meeting.

2. CONFLICTS OF INTEREST

Mayor Yule declared a conflict of interest in regard to Public Excluded Item 13 "Local Authority Protection Programme".

Councillor Hazlehurst declared a conflict of interest in regard to Public Excluded Item 16 "Building Control Liability Issues".

3. CONFIRMATION OF MINUTES

Councillor Kerr/Councillor Hazlehurst

That the minutes of a meeting of the Risk and Audit Subcommittee, formerly named the Audit and Risk Subcommittee, held on 20 February 2017 be confirmed as a true and correct record and be adopted.

CARRIED

4. GENERAL UPDATE REPORT AND STATUS OF ACTIONS

(Document 17/237)

Officers spoke to the agenda report and responded to questions from the Subcommittee. The main points that were highlighted or addressed, included:

Internal Audit:

- The five local councils had jointly tendered for internal audit services.
- Crowe Horwath were the successful tenderer and would commence 1 July 2017.
- Through the tender process Council would get an extra 20% of audit activity from the same budget - Crowe Horwath will pick up on the existing audit plan the Council had previously put in place as a starting point.

Risk Framework and Policy:

- Following the workshop on 18 May 2017 and further workshop is being planned.
- It is hoped that the Risk Framework and Policy can be signed off by Council by the end of July, after the next workshop session.
- The 18 top strategic risks facing the Council had been identified.
- On a day-to-day basis, officers were already incorporating actions, in regard to the types of issues that had been identified as strategic risks.

ACTION POINTS:

- A further date to be set for the Risk Management workshop with a view to presenting the Risk Framework and Policy to Council for sign off by end of July.

Councillor Kerr/Councillor Travers

That the report of the Manager Strategic Finance titled “General Update Report and Status of Actions” dated 19/06/2017 be received.

CARRIED RIS/17/1

5. TREASURY ACTIVITY AND FUNDING

(Document 17/326)

Officers spoke to the agenda report and responded to questions from the Subcommittee. The main points that were highlighted or addressed, included:

- The table under Paragraph 3.2 – the fact that Council was currently out of policy with 98% of current debt set with fixed interest rates, compared to a maximum policy of 95%. Officers outlined the discussion held with Council’s Treasury Advisor (PwC) about action taken to address this situation. A \$2M swap had been closed out early and Council was now within all policy limits.
- The Subcommittee supported the action that had been taken to bring Council back within policy by year end.
- During the Long Term Plan (LTP) process Council will test its policies to see if they are still delivering what Council is trying to achieve.
- Clarification was sought as to whether Officers would go outside Council to test these policies or was it using advice through PwC.
- Officers were questioned regarding the likelihood of the projected \$90m debt position at July 2018.
- A lot of work that Council had committed to undertaking was growth related, Opera House and Whakatu Arterial - all of which were about to commence.

- The Subcommittee felt that Officers had been doing well in managing the level of Council debt.

ACTION POINTS:

- During the Long Term Plan (LTP) process Council will test its policies and prudential limit to see if they are still delivering what Council was trying to achieve.
- Officers would benchmark these policies against other Councils and use advice through PwC.

Mr Nichols/Councillor Travers

- A) That the report of the Manager Strategic Finance titled Treasury Activity and Funding dated 19/06/2017 be received.**
- B) That although the Council had been slightly out of policy as at 31/5/17, with 98% of current debt being covered by fixed rate interest contracts compared to a maximum policy position of 95%, it was now within policy as action had been taken by the end of June 2017 by way of the closing out of an interest rate swap early.**

CARRIED RIS/17/2

6. EXTERNAL CREDIT RATING

(Document 17/330)

Officers spoke to the agenda report and responded to questions from the Subcommittee. The main points that were highlighted or addressed, included:

- This issue had been previously addressed in February 2016. Officers felt it was prudent to look at this matter further now.
- The Subcommittee discussed the comparison between the fees that would be charged for the initial rating and ongoing annual reviews, as per information provided by Standard & Poor's and Fitch Ratings (two of the three major internationally recognised credit rating agencies listed in Paragraph 2.3).
- Officers felt it was worth further considering an external credit rating for Council:
 - a) due to its possible future debt increase, and
 - b) having a credit rating would benefit Council with lower margins through LGFA, when it is time to replace some of its existing debt (approximately \$40m).
 - c) it provided another tool to show the public that the Council had been measured against other Councils by an outside organisation.
 - d) it gave lenders a measure of assurance in regard to the Council's financial position.
- The Council was at the lower end of the spectrum in regard to the Net Debt/Revenue ratio for Councils with a credit rating.
- If the external credit rating was obtained and then the Council decided to withdraw from this process at a later date, Council will retain the benefits achieved from debt placed during that time until the debt required replacement in the future.
- LGFA would be comfortable with the Council using any of the three major credit rating agencies.
- The 20 basis points that were currently added to the Council's credit margin, on all borrowing made through LGFA (as noted in Paragraphs 2.12 and 3.1), may

change later and that could be to the Council's advantage.

- The internal cost and staff workload that will arise from seeking an external credit rating. The Council will be audited on this each year. Officers felt the associated work would be manageable within existing staff levels – some work would be done within Council and some would be done off-site.

ACTION POINTS:

- Officers would manage the work associated with seeking and maintaining an external credit rating if this recommendation was supported by Council.

Councillor Travers/Councillor Hazlehurst

- A) That the report of the Manager Strategic Finance titled "External Credit Rating" dated 19/06/2017 be received.**
- B) That the Risk and Audit Subcommittee recommend to Council that it should acquire an external credit rating from one of the three major internationally recognised credit rating agencies.**

With the reasons for this decision being that the objective of the decision will contribute to Hastings District Council being able to debt fund good quality local infrastructure in a manner that is most cost-effective for households and business through reduced borrowing costs.

CARRIED RIS/17/3

7. 2017 ANNUAL REPORT UPDATE AND AUDIT NZ ARRANGEMENTS

(Document 17/486)

Officers spoke to the agenda report and responded to questions from the Subcommittee. The new Officers in the Finance and IT teams who were present were introduced to the Subcommittee. The main points that were highlighted or addressed, included:

- The Subcommittee noted the Audit NZ Arrangements Letter and the Interim Audit Report that had been circulated in the agenda as attachments.
- There were some points on which there was room for the Council to improve and Officers had already taken action on a number of the points that had been raised.

The Approval of Payments

- Additional training for staff will be developed and improved.
- Checks and balances would be in place to ensure a "one level up" approval basis was being undertaken.

Purchase Card Breaches:

- In later 2016 Council had changed to the Westpac for its purchase cards. A refreshed pCard policy had been in place since 2016 and a new expense management process was being implemented.
- It was acknowledged that further training of staff was still required.

IT Issues:

- The Chief Information Officer, Mr Andrew Smith, was present and noted:
- Password complexity to be extended to make it more secure.
- Server updates regularly undertaken when security patches were applied and rigorous tests were also undertaken.
- The need to have a good process to assess impact and risk issues and have a

central register of all systems changes.

Review of Compliance with IT Policies and Procedures:

- IT Officers need to evaluate the policies in place and educate staff. There were generic policies in place and Officers needed to be informed about them, with appropriate controls put in place to enforce them. Extensive policies were not needed.
- Evaluation of the policies to be undertaken – a target had been set at the end of August 2017, before Audit NZ undertakes the final audit.

There was some discussion regarding how long an item could sit as a “Work in Progress” – e.g. Civic Square. The Subcommittee referred to the table under Point 2., within the Audit NZ Arrangements Letter, on Page 37 of the Agenda. Mr Lucy advised that the Council would need to make a decision about matters like this, and the Subcommittee would need to have an understanding of what the Council intended to do. Audit NZ would then make a judgement call, in its audit opinion, as to the impact such a situation may have on the accounts.

Signing off the Mayor’s Expenditure:

- At present - the Mayor’s expenditure was signed off by the CE; The CE’s expenditure was signed off by the Executive Advisor/Manager: Office of the Chief Executive (Mr M Maguire); Mr Maguire’s expenditure was signed off by the Mayor; Councillor expenditure was signed off by the Group Managers/Mayor.
- The Subcommittee asked that this policy be reviewed in light of fact that there would soon be an election for a new Mayor. It was noted that the Audit NZ Interim Report suggested that the Chair of the Finance and Monitoring Committee could be added into this policy with authority to sign off this type of expenditure.

LTP:

- The LTP was coming up in 2018 and Audit NZ had already undertaken discussions with Officers about this.

Water:

- Officers will be looking at work in terms of expenditure that has occurred or capitalisation that has taken place and whether standards have been met.
- The findings of the Stage 2 Water Enquiry will be released in December 2017.
- The water issue will have a significant effect on the LTP and options may need to be included in Council’s policies to reflect this impact.

ACTION POINTS:

- Signing off the Mayor’s Expenditure - a report regarding the expenditure signing policy to be prepared for consideration by this Subcommittee and then to be referred onto Council for decision.
- The Chair of the Risk and Audit Subcommittee will meet with staff to develop a reporting regime back to the Subcommittee to ensure recommendations made by Audit NZ are actioned.

Councillor Kerr/Councillor Travers

That the report of the Chief Financial Officer titled “2017 Annual Report Update and Audit NZ Arrangements” dated 19/06/2017 be received.

CARRIED RIS/17/4

8. WATER SERVICES REVIEW

(Document 17/575)

Officers spoke to the agenda report and responded to questions from the Subcommittee. The main points that were highlighted or addressed, included:

- The Water Services Review document had been considered by Council.
- The review recommended that the Chief Executive report to the Risk and Audit Subcommittee on the change programme progress against each of the review finding implication areas until the change programme is fully completed and signed off.
- It is expected that this reporting regime will start from the Subcommittee's meeting on 4 September 2017.
- The Chief Executive will discuss the reporting format and approach in more detail with the Chair of the Subcommittee.
- Some of the review's recommendations had already been addressed.

ACTION POINTS:

- That the Chief Executive report to the Risk and Audit Subcommittee on the change programme progress against each of the review finding implication areas until the change programme is fully completed and signed off.
- This reporting regime is expected to start from the Subcommittee's meeting on 4 September 2017 and the Chief Executive will discuss the reporting format and approach in more detail with the Chair of the Subcommittee.

Mr Nichols/Councillor Hazlehurst

That the report of the Chief Financial Officer titled "Water Services Review" dated 19/06/2017 be received.

With the reasons for this decision being that the objective of the decision will contribute to meeting the current and future needs of communities for good quality local infrastructure.

CARRIED RIS/17/5

9. ADDITIONAL BUSINESS ITEMS

There were no additional business items.

10. EXTRAORDINARY BUSINESS ITEMS

There were no extraordinary business items.

11. RECOMMENDATION TO EXCLUDE THE PUBLIC FROM ITEMS 12, 13, 14, 15 AND 16

SECTION 48, LOCAL GOVERNMENT OFFICIAL INFORMATION AND MEETINGS ACT 1987

Councillor Hazlehurst/Mayor Yule

THAT the public now be excluded from the following parts of the meeting, namely;

- 12 Internal Audit**
- 13 Local Authority Protection Programme**
- 14 2017/18 Insurance Renewal Programme**
- 15 Annual Tax Update**
- 16 Building Control Liability Issues**

The general subject of the matter to be considered while the public is excluded, the reason for passing this Resolution in relation to the 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 is as follows:

GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER, AND PARTICULAR INTERESTS PROTECTED	GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF EACH RESOLUTION
12 Internal Audit	<p>Section 7 (2) (h)</p> <p>The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.</p> <p>The Internal Audit includes the review of commercial arrangements as part of the audit process.</p>	<p>Section 48(1)(a)(i)</p> <p>Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.</p>
13 Local Authority Protection Programme	<p>Section 7 (2) (i)</p> <p>The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p> <p>Commercial sensitivity.</p>	<p>Section 48(1)(a)(i)</p> <p>Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.</p>
14 2017/18 Insurance Renewal Programme	<p>Section 7 (2) (h)</p> <p>The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.</p> <p>Commercial Sensitivity.</p>	<p>Section 48(1)(a)(i)</p> <p>Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.</p>
15 Annual Tax Update	<p>Section 7 (2) (h)</p> <p>The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities.</p> <p>The Internal Tax Review includes the review of commercial arrangements as part of the audit process.</p>	<p>Section 48(1)(a)(i)</p> <p>Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.</p>

16 Building Control Liability Issues

Section 7 (2) (g)

The withholding of the information is necessary to maintain legal professional privilege.

Legal advice received is legally privileged.

Section 48(1)(a)(i)

Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.

And that Mr Stephen Lucy and Ms Jessica Noiseux from Audit New Zealand be permitted to remain in the meeting after the public have been excluded because their knowledge of the matters under consideration is essential to assisting the Risk and Audit Subcommittee towards a decision.

CARRIED

The meeting closed at 4.48pm

Confirmed:

Chairman:

Date: