

**MINUTES OF WESTERN BAY OF PLENTY DISTRICT COUNCIL
AUDIT AND RISK COMMITTEE MEETING NO. AR22-1
HELD VIA ZOOM ONLY AND LIVESTREAMED UNDER COVID-19 TRAFFIC LIGHT RED
ON TUESDAY, 15 MARCH 2022 AT 9.30AM**

1 PRESENT

Cr J Denyer (Chairperson), Cr M Grainger, Cr G Dally, Cr M Dean, Cr M Gray, Cr A Henry, Cr M Murray-Benge, Cr A Sole, Cr D Thwaites, Mayor G Webber, and Independent Member M Maloney.

ABSENT

Cr K Marsh

2 IN ATTENDANCE

J Holyoake (Chief Executive Officer), J Graham (Acting General Manager Finance and Technology Services) G Allis (Deputy CEO/Group Manager Infrastructure Services), R Davie (Group Manager Policy Planning and Regulatory Services), J Pedersen (Group Manager People and Customer Services), D Jensen (Finance Manager), T Abraham (Assurance and Risk Specialist), R Barnett (Senior Business Analyst), A Carey (Finance Business Advisor), E Thiart (Finance Business Advisor), S Bedford (Financial Controller), E Bates (Systems and Asset Accountant), R McKegg (Financial Accountant), O McVicker (Manager Corporate Services and Business Improvement), L Balneaves (Executive Assistant Finance and Technology), L Schild (Executive Assistant People and Customer Services), H Wi Repa (Governance Technical Support), J Osborne (Governance Support Administrator) and C Irvin (Senior Governance Advisor).

OTHERS IN ATTENDANCE

Bancorp Treasury

S Ranchhod (Head of Treasury Advisory)

R Woodfield (Client Advisor)

AON

M Wilson (National Client Relationship Manager)

D MacDonald (Operations Manager - Local Government Risk Practice Group)

Audit New Zealand

L Pieterse (Director)

W Goslette (Audit Manager)

3 APOLOGIES

APOLOGY

RESOLUTION AR22-1.1

Moved: Cr M Dean

Seconded: Cr D Thwaites

That the apology for absence from Deputy Mayor Scrimgeour be accepted.

CARRIED

4 CONSIDERATION OF LATE ITEMS

Nil

5 DECLARATIONS OF INTEREST

Nil

6 PUBLIC EXCLUDED ITEMS

Nil

7 PUBLIC FORUM

Nil

8 PRESENTATIONS

8.1 BANCORP TREASURY UPDATE AND PRESENTATION

The Committee considered a report dated 15 March 2022 from the Finance Manager. Ross Woodfield and Suresh Ranchhod from Bancorp Treasury spoke to a power point presentation summarising the following points:

Inflation Presentation:

- Consumer Price Index (CPI's) continue to surge (mostly);
 - Oil Spikes to a decade high;
 - Russia/Ukraine tension (% change);
 - Supply chain woes continue;
 - Inflation, and inflation expectations soar;
 - New Zealand inflation components;
 - Year on year price changes;
 - Reserve Bank of New Zealand (RBNZ) market pricing;
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- Official Cash Rate (OCR), BKBM (main interest rate benchmark in New Zealand) and Swap Rates;
- RBNZ estimate of the neutral OCR; and
- RBNZ OCR forecasts vs actual.

Presenters responded to questions as follows:

- The rise in the housing market had been led by debt. Households had been the main net borrower over the last two years. Mortgage debts had risen by about \$53 billion over the last twelve months, and business and agriculture debt (which included Council) had only grown by about \$1.5 billion.
 - The amount of money Government had borrowed impacted inflation to some extent, but the main driver that fuelled demand was household spending.
 - The enormous amount of money put into the system around the world to cope with the COVID-19 pandemic had impacted inflation, as well as other things such as supply chain issues, oil prices and the war in the Ukraine.
 - 'Transitory factors' that affected inflation had lasted longer than expected and were expected to come down at some point.
 - The amount of interest rate hikes the Reserve Bank of New Zealand was forecast to implement would have a far bigger impact than in previous times, as household mortgage debt was substantially higher.
 - Dairy farms were not as profitable as they had been. The cost of fertiliser was extremely high at the moment. While farmers may be making profit on one side of their ledger, they would be paying it out on the other side in terms of fertiliser, petrol and wage costs. Dairy income would not entirely offset oil prices.
 - The key driver for the New Zealand economy since the pandemic was the domestic side, largely driven by the wealth affect from the housing build. However, this was about to quickly unwind, severely slowing the domestic economy.
 - The amount of debt was by far the biggest difference when comparing mortgage interest rates from the 70's and 80's to present day. Today, the average household was facing vast amounts of debt, as were other entities worldwide. A rise in interest rates would be felt across the spectrum. New Zealand was now one of the most over-priced housing markets in the world, and the debt to income ratio was now extremely high.
 - All the money that had been pumped into the world economy had ended up in asset prices rather than stimulating the growth that was hoped for. This had created a situation of extremely high asset prices fuelled by a lot of cheap money, which was a difficult situation to get out of and may take years to fix. It would rely on wage growth to service the debt.
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RESOLUTION AR22-1.2

Moved: Cr M Grainger

Seconded: Cr G Dally

1. That the Finance Manager's report dated 15 March 2022 titled 'Bancorp Treasury Update and Presentation' be received.
2. That the presentation from Bancorp Treasury dated 15 March 2022 be received.

CARRIED

8.2 AON INSURANCE UPDATE PRESENTATION – CURRENT MARKET AND EMERGING RISKS

The Committee considered a report dated 15 March 2022 from the Senior Risk and Assurance Specialist. Deanna MacDonald and Matthew Wilson from AON spoke to a power point presentation summarising the following points:

Current Market Conditions:

- Q4 2021;
- Cost of Natural Disasters in New Zealand 2021;
- New Zealand Market;
- Snapshot – Property;
- Snapshot – Liability;
- Snapshot – Crime;
- Snapshot – Cyber; and
- Better decisions amongst uncertainty.

2021–2022 Renewal Outcomes:

- Renewal Outcomes – Western Bay of Plenty District Council.
- Emerging Risks:
- Climate change;
- Corporate social responsibility and ESG;
- Disruptive technologies; and
- Personal liability (D&O Risk).

Presenters responded to questions as follows:

- Because of the Local Authority Shared Services (LASS) arrangement and Inter-LASS processes, whereby there was a shared system in Bay of Plenty Local Authority Shared Services (BOPLASS), at the moment, cyber protection cover was set for all councils, and was shared across them with a \$7.5 million aggregate limit. If an event happened that hit two or three councils, this became eroded. There was a \$1 million limit per council. There was a \$100,000 deductible on the policy per council. At the
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moment, AON was working through a BOPLASS cyber-IT manager workshop to be held on 24 March 2022, which was to include insurance people as well. There were seven basic criteria that councils had to meet and Western Bay of Plenty District Council was doing very well in this space.

- Good quality data referred to accurate valuations. For example, was the amount representative of the replacement cost of the asset concerned or, representative of a 'functional replacement' or indemnity value only.
 - Under 'Renewal Outcomes Policy' - 'Aviation Hull' referred to the liability attached to operating a drone. A lot of councils had started using drones.
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RESOLUTION AR22-1.3

Moved: Cr G Dally

Seconded: Cr A Henry

1. That the Senior Assurance and Risk Specialist's report dated 15 March 2022 titled 'AON Insurance Update Presentation – Current Market and Emerging Risks' be received.
2. That the presentation from AON Insurance dated 15 March 2022 be received.

CARRIED

9 REPORTS

9.1 SUMMARY OF AUDIT AND RISK AGENDA TOPICS – MARCH 2022

The Committee considered a report dated 15 March 2022 from the Senior Assurance and Risk Specialist. The report was taken as read.

The new director of Audit New Zealand, Leon Pietersie, introduced himself to the Committee and said he looked forward to continuing a good working relationship. He noted page 14 of the Annual Report as having key messages, and pages 15 and 16 as having new recommendations.

Audit New Zealand responded to questions as follows:

- Property plant and equipment re-evaluation had been identified as an issue across all councils because it was such a significant item on the balance sheet that required judgements and assumptions during re-valuation. More focus had been given to this and more guidance issued.
- Improvement of asset data had been recommended and the implementation of these recommendations were coming through now.

Staff responded to questions as follows:

- The Acting General Manager Finance and Technology Services advised that there were no major concerns with the property plant and equipment re-evaluation at this point in time.
 - The Chief Executive Officer advised that it was extremely important for Elected Members to declare all interests through the annual declaration process and emphasised that this process was not the same as declaring a conflict of interest.
 - A 'vested interest' was something that had been given to Council to maintain (for example by a developer), such as a reserve, a road, or a pipeline.
 - Due to the Three Waters Reform and transition, Council was working together with Tauranga City Council and their contractors to establish what the Department of Internal Affairs classified as a 'dry weather sewerage overflow', and what Audit New Zealand wanted.
 - Currently, Council's procurement policies and procedures followed the New Zealand Government procurement guidelines. The new recommendations in the Audit New Zealand report were timely in that Council was due to review these policies this year by June 2022 and was currently working with an external body to work out how it integrated Iwi representation within Council decision making.
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RESOLUTION AR22-1.4

Moved: Cr A Henry

Seconded: Cr A Sole

That the Senior Assurance and Risk Specialist's report dated 15 March 2022 titled 'Summary of Audit and Risk Agenda Topics - March 2022' be received.

CARRIED

9.2 TREASURY UPDATE REPORT

The Committee considered a report dated 15 March 2022 from the Finance Manager. The report was taken as read with the following point noted:

- Council staff met with Bancorp on a monthly basis to ensure that its treasury was functioning adequately, and its risks were well managed. Council undertook monthly assessments of risks, and currently believed that its risk was low.
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RESOLUTION AR22-1.5

Moved: Cr J Denyer

Seconded: Cr M Dean

That the Finance Manager's report dated 15 March 2022 titled 'Treasury Update Report' be received.

CARRIED

9.3 QUARTERLY REVIEW OF RISK PROFILE

The Committee considered a report dated 15 March 2022 from the Senior Assurance and Risk Specialist. The report was taken as read and it was noted that this item would be discussed in more detail in the workshop to follow.

- The Chairperson advised that Independent Member Mark Maloney would resign from his position on Western Bay of Plenty District Council's Audit and Risk Committee after this meeting.
 - Member Maloney advised this was due to his appointment as the Assistant Auditor General Local Government of the Office of the Auditor General.
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RESOLUTION AR22-1.6

Moved: Cr A Henry

Seconded: Cr M Murray-Benge

1. That the Senior Assurance and Risk Specialist's report dated 15 March 2022 titled 'Quarterly Review of Council's Risk Profile' be received.
2. That the report relates to an issue that is of low significance in terms of Council's Significance and Engagement Policy.

CARRIED

9.4 UPDATE ON OUTSTANDING AUDIT ITEMS (INTERNAL/EXTERNAL) MARCH 2022

The Committee considered a report dated 15 March 2022 from the Senior Assurance and Risk Specialist. The report was taken as read.

RESOLUTION AR22-1.7

Moved: Cr M Grainger

Seconded: Cr M Dean

That the Senior Assurance and Risk Specialist's report dated 15 March 2022 titled 'Update on Outstanding Audit Items (Internal/External) March 2022' be received.

CARRIED

9.5 HEALTH AND SAFETY REPORT

The Committee considered a report dated 15 March 2022 from the Executive Assistant People and Customer Services. The report was taken as read.

Staff responded to questions as follows:

- It was Council's broad understanding at this time that aggressive incidents at the libraries were borne out of frustration, anxiety and wider issues that came with the COVID-19 pandemic.
 - The Chief Executive Officer advised that Council had a very good 'Business as Usual' plan in place around resilience and continuity. Water operations were a critical risk area where Council had particularly tried to limit exposure across teams, and which had worked quite well.
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RESOLUTION AR22-1.8

Moved: Cr A Henry

Seconded: Cr A Sole

That the Executive Assistant, People and Customer Service's report dated 15 March 2022 titled 'Health and Safety Report' be received.

CARRIED

10 INFORMATION FOR RECEIPT

Nil

11 RESOLUTION TO EXCLUDE THE PUBLIC**RESOLUTION TO EXCLUDE THE PUBLIC**

RESOLUTION AR22-1.9

Moved: Cr J Denyer

Seconded: Cr M Grainger

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

The general subject matter 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 of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
11.1 - Litigation Update	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7

CARRIED

The Meeting closed at 11:23am.

Confirmed as a true and correct record by Council on 12 May 2022.