

**MINUTES OF WESTERN BAY OF PLENTY DISTRICT COUNCIL  
AUDIT, RISK AND FINANCE COMMITTEE MEETING NO. ARF23-1  
HELD IN THE COUNCIL CHAMBERS, BARKES CORNER, 1484 CAMERON ROAD, TAURANGA  
ON MONDAY, 27 FEBRUARY 2023 AT 12.30PM**

## 1 PRESENT

Cr M Grainger (Chairperson), Cr T Coxhead, Cr R Crawford, Cr G Dally, Mayor J Denyer, Cr A Henry, Cr R Joyce, Cr M Murray-Benge, Deputy Mayor J Scrimgeour, Cr A Sole, Cr D Thwaites, Cr A Wichers, and Independent Member S Henderson

## 2 IN ATTENDANCE

J Holyoake (Chief Executive Officer), R Davie (General Manager Strategy and Community), A Ali (Chief Financial Officer), E Bernard (Risk and Assurance Manager), D Crowe (Head of People and Capability), G Golding (Governance Manager), S Bedford (Financial Controller), C Boyle (Health, Safety and Wellbeing Lead), J Osborne (Governance Administrator), and B Clarke (Senior Governance Advisor)

### EXTERNAL GUESTS IN ATTENDANCE

#### Bancorp Treasury

Suresh Ranghoff (Head of Treasury Advisory)

#### Aon Insurance

Matthew Wilson (National Manager, Local Government Risk Practice)

Deanna Macdonald (National Client Relation Manager, Local Government Risk Practice)

## 3 APOLOGIES

### APOLOGIES

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#### RESOLUTION ARF23-1.1

Moved: Cr M Murray-Benge

Seconded: Cr A Sole

That the apologies for lateness from Cr R Crawford and Cr G Dally be accepted.

**CARRIED**

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## 4 CONSIDERATION OF LATE ITEMS

Nil

## 5 DECLARATIONS OF INTEREST

Nil.

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## 6 PUBLIC EXCLUDED ITEMS

Nil.

## 7 PUBLIC FORUM

Nil.

## 8 PRESENTATIONS

### 8.1 BANCORP TREASURY - UPDATE AND PRESENTATION

The Committee considered a report dated 27 February 2023 from the Chief Financial Officer. Suresh Ranchhod from Bancorp Treasury spoke to a powerpoint presentation summarising the following points:

#### Strategy update:

- Global Consumer Price Index (CPIs)
  - Past peak global inflation – US annual inflation eased to 6.4% in January 2023, the lowest since September 2021, giving the Fed room to slow.
- NZ inflation stays high in December 2022, at 7.2%
  - Food, housing, transport and recreation and culture (tourism) were the main drivers.
- NZ food inflation highest in 32 years
- Wage-Price spiral
  - Near record low unemployment (3.4%), despite record high labour force participation.
- NZ net migration turning
  - Might help soften house price falls and ease labour pressures and the wage spiral.
- Consumer confidence below Global Financial Crisis (GFC) levels
- Business confidence.
- Central bank tightening expectations
- Reserve Bank of NZ (RBNZ) Official Cash Rate (OCR) Cycles
  - The fastest and most aggressive hiking cycle since the OCR was introduced in 1999.
- Thoughts to address the developing policy breach
  - WBOPDC had been highly hedged (to take an offsetting position in an asset investment that reduces the price risk of an existing position) near term, with cash on hand thus lower levels of debt
  - Policy breaches in 2024 and 2027 would be addressed using forward starting swaps, but Three Waters was likely to change debt forecasts.

12.34 pm Cr Crawford and Cr Dally entered the meeting.

Mr Ranchhod responded to questions as follows:

- The current inflation rate, at 7.2%, was the highest. Interest rates were higher now, while house prices were materially higher than fifteen years ago.
- NZ Food inflation was higher than other parts of the world. It was diverging from the global experience because dairy prices were down, there was still high demand for food, and not enough had been produced to support that demand. Overseas demand for meat products had been high for three years and was still pushing up prices. Fertiliser prices had only come down over the last six months from significant heights of \$1,000 per tonne, whereas prior the price was around \$350. Labour and fuel costs had been impacted, along with adverse weather events. In some cases crops of fruit were undamaged but access was not available due to weather events preventing access to some places.

The Chief Executive Officer advised as follows:

- Council had worked through its process with the National Transition Unit (NTU) for the Three Waters Reform Programme. Western Bay's experience was that it had undertaken "high trust conversations" and had a positive interaction.
- NTU were not putting a value on Council's assets but were putting a value on Council's debt. The assets transitioned over regardless of the debt value agreed to.
- In terms of the re-payment, on day one, 1 July 2024, NTU would immediately settle on any councils that had debt of less than \$20M. For any other councils the repayment would be required to be settled within a 5-year period
- NTU had assured Council, and it would be in the Funding Agreement, that they were covering all finance costs relating to the existing debt, including interest charges, holding costs and the likes.

Mr Ranchhod continued his responses to questions as follows:

- Mr Ranchhod addressed a policy breach, which was very minor, noting a swap could be done to address this. A suggested course of action was for Council to focus on its debt forecast and consider whether it was overly optimistic. Local authorities often had a 'wish list' of projects that, ultimately, were unable to be delivered due to a lack of resources. There were many things that could be done to address the policy breaches.
  - Interest rate swaps were a financial derivative for managing interest rate risk. In the past they had at times, been sold to people who did not understand the risk of the business, so were not appropriate in those cases.
  - WBOPDC would have some debt and was a long-term-infrastructure entity that had capacity to manage risk over multiple years, and therefore could "hedge out" to ten years. Swaps sat "over the top" of debt and were separate to it. Swaps locked in a fixed rate so councils paid fixed and received 'float', which off-set the
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risk from borrowings. This gave flexibility, and hedges could be positioned wherever required. In the last fifteen years, rates risk management had been relatively easy, but these were challenging times.

- Swaps were a valuable tool when there was volatility and upward trend in the market but were less valuable when the market was moving the other way. That was why council was not 100% hedged. Now the market was heading up, Council was highly hedged, and that should benefit council for the next 12-18 months.
- The banks had indicated that there may be approximately 3-5% of homeowners that may move into negative equity.
- A policy breach was where Council had interest rate hedging below what it was required to have.
- In terms of rates rises, Councils was required to deliver on the needs in the region, and there was an influx of people moving into the district.

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### RESOLUTION ARF23-1.2

Moved: Cr D Thwaites

Seconded: Cr A Sole

1. That the Chief Financial Officer's report dated 27 February 2023 titled 'Bancorp Treasury Services Limited - Update and Presentation' be received.
2. That the presentation from Bancorp Treasury on 27 February 2023 be received.

**CARRIED**

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### 8.2 AON INSURANCE UPDATE PRESENTATION – CURRENT MARKET AND EMERGING RISKS

The Committee received a report from the Risk and Assurance Manager, who introduced Matthew Wilson (National Manager, Local Government Risk Practice), and Deanna MacDonald (National Client Relation Manager, Local Government Risk Practice). Mr Wilson and Ms MacDonald both spoke to a powerpoint presentation.

#### Scope of Presentation:

- Insurance Market – Asia Pacific (APAC) – Pre – 27 January 2023.
- Global Property Market Drivers.
- Global impact – Top 10 Year 2022 Global Economic Loss Events.
- Oceania Impact.
- Reinsurance.
- 27 January 2023 Weather Event (Auckland Anniversary weekend).
- Aftermath and market expectations.
- Renewal Premium Summary.

Mr Wilson and Ms MacDonald responded to questions as follows:

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- In terms of Local Government insurance trends, with property insurance programmes, (whether below ground reticulation assets or above ground assets), the premium was derived by applying a rate percentage to the total values. The question was whether or not there was a need to insure everything. In the current market, councils and others needed to reconsider insurance needs, and to understand risk appetite, the balance sheet, and what could be “self-insure”. It was important to be focused and align with strategic decisions and objectives. There had to be a robust process as to why a property was not being insured, as there was risk involved.
- Professional indemnity covered legal liability through failure to act. For council’s the vast majority of notifications or claims were from the building consenting space. Larger individual claims would impact rating. In recent years the insurance market had to make an adjustment to some premiums, because they were no longer sustainable for the sector.
- In relation to cyber security and insurance, this related to something that may happen. Unfortunately, with cyber issues it was a matter of “if, not when”. Premiums were increasing and the extent of cover was diminishing rapidly. It would be wise to invest money into improved systems. Data suggested the Local Government sector had a higher number of breaches than other sectors.
- This presentation information had been individualised for the Council.
- Aon entered into a process with the Bay of Plenty group of councils and charged a flat fee. Aon did not earn brokerage on any programme purchased for them, and worked to get the best programme available. If Aon recommended buying insurance because council had an exposure, that advice was not coming from the point of view that they were selling an insurance product for revenue-generating purposes.

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### RESOLUTION ARF23-1.3

Moved: Cr T Coxhead

Seconded: Cr A Sole

1. That the Risk and Assurance Manager’s report dated 27 February 2023 titled ‘Aon Insurance Update Presentation – Current Market And Emerging Risks’ be received.
2. That the presentation from Aon Insurance on 27 February 2023 be received.

**CARRIED**

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## 9 REPORTS

### 9.1 AUDIT, RISK AND FINANCE COMMITTEE WORK PROGRAMME

The Committee considered a report from the Risk and Assurance Manager, who introduced the report and took it as read.

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The Mayor expressed appreciation for the quality of the report and programme of work.

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#### RESOLUTION ARF23-1.4

Moved: Cr R Joyce

Seconded: Cr M Murray-Benge

That the Risk and Assurance Manager's report dated 27 February 2023 titled 'Audit, Risk and Finance Committee Work Programme' be received.

**CARRIED**

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### 9.2 NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED ANNUAL REPORT 2021-2022

The Committee considered a report from the Financial Business Advisor. The Chief Financial Officer introduced the report and took it as read. In response to questions, the following was noted:

- The General Manager Corporate Services had been formally inducted onto the NZ Local Funding Agency.
  - The credit rating had been maintained.
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#### RESOLUTION ARF23-1.5

Moved: Cr T Coxhead

Seconded: Cr D Thwaites

That the Financial Business Advisor's report dated 27 February 2023 titled 'New Zealand Local Government Funding Agency Limited Annual Report 2021-2022' be received.

**CARRIED**

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### 9.3 BAY OF PLENTY LOCAL AUTHORITY SHARED SERVICES LIMITED (BOPLASS) ANNUAL REPORT

The Committee considered a report from the Financial Business Advisor. The Chief Financial Officer introduced the report and took it as read.

In relation to a question with regard to BOPLASS working with the BOP Regional Council to purchase Covid RAT tests on behalf of member councils, and a lack of communication thereof, Staff would investigate the matter and report back to Elected Members.

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**RESOLUTION ARF23-1.6**

Moved: Cr R Crawford  
Seconded: Mayor J Denyer

That the Financial Business Advisor's report dated 27 February 2023 titled 'Bay of Plenty Local Authority Shared Services Limited (BOPLASS) Annual Report' be received.

**CARRIED**

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**9.4 RISK AND ASSURANCE REPORT FEBRUARY 2023**

The Committee considered a report from the Risk and Assurance Manager. The Chief Financial Officer gave a brief overview, noting that the Risk Report and the Assurance Report had now been combined together. She noted that a Risk Workshop had been rescheduled. In the interim, the report included a section about emerging risk.

The Risk and Assurance Manager introduced the report, noting the following:

- Council's Strategic Risk Register had been implemented to ensure the management of risk.
- In May 2022, the 'KPMG Post Risk Workshop' had made recommendations on eight strategic risks, as shown on page 131 of the agenda.
- A Risk Workshop had been scheduled on 30 March 2023 for the purpose of identifying any additional risks.
- The Infrastructure Operational Risk Register captured infrastructure and utilities risk.
- Council's Risk Management Work Programme, as shown on page 137 of the agenda, was about managing risk and developing mitigation plans to address risks.

Staff responded to questions as follows:

- In relation to the table on page 132 of the agenda, the white pins represented inherent risk and the black pins represented residual risk. The residual risk was expected to always be lower than the inherent risk.
  - In relation to page 131 of the agenda, climate change impact was in a separate box as it related to sustainability, whereas external events, such as earthquakes, were significant and immediate.
  - In relation to page 133 of the agenda, with regard to the heat map as part of the summary of key risks previously presented to Council, some of those key risks had been significantly reducing. Council had a draft Risk Management Framework being developed and a key part of that was establishing risk.
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- With regard to the reason Chlorination had a high risk, Staff would report back on the matter.
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### RESOLUTION ARF23-1.7

Moved: Cr A Sole

Seconded: Cr T Coxhead

That the Risk and Assurance Manager's report dated 27 February 2023 titled 'Risk and Assurance Report February 2023' received.

**CARRIED**

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2.15pm The meeting adjourned.

2.30pm The meeting reconvened.

## 9.5 FINANCIAL PERFORMANCE UPDATE AS AT 31 DECEMBER 2022

The Committee considered a report from the Financial Controller. The Chief Financial Officer introduced the report, noting the following:

- The report format had been updated. Policy breaches were in the Treasury Section so they could be easily identified. Staff welcomed feedback on the new format, as with all the reports.
- At year end, revenue was at 48% of the year budget, and expenses 49% approximately. In terms of half-yearly, this was a positive position.
- CAPEX (Capital Expenditure) was where the majority of the work would be done, as discussed during the Annual Plan training process. Currently, CAPEX sat at 35% of the full year budget. This was an indication it was not phased month-by-month.
- There was a slight 'typo' in the report in relation to current budgets from a capital delivery perspective reflected, which should read 6/12<sup>th</sup> savings and not 1/12<sup>th</sup>.
- At a high level, the variance in the tables and commentary confirmed a deficit in December 2022 of \$7.98K.

Staff responded to questions as follows:

- In terms of the two key variances, subsidies and grants related to Waka Kotahi who funded this. As the Capital Programme was behind, the subsidy could not yet be claimed. In terms of financial contributions (Recreation), that variance related to being behind in the development phasing of that work.
  - For the next reporting round, Staff would be taking reviewing financial contributions and providing more comprehensive information.
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- In relation to page 155 of the agenda, statistics graphs, the top part of the green line represented rates collected for the year, the dark green line on the bottom showed how Council allocated out those rates collected for business.
  - The Mayor thanked Staff for finding innovative ways of presenting the data.
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### RESOLUTION ARF23-1.8

Moved: Deputy Mayor J Scrimgeour

Seconded: Mayor J Denyer

That the Financial Controller's report dated 27 February 2023 titled 'Quarterly Audit, Risk and Finance Committee Financial Update as 31 December 2022' be received.

**CARRIED**

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## 9.6 HEALTH AND SAFETY REPORT

The Head of People and Capability introduced the newly appointed Health, Safety and Wellbeing Lead, explaining his background and experience. The Health, Safety and Wellbeing Lead introduced the report, noting the following:

- The report included historic data from the previous six months.
- There were identifiable upward trends relating to undesirable/threatening behaviour risk, particularly for Staff in community based environments. There had been better reporting in that area, which may be the reason an increase was apparent.
- Staff were participating in a Health and Safety survey. Following that, a strategy, driven by Council's employees, would be developed.
- Council aimed to be an 'industry lead' in Health, Safety and Wellbeing in the way it conducted its business.

Staff responded to questions as follows:

- The issue of mental health was extremely topical coming out of Covid and with the worsening economic situations people were now facing. Council was about to review EAP (Employee Assistance Programmes) Services.
  - There was a Community Health and Wellbeing Strategy that would stand alone, as it needed its own focus. From that, there would be improvements in the way Council could support its staff.
  - Council would be giving further consideration to increasing bad behaviour impacting staff. It was often experienced in the libraries and customer service areas but was happening across the business.
  - Some staff had received aggressive behaviour training. During incidents, staff had utilised the tools available to them and coped well.
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- In relation to head injuries, these were usually from vehicle incidents rather than assault.
  - In terms of the downward trend in contractor events, there had been underreporting and lag indicators in terms of timing of reports. Staff were meeting with contractors to improve the timing of the process.
  - Council staff could help people who were clearly distressed during responses to emergencies, by referring them to the appropriate supportive service.
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### RESOLUTION ARF23-1.9

Moved: Cr A Henry

Seconded: Cr M Murray-Benge

That the Health, Safety and Wellbeing Lead's report, dated 27 February 2023, titled 'Health and Safety Report' be received.

**CARRIED**

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## 9.7 FINAL AUDIT MANAGEMENT REPORT 2022

The Committee considered a report from the Financial Controller. The Chief Financial Officer introduced the report, noting the following:

- Audit NZ had audited Council to the end of 2022, and provided its report to Council later than usual, just prior to Christmas.
- The final Audit Management Report was being tabled today.
- There were no material statements in the report, which was a credit to Council's financial team.
- There were historical outstanding items included. In future, all the management reports, (external and internal), would be tabled as part of the Outstanding Audit and Risk Register.

Staff responded to questions as follows:

- With regard to the delay in receiving last years Audit report, staff could not comment on Audit NZ's systemic process, however, Audit NZ had expressed confidence it would be visiting Council this year.
  - In terms of departing staff with authorised bank signatures, the audit period had coincided with key finance staff departures, however, those staff had no access to Council's systems. Audit NZ had made a new recommendation on this.
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**RESOLUTION ARF23-1.10**

Moved: Cr M Murray-Benge

Seconded: Cr A Sole

That the Financial Controller's report, dated 27 February 2023, titled 'Final Audit Management Report 2022' be received.

**CARRIED**

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**9.8 INDEPENDENT ASSURANCE REPORT OF THE DEBENTURE TRUST DEED FOR THE YEAR ENDED 30 JUNE 2022**

The Committee considered a report from the Financial Controller. The Chief Financial Officer introduced the report, which was taken as read.

Staff responded to a question in relation to Council's security stock of \$133M, noting that Council was a shareholder. Audit NZ required Council to report at the full level, therefore, that total was security stock for all councils in New Zealand.

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**RESOLUTION ARF23-1.11**

Moved: Mayor J Denyer

Seconded: Deputy Mayor J Scrimgeour

1. That the Financial Controller's report, dated 27 February 2023, titled 'Independent Assurance Report of the Debenture Trust Deed for the Year Ended 30 June 2022' be received.
2. That the Independent Assurance Report on the Debenture Trust Deed for the Year Ended 30 June 2022 be received.

**CARRIED**

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**10 INFORMATION FOR RECEIPT**

Nil.

**11 RESOLUTION TO EXCLUDE THE PUBLIC****RESOLUTION TO EXCLUDE THE PUBLIC****RESOLUTION ARF23-1.12**

Moved: Cr A Henry

Seconded: Cr A Sole

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

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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:

<b>General subject of each matter to be considered</b>	<b>Reason for passing this resolution in relation to each matter</b>	<b>Ground(s) under section 48 for the passing of this resolution</b>
<b>11.1 - 2023 Statute Barred Rates Report</b>	s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons	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
<b>11.2 - Confidential Risk and Assurance Report February 2023</b>	s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons	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
<b>11.3 - Litigation Update and Issues Watch Register</b>	s7(2)(g) - the withholding of the information is necessary to maintain legal professional privilege. s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities	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
<b>11.4 - Outstanding Recommendations Register February 2023</b>	s7(2)(g) - the withholding of the information is necessary to maintain legal professional privilege. s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or	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

	disadvantage, commercial activities	
<b>CARRIED</b>		

**The Meeting closed at 3.50pm.**

**Confirmed as a true and correct record by Council on 27 April 2023.**