



NOTICE OF MEETING

**Notice is hereby given of the Meeting of the
Risk and Assurance Committee
to be held in the Victoria Room, Civic Theatre,
88 Tay Street, Invercargill on
Thursday 15 August 2024 at 3.00 pm**

Mr R Jackson (Chair)
Mayor W S Clark
Cr R I D Bond
Cr T Campbell
Cr G M Dermody
Cr D J Ludlow
Cr I R Pottinger
Cr L F Soper

MICHAEL DAY
CHIEF EXECUTIVE

Risk and Assurance Committee - Public

15 August 2024 03:00 PM

Agenda Topic	Page
1. Apologies	
2. Declaration of Interest	
a. Members are reminded of the need to stand aside from decision-making when a conflict arises between their role as an elected representative and any private or other external interest they might have.	
b. Elected members are reminded to update their register of interests as soon as practicable, including amending the register at this meeting if necessary.	
3. Public Forum	
4. Minutes of the Risk and Assurance Committee Meeting Held on 21 May 2024 (A5361165)	5
5. Annual Report 2024 Update (A5482298)	11
6. Internal Audit and Continuous Improvement Update (A5466338)	16
6.1 Appendix 1 - Approved Internal Audit Plan – 2023 – 2025 (A5466986)	21
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8. Public Excluded Session	

Public Excluded Session

Moved , seconded that the public be excluded from the following parts of the proceedings of this meeting, namely:

- a) Minutes of the Public Excluded Session of the Risk and Assurance Committee Meeting Held on 21 May 2024
- b) 2024 Annual Report Audit - Fraud Questionnaires
- c) Financial Risk Update
- d) Council Litigation Update
- e) Health, Safety and Wellbeing Update

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:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for the passing of this resolution
a) Minutes of the Public Excluded Session of the Risk and Assurance Committee Meeting Held on 21 May 2024	<p>Section 7(2)(a) Protect the privacy of natural persons, including that of deceased natural persons</p> <p>Section 7(2)(b) (ii) 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</p> <p>Section 7(2)(g) Maintain legal professional privilege</p> <p>Section 7(2)(h) Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities</p> <p>Section 7(2)(i) Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</p>	<p>Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7</p>

b) 2024 Annual Report Audit - Fraud Questionnaires	Section 7(2)(i) Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
c) Financial Risk Update	Section 7(2)(b) (ii) 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	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
d) Council Litigation Update	Section 7(2)(g) Maintain legal professional privilege	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7
e) Health, Safety and Wellbeing Update	Section 7(2)(a) Protect the privacy of natural persons, including that of deceased natural persons	Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7

MINUTES OF RISK AND ASSURANCE COMMITTEE, HELD IN THE VICTORIA ROOM, CIVIC THEATRE, 88 TAY STREET, INVERCARGILL ON TUESDAY 21 MAY 2024 AT 8.30 AM

Present: Mr B Robertson (Chair)
Mayor W S Clark
Cr I R D Bond (Via Zoom)
Cr T Campbell
Cr G M Dermody
Mr R Jackson
Cr D J Ludlow
Cr L F Soper

In Attendance: Mr M Day – Chief Executive
Mrs P Christie – Group Manager – Finance and Assurance
Mrs T Hurst – Group Manager – Community Engagement and Corporate Services
Mr R Capil – Group Manager – Community Spaces and Places
Mr J Shaw – Group Manager - Consenting and Environment
Mr C Genet – Audit New Zealand (via zoom)
Mr M Morris – Manager – Governance and Legal
Mr G Caron – Digital and Communications Advisor
Ms M Sievwright – Senior Executive Support

1. Apologies

Cr Pottinger, and Cr Soper for leaving early.

Moved Mr Robertson, seconded Cr Ludlow and **RESOLVED** that the apologies be accepted.

2. Declaration of Interest

Nil.

3. Public Forum

Nil.

4. Minutes of the Risk and Assurance Committee Meeting held on Tuesday 20 February 2024

A5216149

Moved Mr Robertson, seconded Cr Soper and **RESOLVED** that the Minutes of the Risk and Assurance Committee meeting held on Tuesday 20 February 2024 be confirmed.

It was noted that an asset condition report, risk register update and governance risk update were still to be provided and it was requested this be provided at the next meeting.

5. Financial Risk Update

A5354768

There was still a policy breach in relation to the 0-2 and 2-4 years amount fixed interest cover. Staff were looking and waiting to have this in place by 30 June 2024.

In response to a question regarding taking out \$20 million of forward start interest rate swaps this would be dependent on swap rates achieving a desired interest rate range.

In response to a question regarding the technical policy breach being intentional, it was noted that staff had intentionally chosen not to take swaps for future borrowing and would look at 30 June to consider how much borrowing would be required.

In response to a question regarding the policy around rates and forward start with debt, looking at forward projection and how much debt was required. It was suggested that Mr Myles O'Connor from Bancorp be invited to the next meeting for an update.

Moved Cr Soper, seconded Cr Dermody that the Risk and Assurance Committee:

1. Receives the report 'Financial Risks Update'.
2. Notes the intention of officers to enter into forward start swap arrangements to partially correct the policy non-compliance.

In response to a question regarding the decision outside the policy, it was suggested that the policy needed to be looked at.

The motion, now put, was **RESOLVED**.

6. Review of Bylaw Making Process

A5354715

A number of steps had been noted and amended, such as the introduction of the 30 minutes free parking.

In response to a question regarding the loss of \$500,000 of revenue but still being within budget, it was noted that there was a compliance challenge with parking. Staff were seeing a challenge with the bylaw.

In response to a question regarding the fines, it was noted that the processes had become cleaner and the ability to apply the infringements created a better approach. The other issue was around if the budgeting was right in the previous Long-term Plan.

Staff time was involved with processing refunds but not able to quantify cost as no additional staff had been brought in, so this was not included in operating costs. Lessons learned from the process, there were multiple parties undertaking different aspects, such

as legal, roading, policy and enforcement, noting that one department did not take stock of another. The overall process was now understood.

In response to a question regarding refunding, it was noted that a process was on the website.

The purpose of the paper was reviewing the process of the bylaw, and it was suggested that a report be prepared on the parking issue.

Moved Cr Ludlow, seconded Cr Dermody and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report "Review of Bylaw Making Process".
2. Notes the risks identified.
3. Request a report to this Committee on completion of the review of the Bylaw Procedures Manual including compliance with the manual and any additional controls or process steps to be implemented.

Note: Mayor Clark voted against this motion.

7. Long-term Plan Assumptions

A5354804

The question was asked if councillors were comfortable with the state of uncertainty in the assumptions and the risk of financial resilience.

It was suggested Council was on the right side of a risk appetite and in a place that it could manage.

Staff had identified the scope and a number of risks and were aware of continuous monitoring of further actions and now had a lengthy appendix listing all the risks which gave a level of comfort that had not previously had.

An additional \$4 million dividend annually from ICHL was on the basis of ICHL selling some of their investments. ICHL had offered either a \$40 million special dividend now or \$4 million special dividend over ten years from the sale.

Clarity was sought around what the word 'likely' meant.

Moved Mr Robertson, seconded Cr Soper and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report "Long-term Plan Assumptions".
2. Note the inherent risks which have been identified with the assumptions risk register of the Long-term Plan.
3. Note that prior to the adoption of the Long-term Plan that a report will be brought to Council updating the Risk Register including any mitigations.

4. Prior to the report being brought to Council, the Chair and Independent member of this committee, are invited to provide their comments.
5. Note that there is a risk relating to the audit of the Long-term Plan arising from the estimated value of larger projects, in particular waste water renewal contained within the Long-term Plan.

8. 2024-2034 Long-term Plan Audit

A5353198

Note: Cr Soper left the meeting at 9.43 am.

Note: The meeting adjourned at 9.45 am due to technical issues and resumed at 9.53 am.

Mr Genet took the meeting through the audit focus which had been outlined previously and the fee approach had been confirmed.

In response to a question regarding LTP fees, it was noted that the hours in higher amounts were actuals and the lower amount was unbudgeted, 21% was the \$24,000. In terms of the scope, it was noted that the assumptions would need to be changed. The opinion was about saying that guarantees were not given around assumptions.

Certainty that the 40% drop in audit hours compared to previous years, only charging \$139,500 and significant overruns would be taken by Audit. Base hours would stay the same. If significant work was required to be done with Clifton Wastewater, it could cost more money.

In response to a question regarding staff knowledge, it was noted that there were staff on both sides who had not undertaken a Long-term Plan audit, however this did not mean they were unqualified.

In response to a question regarding dispute resolution and fee negotiations, it was noted that Audit would analyse costs and look at the reasons for this. The Auditor General would approve any recoveries.

Moved Mayor Clark, seconded Cr Ludlow and **RESOLVED** that the Risk and Assurance Committee:

1. Receives the report "2024-2034 Long-term Plan Audit".
2. Note the key issues that Audit New Zealand will consider as part of its audit.
3. Recommend that the Mayor sign the engagement letter.

9. Public Excluded Session

Moved Mr Robertson, seconded Cr Dermody and **RESOLVED** that the public be excluded from the following parts of the proceedings of this meeting, with the exception of Mr Chris Genet, namely:

- a) Minutes of the Public Excluded Session of the Risk and Assurance Committee Held on 20 February 2024
- b) Health, Safety and Wellbeing Update
- c) Internal Audit and Continuous Improvement Update
- d) Financial Risk Update
- e) Annual Report Audit Fees 2023 -2025
- f) Ombudsman Investigations
- g) Council Litigation Update

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b) Health, Safety and Wellbeing Update	<p>Section 7(2)(a) Protect the privacy of natural persons, including that of deceased natural persons</p>	<p>Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7</p>
c) Internal Audit and Continuous Improvement Update	<p>Section 7(2)(h) Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities</p>	<p>Section 48(1)(a) That the public conduct of this item would be likely to result in the disclosure of information for which good reason for</p>

withholding would exist under Section 7

- | | | |
|----------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| d) Financial Risk Update | <p>Section 7(2)(b) (ii)
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</p> | <p>Section 48(1)(a)
That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7</p> |
| e) Annual Report Audit Fees 2023 -2025 | <p>Section 7(2)(i)
Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</p> | <p>Section 48(1)(a)
That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7</p> |
| f) Ombudsman Investigations | <p>Section 7(2)(g)
Maintain legal professional privilege</p> | <p>Section 48(1)(a)
That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7</p> |
| g) Council Litigation Update | <p>Section 7(2)(g)
Maintain legal professional privilege</p> | <p>Section 48(1)(a)
That the public conduct of this item would be likely to result in the disclosure of information for which good reason for withholding would exist under Section 7</p> |

There being no further business, the meeting finished at 12.24 pm.

ANNUAL REPORT 2024 UPDATE

To:	Risk and Assurance Committee
Meeting Date:	Thursday 15 August 2024
From:	Stephanie Roberts – Manager – Financial Services
Approved:	Patricia Christie – Group Manager - Finance & Assurance
Approved Date:	12 August 2024
Open Agenda:	Yes
Public Excluded Agenda:	No

Purpose and Summary

The purpose of this report is to provide the Committee with an update on the 2024 Annual Report including the key milestone dates, key issues and progress to date.

Recommendations

That the Risk and Assurance Committee:

1. Receives the report 'Annual Report 2024 Update'.
2. Note:
 - a. The key milestone dates for completion of the 2024 Annual Report and the progress to date against these milestones.
 - b. The key issues for the preparation and audit of the 2024 Annual Report.
3. Request further updates from officers on progress against milestones, key issues and audit progress at the next meeting.

Annual Report 2024 Key Milestones

Officers began the planning for the 2024 Annual Report in March 2024. The initial planning work included a full refresh of the plan for the financial year end close, annual report production and audit. Note that we are in the process of upgrading the key financial models to allow for further automation of the group numbers that drive the annual report preparation.

The plan includes 344 tasks and covers the period from the beginning of May to early November when the Debenture Trust Deed Audit and publication of the Council Group Annual Report must occur.

The Key dates and tasks are:

Period	Task	Progress
April	Collation of information requested for the interim audit	Complete
6 – 17 May	Audit New Zealand Interim Audit	Complete
27 May	Preparation of Property Plant and Equipment Fair Value Assessment	Complete
24 June – 5 July	Audit New Zealand Pre-Final work	Complete
1 - 3 July	Year-end roll of all financial systems	Complete
19 July	Investment Property Valuation Report complete	Complete
23 July	3 Waters Valuation Report ready for review	In progress
1 August	June 2024 Quarterly performance Reported completed for 17 September Finance and Policy Meeting	In progress
2 August	Levels of Service results reviews completed	In progress
20 August	First draft of Council Only annual report ready for review	
27 August	ELT Review of Draft Annual Report (Council Only)	
27 August	ICHL Group numbers available for inclusion into Council Consolidation	
10 September	ELT Review of Draft Annual Report (Council and Group numbers)	
13 September	Draft 1 of Annual Report provided to Audit New Zealand and circulated to Risk and Assurance Committee for feedback	
13 September	All information requested by Audit New Zealand is uploaded onto audit dashboard	
16 September	Audit Begins	
17 September	June Performance Report including Level of Service results (Finance & Policy Committee)	
30 September	Final numbers provided from all subsidiaries for consolidation	
1 October (TBC)	Risk and Assurance Committee Review Draft 1 of Annual Report	
18 October	Draft 2 of Annual Report provided to Audit New Zealand	
24 October	Final version of Annual Report provided to Audit New Zealand (on basis that all adjustments are agreed)	
22 October	Risk and Assurance Committee recommend adoption of Annual Report to Council	
29 October	Council Meeting to adopt Annual Report	
6 – 11 November (TBC)	Debenture Trust Deed audit	

The current group audit dates are outlined below, these audits are supported by the Council Finance team.

Southland Regional Heritage Joint Committee	TBC
Te Kupeka Tiaki Taoka - Southern Regional Collections	17 – 24 July
Invercargill City Charitable Trust	5 – 12 August
Invercargill Airport Limited	29 July – 30 August
HWCP Limited	5 August – 5 September
ICHL Group	2 September – late September
Invercargill City Council Group	16 September – late October

Regular meetings are being held with the audit team to discuss progress and the key issues for the audit.

Interim Audit

Audit New Zealand completed its interim audit field work in mid-May. It then completed pre-final work from 24 June to 5 July.

It is noted that the opportunity was taken during the interim audit to advance some of the sample selection and testing that would normally have been done during the year end audit. This means that only sample testing for the remaining two months will need to be tested during the final audit.

The interim audit again identified some problems with the source data for traffic counts used for the Smooth travel exposure performance measure.

The pre-final work focused on the following key areas from the 2023 Audit being:

- Council Group Fair Value Assessment – note that at the time of the final audit review the impact of IAL and ICCT assets will be reviewed.
- ICL Loan impairment assessment.
- Levels of Service - Complaints testing for Sewerage overflow and Water Supply.

Key Issues for the Annual Report

There are a number of issues that will need to be addressed during the preparation of the annual report and the audit.

- Valuation of 3 Waters Assets

The fair value assessment undertaken by staff during April and May concluded that it was necessary to undertake a revaluation of the 3 Waters Assets at 30 June 2024. Notwithstanding that all assets were revalued at 30 June 2022, the movement in market indices from June 2022 to 31 March 2024 mean the overall increase would have been material. Note that roading assets were revalued at 30 June 2023.

The 3 Waters Assets revaluation was undertaken by Beca and indicates an increase in the carrying value from 30 June 2022 of \$72 million dollars. Note that the valuation is currently being reviewed for inclusion of work in progress and vested assets so the final increase will change. The Fair Value Assessment had indicated an increase of \$50 million.

- Valuation of the investment in and loan to ICL (Invercargill Central Limited)

In accordance with accounting standards, it is necessary to ensure the investment in ICL is shown in the group financial statements at a value that reflects both accounting standards and the group's accounting policy. The loan to ICL has been considered for impairment.

ICL carried out a Debt / Equity restructure in May 2024. ICL issued \$40 million in new share capital to existing shareholders and repaid debt, leaving ICC as the sole first mortgage holder. As a result, the ICL loan is no longer considered to be impaired and the \$2.492 million expected credit loss recognised in the 2023 Annual Report will be reversed in the 2024 Annual Report.

- Parking Fines Refund Provision

Following court confirmation that Council could not enforce aspects of its parking bylaw in respect of activating the meter to enable receipt of 30 minutes free parking per day, A Parking Fines Refund Provision of \$535,000 has been allowed for in the Annual Report. This is made up of 12,083 infringements from 8,750 vehicle registration plates.

Council, up-to 31 July has approved 586 requests representing 1,495 infringements (12.4%) and 613 plates (7%). A total of 142 requests have been declined to date.

At 31 July 2024, 554 refunds totalling \$66,846 have been paid out.

- Drinking Water Standards assessment

As was the case in 2023 an independent assessment of our compliance with drinking water standards is required. A third party assessor has been engaged. There is now clear guidance from DIA on the requirements.

- Timely receipt of finalised annual reports from all subsidiaries

This includes the timely completion of subsidiary audits including those where Council staff do not provide financial back-office support. Any issues within the subsidiary audits can impact on the completion of the Council Group audit.

Next Steps

Tasks supporting the preparation of the annual reports will continue by the Finance team and other key supporting areas.

Regular meetings are and will continue to be held with Audit New Zealand around the key issues and issues arising in the subsidiary audits.

Attachments

Not applicable.

INTERNAL AUDIT AND CONTINUOUS IMPROVEMENT UPDATE

To:	Risk and Assurance Committee
Meeting Date:	Thursday 15 August 2024
From:	Peter Patton, Manager – Quality Assurance
Approved:	Patricia Christie - Group Manager - Finance and Assurance
Approved Date:	Wednesday 31 July 2024
Open Agenda:	Yes
Public Excluded Agenda:	No

Purpose and Summary

The purpose of this report is to provide an update on audits conducted as part of the approved internal audit plan, additional audits/reviews and the current status of recommended actions/recommendations tracked via Council's quality management system.

Recommendations

That the Risk and Assurance Committee:

1. Received the report "Internal Audit and Continuous Improvement update"
2. Note that Council is in the process of engaging an Internal Audit partner and have identified a preferred supplier.
3. Note the progress made against the approved Internal Audit Plan
4. Note the continuous improvement update as per table 1.

Internal Audit Partner Selection

The process to select an internal audit partner is underway. Seven proposals were received and these were shortlisted to the top three suppliers. The referees for each of the top three suppliers were contacted and the tender evaluation panel has selected a preferred supplier.

Internal Audit Plan

The internal audit function within council continues to be delivered by Council Staff. The Internal Audit Plan for 2023/2024 continues as scheduled. The short-term focus for April –July 2024 included Building regulatory assessment, regular Payroll access and Masterfile data audits for council pay cycles and Infrastructure – Solid Waste KPI performance audit. Building Services

external regulatory assessment was completed July 2024. IANZ Assessment final report is due mid-August 2024.

Since August 2023 an additional long-term focus has been the Annual Plan Quarterly KPI data audits on behalf of the Manager – Strategy, Policy and Engagement. These audits include the review of data collation, integrity, documentation and compliance to the internal process for obtaining the data for reporting in the Quarterly Performance Report and Annual Report Strategy, Policy and Engagements spreadsheet 'Annual Report KPI and Contents 2023-2024' for reporting of quarterly data. This review will audit all areas of council that report KPI's to the Long-term and Annual plans over a two-year period. The Quality Assurance team are currently engaging with teams from Community Places and Spaces in preparation for their KPI audits during Q1 of FY2024-2025.

Audits completed 6 April to 12 July 2024

- Environmental Health internal audits – 2
- Building Services internal audits – 3
- Payroll Audits, including Quarterly System Access Audit, System Masterfile – 8
- Infrastructure Contract Documentation (contract Compliance) Reviews – 2
- Annual Plan Quarterly KPI data audits (Infrastructure – Solid Waste Services) – 1

Continuous Improvement Programme

During the reporting period the Quality Assurance team has been assisting Infrastructure Operations with the recent Audit NZ annual report interim audit and providing support to improve their processes for the dealing with Requests for Service (RFS).

Work is ongoing auditing the processes for collecting KPI data for the LTP and Annual Plans and the recommendations from these audits continue to be added to the quality management system for monitoring and internal reporting.

The focus for the Building Services team over this reporting period has been preparing for the IANZ assessment, this assessment is now complete and the team are progressively closing outstanding actions/recommendations. Overall it is pleasing to see an increase in engagement with teams across Council and their willingness to work with the quality management system to effect positive change within their respective areas.

Table 1 – Continuous Improvement Update

Improvement Area	Recommendations		
	Made	Closed	Open (Improvement Priority)
Audit NZ – Annual Report 2023	17	5	12 (11 mod, 1 low)
Building Services	16	1	15 (1 high, 2 mod, 13 low)
Building Administration	10	2	8 (1 high, 4 mod, 3 low)
Building Compliance	2	0	2 (mod)
Environmental Compliance	1	0	1 (mod)
Environmental Health – Animal Services	1	0	1 (mod)
Environmental Health Services (including JASANZ)	5	1	4 (1 mod, 3 low)
Information Management - LGOIMA	29	26	3 (high)
Information Management – Proactive Release	2	0	2 (mod)
Information Management – Maturity Framework	3	2	1 (1 mod)
Quality Assurance	3	2	1 (high)
Strategic Asset Planning – Waka Kotahi (NZTA)	5	3	2 (mod)
LTP KPI – Roading	5	5	0
LTP KPI - Building	10	9	1 (high)
LTP KPI - Planning	7	1	6 (3 mod, 3 low)
LTP KPI – Solid Waste	5	0	5 (low)

Table 2 – External Audit Recommendations

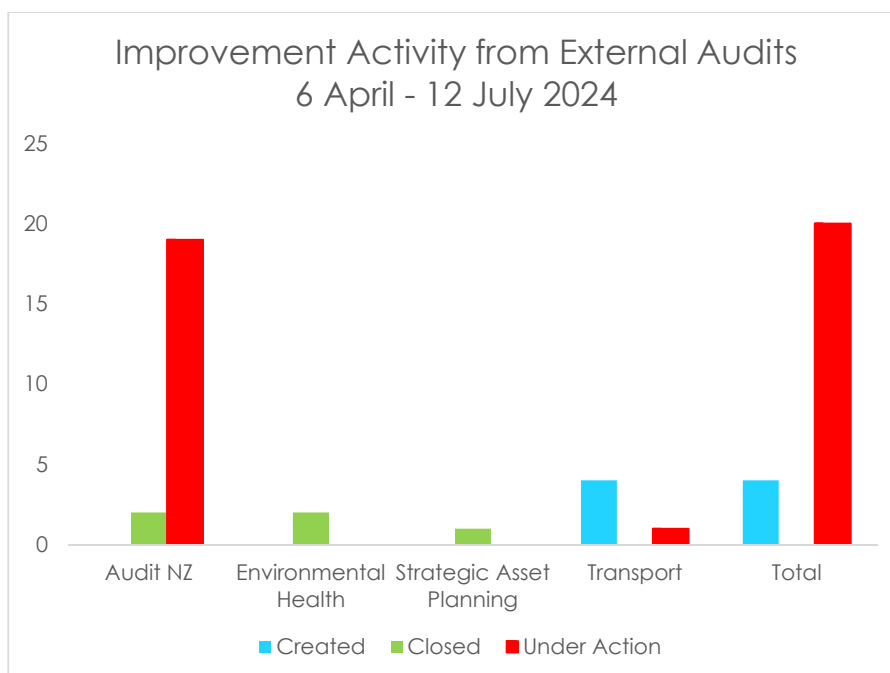


Table 3 – Internal Audit Recommendations

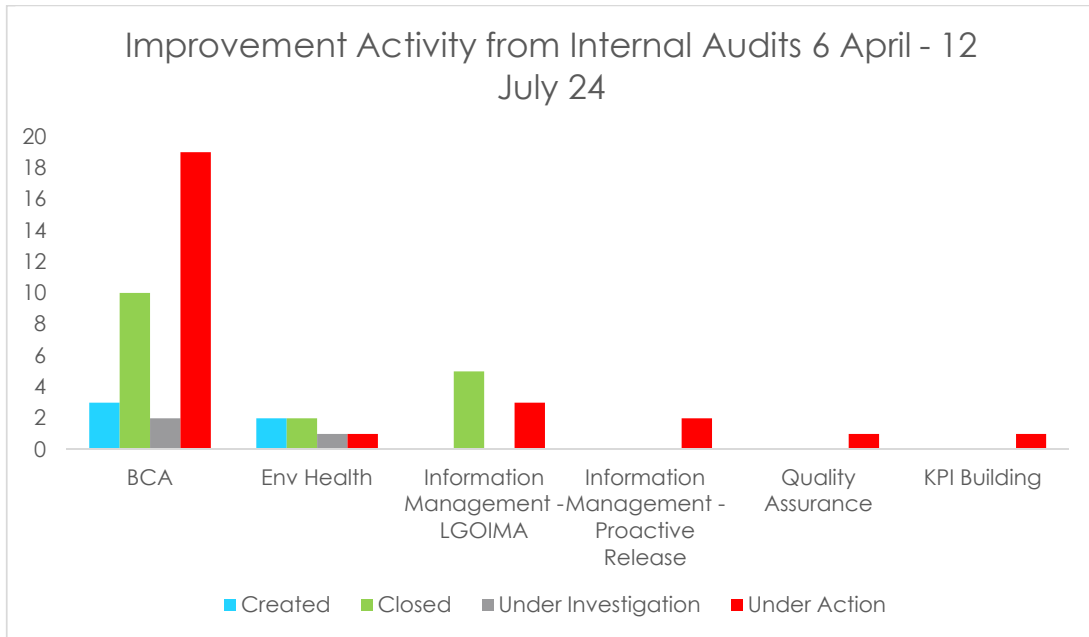
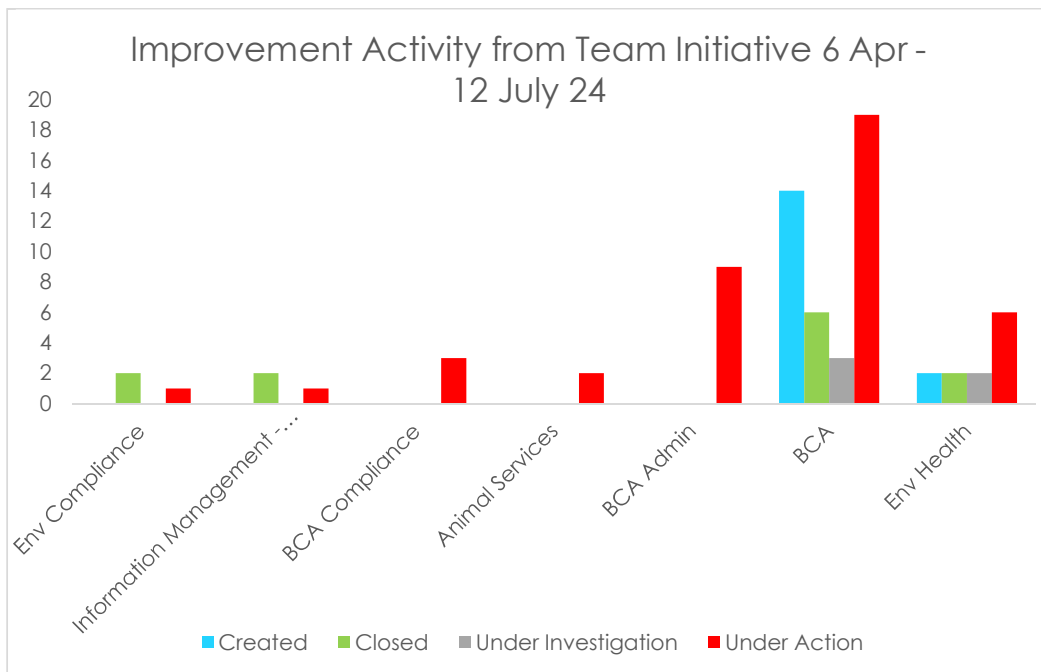


Table 4 – Internally Initiated Improvements



Next Steps

As part of on-boarding our internal audit partner a review of the current internal audit plan will be undertaken and any changes/recommendations brought to this Committee. The continuous improvement requests, recommendations and actions from audits/reviews will be monitored and reported using the Quality Management System.

Attachments

1. Approved Internal Audit Plan – 2023 – 2025 (A5466986)

Attachment 1 to:
Risk and Assurance Committee – Approved Internal Audit Plan 2023-2025 (A5466986)

The major audits / reviews approved to be undertaken over the period 2023 - 2025 are shown below.

Review/Audit	FY23/24	FY24/25	FY25/26
Sensitive Expenditure Review	√		
Technical Building Services - Building Regulations 2006	√		
Environmental Health – Food Regulations 2015	√		
Payroll – Masterfile Changes – each pay cycle	√		
Payroll –Masterfile data – Quarterly	√		
Payroll –Access – Quarterly	√		
Annual Plan KPI data – bimonthly review of specific KPI data	√		
Asset Management Review		√	
Technical Building Services - Building Regulations 2006		√	
Environmental Health – Food Regulations 2015		√	
Payroll –Masterfile data – Quarterly		√	
Payroll –Access – Quarterly		√	
Annual Plan KPI data – bimonthly review of specific KPI data		√	
Cash Handling Review		√	
Treasury Management Review		√	
Complaints Handling Review		√	
Procurement Review		√	
Operational Spend Monitoring and Management		√	
LGOIMA Review		√	
Privacy Act		√	
Technical Building Services - Building Regulations 2006			√
Environmental Health – Food Regulations 2015			√
Payroll – Masterfile data – Quarterly			√
Annual Plan KPI data – bimonthly review of specific KPI data			√
Fraud Risk Management			√
Rates Review			√
Performance Management Review			√
Contract Management Review			√
Health, Safety and Wellbeing			√
Conducted In House			

FINANCIAL RISKS UPDATE

To:	Risk and Assurance Committee
Meeting Date:	Thursday 15 August 2024
From:	Jaimee Botting – Manager Financial Planning
Approved:	Patricia Christie - Group Manager - Finance and Assurance
Approved Date:	Monday 12 August 2024
Open Agenda:	Yes

Purpose and Summary

The purpose of this report is to provide an update on the Council's financial risks.

Recommendations

That the Risk and Assurance Committee:

1. Receives the report 'Financial Risks Update'.
2. Notes that officers have entered into swap arrangements during June 2024 to correct the policy non-compliance that had been present.

Background

This report provides the Committee with an update on key financial risks. This quarter's report is focused on Council's compliance with our Treasury policy.

Issues

Treasury risk

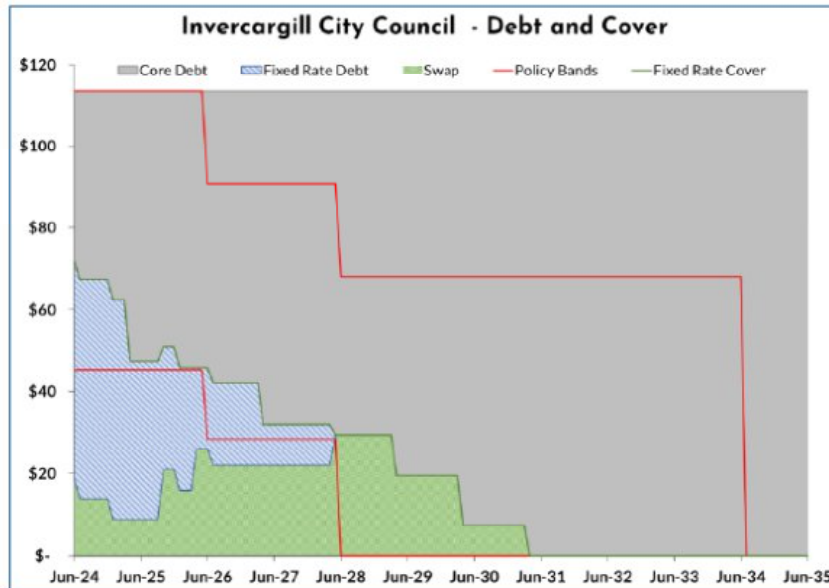
Attached as Attachment 1 is the June Quarter Treasury Report from Bancorp.

This report shows that at 30 June 2024 Council had debt facilities of \$123.5 million in place with a core debt of \$113.5 million (the difference being a \$10 million call facility which was not drawn down at year end). Forward start interest rate swaps were entered into prior to 30 June which meant that the policy non-compliance that had been in place for the last 24 months has ended.

Council is in compliance with all policy measures:

- Transactions been transacted in compliance with policy
- Fixed interest rate cover is within policy control limits

- Funding maturity profile within policy control limits
- Liquidity within policy control limits
- Counterparty exposures within control limits



Council's policy bands are:

Period to Maturity	Minimum	Maximum
0 – 2 years	40%	100%
2 – 4 years	25%	80%
4 – 10 years	0%	60%

These were confirmed in the liability management policy reviewed as part of the Long-term Plan.

It is noted in the Treasury report that Council's average cost of funds is 3.71% and increase on the 3.44% last quarter. This is expected to increase in coming years as the very low-rate debt matures and is replaced with current rates and the additional borrowing required to fund our capital programme.

At 30 June fixed rate borrowing from LGFA was between 5.02% and 5.79% depending on maturity for an AA rated Council. As of 5 August, fixed rate borrowing had reduced to between 4.47% and 5.33%. There remains a level of variability in the market, which we continue to monitor.

Next Steps

Continue to monitor for any breaches.

Review current forecast capital spend to identify 2024/2025 funding needs given current market position.

Attachments

1. June Quarter Treasury Report from Bancorp (A5497472)



Treasury Dashboard Report

30 June 2024

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Economic Commentary

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Global (for the June 2024 quarter)

It was another bumpy ride for the benchmark US bond market in the June quarter, with the 10-year treasury starting at 4.20%, rising to 4.72% on 27 April, declining back to 4.22% on 20 June, and finishing the quarter at 4.40%. While progress has been made in taming inflation, the progress has been slower than the market and, importantly, what the Federal Reserve (“Fed”) had been hoping for, creating concerns that the Fed may keep interest rates higher for longer than anticipated.

The Fed has continued to signal it would begin easing this year, while forecasting higher growth and inflation for 2024. From pricing in 6-7 rate cuts at the start of the year, market pricing currently reflects two cuts by the end of the year, complicated by the 5 November US election.

While progress has been made in the battle against inflation globally, that progress has been uneven across different geographies. Persistent core inflation pressures in several developed countries, including the UK, U.S., and Eurozone, contributed to overall inflation rates exceeding central bank targets. Australia remains an outlier and, based on market pricing, faces a real possibility of further interest rate hikes after a poor May CPI release.

In early June, the European Central Bank (‘ECB’) ‘hawkishly’ cut its key interest rates by 25bps to lower its main refinancing operation rate to 4.25% and its deposit facility rate to 3.75%. The move did come with a warning after ECB President Christine Lagarde announced, *“Domestic inflation remains high, and wages are rising at an elevated pace. We will need more data to constantly confirm the disinflationary path. We cannot confirm that the dialling back process is underway.”*

It was a different story in Switzerland, though, after the Swiss National Bank (“SNB”) reduced its key interest rate by 25bps to 1.25% following its March cut. The rate cut caught the market off guard, which saw the Swiss franc fall sharply, although officials sought to provide comfort, announcing they remain prepared to intervene if required.

China increased the pace of monetary, fiscal, and regulatory easing measures to support growth. These efforts have contributed to some cyclical stabilisation, but whether they will translate into a full-blown economic reacceleration remains uncertain.

Looking ahead to the US elections in November, the election result will determine who decides on the roughly \$3.5 trillion of 2017 personal income tax cuts scheduled to expire at the end of 2025. Based on projections, the fiscal deficit is expected to remain relatively large over the next several years (5%–6% of GDP), partly due to rising interest-rate payments on federal debt. The election result could see materially different approaches to tariffs, global trade, immigration, taxes and even the shape of monetary policy.

Economic Commentary

New Zealand as at 30 June

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	OCR	90 day	2 years	3 years	5 years	7 years	10 years
31 March 2024	5.50%	5.63%	4.80%	4.51%	4.38%	4.38%	4.46%
30 June 2024	5.50%	5.63%	4.96%	4.68%	4.45%	4.44%	4.50%
Change	0%	0%	+0.16%	+0.17%	+0.07%	+0.06%	+0.04%

The June 2024 quarter saw a continuation of the poor economic data that has characterised 2024, with a growing chorus of 'survive until 25' being heard. New Zealand is undergoing a painful reset, with economic indicators suggesting the economy has weakened further over the last quarter. Further forward-looking indicators for the remainder of 2024 show an economy stuttering at ongoing near or actual recessionary levels. Evidence continues that the Reserve Bank of New Zealand ("RBNZ") has largely done its job in suppressing aggregate demand, and the labour market is clearly softening.

While the signs of a faltering economy are clear, the timing of when this will lead to lower inflation and, more importantly, when the RBNZ can ease its grip on the economy by reducing rates remains uncertain. Another variable is whether the RBNZ starts cutting rates when inflation falls back within its target range of 1%-3% or when the RBNZ is confident that inflation will fall back to the target midpoint of 2%

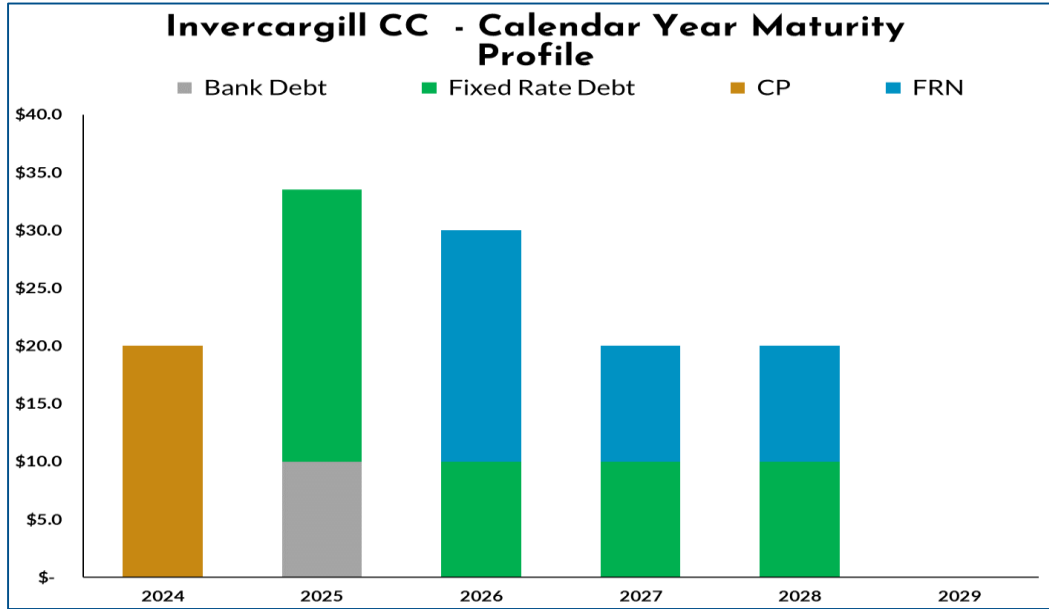
At the 22 May *Monetary Policy Statement* ("MPS"), the RBNZ maintained the OCR at 5.50%, stating that while annual consumer price inflation is expected to return to the Committee's 1%-3% target range by the end of 2024, monetary policy needed to remain restrictive to ensure that the inflation rate returns to the middle of the range within a reasonable timeframe. Of particular note, the RBNZ focused on annual non-tradable inflation, which has only slightly declined to 5.8%, higher than the 5.3% forecast.

RBNZ projections have the first OCR cut in Q4 2025, with most banks forecasting cuts in February 2025 and Kiwibank forecasting a November 2024 rate cut. By contrast financial market pricing is assigning an 80% probability that the first 25 basis point cut will occur in October 2024 and a 100% probability of it happening in November 2024.

There is an increasing amount of anecdotal evidence backed up by many recent data releases of a rapidly slowing economy. These releases include business and consumer confidence declining sharply as well as construction activity, residential building consents and retail sales all falling markedly. This suggests that the RBNZ should cut sooner than the May MPS review indicated.

Swap rates had a volatile quarter. The 2-year and 5-year swap rates declined from highs of 5.22% and 4.80%, respectively, down to lows of 4.89% and 4.33% before retracing some of the moves down, closing the quarter at 4.96% and 4.45%, respectively.

Liquidity and Funding



Core Debt
\$113.5m
 External Council Drawn Debt

LGFA debt
\$113.5m
 Funds Drawn from LGFA

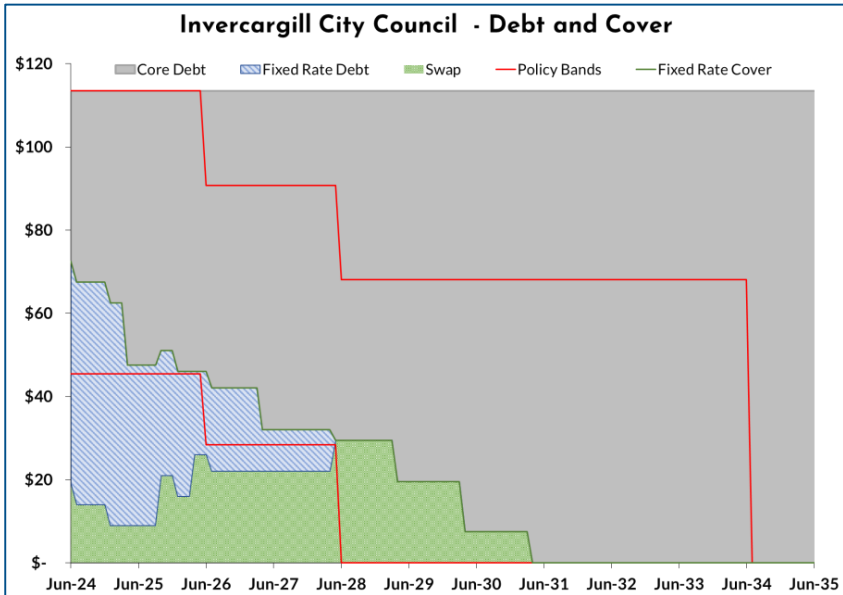
Bank facility headroom + cash in bank + term deposits
\$38.28m

Liquidity Ratio (must be >110%)
133.73%
 Definition: (Term Deposits + cash in bank + term deposits + Lines of Credit + Drawn Debt)/Drawn Debt

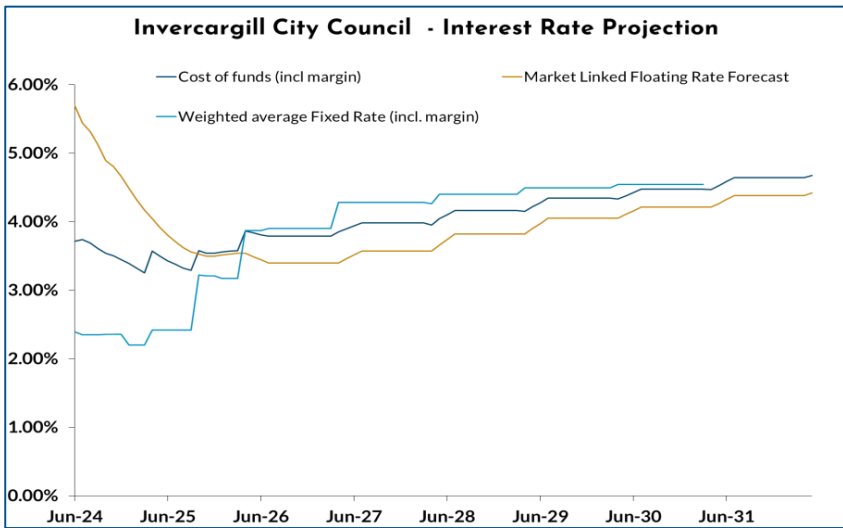
Cost of Funds as at 30 June 2024
3.71%

Policy Compliance	Compliant
Have all transactions been transacted in compliance with policy?	Yes
Is fixed interest rate cover within policy control limits?	Yes
Is the funding maturity profile within policy control limits?	Yes
Is liquidity within policy control limits?	Yes
Are counterparty exposures within policy control limits?	Yes

Interest Rate Risk Management



Current % of Debt Fixed	63.9%
Current % of Debt Floating	36.1%
Value of Fixed Rate (m)	\$72.5
Weighted Average Cost of Fixed Rate Instruments	2.30%
Value of Forward Starting Cover	\$29.5
Value of Floating Rate (m)	\$41.0
Current Floating Rate	5.70%
All Up Weighted Average Cost of Funds Including Margin	3.71%
Total Facilities In Place	\$123.5



Policy Bands			
Term	Minimum	Maximum	Policy
0-2 years	40%	100%	Compliant
2-4 years	25%	80%	Compliant
4-10 years	0%	60%	Compliant

Invercargill City Council - Funding

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As at 30 June 2024, ICC had \$113.5 million of core debt, all of which is sourced from the Local Government Funding Agency ("LGFA") using Commercial Paper ("CP"), Floating Rate Notes ("FRN"), and Fixed Rate Bonds ("FRB"), which are detailed in the table below.

Instrument	Maturity	Yield	Margin	Amount
LGFA CP	29-Oct-24	5.82%	0.15%	\$20,000,000
LGFA FRN	29-Apr-26	6.00%	0.37%	\$10,000,000
LGFA FRN	29-Apr-26	6.07%	0.44%	\$10,000,000
LGFA FRN	29-Apr-27	6.18%	0.55%	\$10,000,000
LGFA FRN	29-Apr-28	6.16%	0.56%	\$10,000,000
LGFA FRB	15-Apr-25	1.49%	N/A	\$15,000,000
LGFA FRB	15-Oct-25	0.59%	N/A	\$8,500,000
LGFA FRB	15-Apr-26	1.09%	N/A	\$10,000,000
LGFA FRB	29-Apr-27	2.62%	N/A	\$10,000,000
LGFA FRB	15-May-28	4.06%	N/A	\$10,000,000
Total				\$113,500,000

LGFA Funding Rates as at 30 June 2024

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Listed below are the credit spreads and applicable interest rates as at 30 June 2024 for Commercial Paper ("CP"), Floating Rate Notes ("FRN") and Fixed Rate Bonds ("FRB"), at which ICC could source debt from the Local Government Funding Agency ("LGFA").

Maturity	Margin	FRN (or CP Rate)	FRB
3 month CP	0.15%	5.77%	N/A
6 month CP	0.15%	5.76%	N/A
April 2025	0.29%	5.91%	5.79%
April 2026	0.32%	5.94%	5.34%
April 2027	0.42%	6.04%	5.11%
May 2028	0.54%	6.16%	5.04%
April 2029	0.61%	6.23%	5.02%
May 2030	0.68%	6.30%	5.05%
May 2031	0.77%	6.39%	5.13%
April 2033	0.83%	6.45%	5.22%
May 2035	0.92%	6.54%	5.34%
April 2037	1.00%	6.62%	5.48%

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