WHANGANUI DISTRICT COUNCIL
Te Kaunihera a Rohe o Whanganui

AGENDA

Audit and Risk Committee Meeting
3 December 2020

NOTICE IS HEREBY GIVEN that a Meeting of Audit and Risk Committee will be convened on:

Date: **Thursday, 3 December 2020**

Time: **1.00pm**

Location: **Nagaizumi-Cho Room**
101 Guyton Street
Whanganui

Kym Fell
Chief Executive

Audit and Risk Committee

Chair: Deputy Mayor Jenny Duncan
Deputy Chair: To be appointed
Membership: Mayor Hamish McDouall, Crs Josh Chandulal-Mackay and Kate Joblin. Independent Member Susan Kosmala and Michael Timmer (appointed 23 June 2020)
Frequency of Meetings: Quarterly
Quorum: 4
Senior Officers: Chief Executive and General Manager Finance.

Terms of Reference

Purpose

The purpose of the Audit and Risk Committee is to assist the Council to discharge its responsibilities to exercise due care, diligence and skills in relation to the oversight of:

a) The robustness of risk management systems, processes and practices.
b) A forward work programme, which will consist of reviews of specific risks using the 'Deep Dive' methodology, the delivery of the internal audit work programme and a regular review of the Risk Register.
c) The robustness of the internal control framework and financial management policies.
d) Compliance with applicable laws, regulations, standards and best practice guidelines; and
e) The establishment and maintenance of controls to safeguard the Council's financial and non-financial assets.
f) Reviewing Council's Fraud and Protected Disclosures policies, and other relevant policies and procedures.
g) The oversight of risk management and assurance across the Council's CCOs with respect to risk that is significant to Council.

The role of the committee is to gain an assurance that there is a robust process to manage risks appropriately. In fulfilling their role on the Audit and Risk Committee, members shall be impartial and independent at all times.

Delegated Authority

The Council has delegated to the Audit and Risk Committee the necessary authority to effectively carry out the tasks assigned to it. The committee shall have the delegated authority to approve the appointment of the internal auditor of risk management and internal audit programmes, audit engagement letters and letters of undertaking for audit functions and additional services provided by the external auditor.

Decision Making Powers

The Committee has no decision-making powers. The Committee may request expert advice through the Chief Executive, as necessary. The Committee may make recommendations to the Chief Executive, as necessary.

Voting

Voting is limited to members of the Audit and Risk Committee.

Key Attributes of Members

- Members should bring the ability to act independently and objectively.
- The ability to ask relevant and pertinent questions, and evaluate the answers.
- The ability to work constructively with management to achieve improvements.
- Business acumen; and
- Appropriate diligence, time, effort and commitment.

Independent members should have the following experience:

- Broad governance experience.
- Familiarity with risk management disciplines (identification, evaluation and management).
- Understanding of internal control and assurance frameworks.
- A good understanding of the roles of internal and external audit.
- Financial reporting and analysis from a risk perspective.

Responsibilities

Risk

Monitor the effectiveness of risk identification and mitigation measures, in addition to assessing the impact of emerging risks by:

- Reviewing the Risk Register, Risk Framework, Policy and associated procedures for effective identification and management of the Council's financial and business risks.
- Maintaining visibility of emerging risks.

Internal Audit, Internal Controls, and Fraud Controls

Assess the effectiveness of Council's internal controls and internal audit functions, by reviewing:

- The appropriateness and effectiveness of controls in place to safeguard Council's assets.
- The adequacy of Council's fraud and associated policies.
- The effectiveness of existing corporate policies and recommending changes or new policies where appropriate.
- Management's legislative compliance programme.

Treasury, Insurance and Long Term Planning

Monitor risks associated with Council's treasury function, including:

- Council's treasury policies.
- Council's annual Insurance contract, satisfying itself Council has appropriate and affordable insurance cover in place.
- Council's long term planning including its financial strategy.

External Audit

Review external audit function, including:

- Confirming processes are in place to ensure the completeness and quality of financial and operational information being provided to the Council;
- Liaising with the external auditors as required;
- Monitoring Council's external audit programme and processes;
- Receiving the Audit Management Report and monitoring progress by management on implementing recommendations contained within the Report.

Statutory Reporting

Review and monitor the integrity of the interim and annual reporting including statutory financial statements and other formal announcements relating to the Council's financial performance, including;

- The appropriateness of accounting policies and standards;
- Compliance with applicable legal requirements relevant to statutory reporting;
- The extent to which financial statements are affected by any unusual transactions and the manner in which they are disclosed;
- The clarity of disclosures generally;
- The basis for the adoption of the ongoing concern assumption;
- Significant adjustments resulting from the audit

Council Controlled Organisations (CCOs)
The committee will enquire to ensure adequate processes at a governance level exist to identify and manage risks within a Council Controlled Organisation (CCO).

Other Tasks
Other tasks as delegated to the Audit and Risk Committee by the Council, which may include the allocation of special project oversight.

Review of Terms of Reference
The Terms of Reference will be reviewed by the Council following every triennial election.

Notes:

- The Chief Executive is required to attend all meetings but is not a member and has no voting rights.
- Members that are appointed for an initial term of no more than three years that aligns with the triennial elections, after which they may be eligible for extension or reappointment.
- Appointment of external members is by contract.
- External member contracts are to be reviewed and assessed six (6) months after each triennial election.

Order Of Business

1 OPENING PRAYER / KARAKIA

2 APOLOGIES

3 DECLARATIONS OF INTEREST

Elected Members will be provided with the opportunity to declare any disclosable pecuniary or other non-pecuniary interest in any matter to be considered at this meeting, or declare any new conflicts that have arisen since last completing the Elected Members' Interests Register.

4 CONFIRMATION OF MINUTES

4.1 MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD ON 3 SEPTEMBER 2020

Author: **Hayley Fitzgerald - Democracy Support Officer**

Authoriser: **Kate Barnes - Senior Democracy Advisor**

References: **1. Minutes of Audit and Risk Committee 3 September 2020** ⇩

Significance of decision – In terms of the Significance and Engagement Policy 2018, the recommended decision is not significant.

Recommendation

That the minutes of the Audit and Risk Committee Meeting held on 3 September 2020 are confirmed as a true and correct record.

WHANGANUI DISTRICT COUNCIL
Te Kaunihera a Rohe o Whanganui

MINUTES

Audit and Risk Committee Meeting

3 September 2020

Order Of Business

MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING
HELD IN THE COUNCIL CHAMBER, 101 GUYTON STREET, WHANGANUI
ON 3 SEPTEMBER 2020 AT 1.00PM

PRESENT: Deputy Mayor Jenny Duncan, Mayor Hamish McDouall, Cr Kate Joblin, Cr James Barron, Cr Josh Chandulal-Mackay, Independent Member Susan Kosmala, Independent Member Mike Timmer

APOLOGIES: Nil

IN ATTENDANCE: Peter Oskam (WRCB Member), Kym Fell (Chief Executive), Mike Fermor (General Manager Finance), Debbie Watson (Risk Manager), Dion Walker (Finance and Risk Analyst), Kate Barnes (Senior Democracy Advisor), Hayley Fitzgerald (Democracy Support Officer)

1 OPENING PRAYER / KARAKIA

Cr Jenny Duncan read the Prayer.

2 APOLOGIES

Apology

A Motion was moved, seconded and carried to accept the apology of Councillor James Barron, however Councillor James Barron arrived at the meeting at 2.38pm.

3 DECLARATIONS OF INTEREST

There were no new declarations of interest.

4 CONFIRMATION OF MINUTES

4.1 MINUTES OF THE AUDIT AND RISK COMMITTEE MEETING HELD ON 30 JULY 2020

Author: **Hayley Fitzgerald - Democracy Support Officer**

Authoriser: **Kate Barnes - Senior Democracy Advisor**

Significance of decision – In terms of the Significance and Engagement Policy 2018, the decision is not significant.

Committee Resolution ARC/2020/15

Moved: Deputy Mayor Jenny Duncan
Seconded: Cr Kate Joblin

That the amended minutes of the Audit and Risk Committee Meeting held on 30 July 2020 are confirmed as a true and correct record.

CARRIED

5 REPORTS TO COMMITTEE

5.1 PRESENTATION BY COUNCIL'S INSURANCE BROKERS

Author: **Mike Fermor - General Manager Finance**

Authoriser: **Kym Fell - Chief Executive**

Discussion

Sam Ketley of AON insurance attended in person to present his report, his colleagues Deanna MacDonald and Stephen Kane attended via zoom. Sam presented his report to Council which covered a general update, enhancing risk governance, insurance levers, previous and upcoming work.

Mr Ketley discussed how to enhance the Council's risk governance by understanding risk better, increasing Councils certainty, and enabling Council to make good decisions about risk.

Mr Ketley spoke about different models including probabilistic, deterministic and qualitative. Insurance levers were a way to control the cost of insurance. Ms MacDonald discussed the current work they are doing at the moment surrounding the quality of values that were being provided by the Councils as a group. A project was subsequently started with MWLASS. Once COVID restrictions allow, AON staff will visit Whanganui District Council and start a managed process.

Independent Member Mike Timmer asked about the quality of the data that was being provided by the Council, Mr Ketley advised that compared to other councils, the data fell somewhere in the middle. The Finance and Risk Analyst advised that Morgans do an insurance valuation on our behalf.

Mayor Hamish McDouall suggested that the Insurance industry as a whole consider submitting to District Plans and similar documents to enable Councils to assess and make decisions around zoning certain parts of the plan. Whanganui will continue to be insured, but in future some parts may not be.

Committee Resolution ARC/2020/16

Moved: Mayor Hamish McDouall
Seconded: Independent Member Mike Timmer

That the Audit and Risk Committee receive the report – Presentation by Council's insurance brokers.

CARRIED

5.2 RISK MANAGEMENT ACTIVITY REPORT SEPTEMBER 2020

Author: **Debbie Watson - Risk Manager**

Authoriser: **Mike Fermor - General Manager Finance**

Discussion

Report taken as read.

Member Susan Kosmala asked about the Risk Register Review and asked for explanation about how emerging risks are identified and managed continuously rather than a quarterly review and formal process. The Risk Manager advised that quite often emerging risks have moved into strategic risks within the reporting timeframe. For example, cyber risk is already listed as an identified risk. The Risk Manager advised Council re-visit this through our systems. Emerging risk involves horizon scanning for long term issues, while real issues are currently within our operational or strategic risks.

Mike Timmer asked whether the Committee could be provided with a timeline for policies to be reviewed by the Committee. The Risk Manager advised that anything relevant to this committee would be disclosed. Regarding other information she would take guidance from the Chief Executive; she further noted that COVID-19 delayed the review of a number of policies.

Mike Timmer questioned the Risk Assessment Template and suggested we include the source event and objective in this template. The Risk Manager advised that staff are guided through this template by her in person so that accurate information is going into CAMMS.

Committee Resolution ARC/2020/17

Moved: Cr Jenny Duncan
Seconded: Cr Josh Chandulal-Mackay

That the Audit and Risk Committee receive the report – Risk Management Activity Report September 2020.

CARRIED

5.3 WHANGANUI DISTRICT COUNCIL ACCOUNTING POLICIES FOR 2020

Author: **Mike Fermor - General Manager Finance**

Authoriser: **Kym Fell - Chief Executive**

Discussion

The General Manager presented his report and advised that it is presented each year. He acknowledged an error within the item in that it refers to 2018 policies, noting it should read 2019 instead. He did not anticipate any significant changes coming to 2020 Policies.

Committee Resolution ARC/2020/18

Moved: Cr Josh Chandulal-Mackay
Seconded: Cr Kate Joblin

That the Audit and Risk Committee receive the report – Whanganui District Council Accounting Policies for 2020.

CARRIED

5.4 AUDIT OF WHANGANUI DISTRICT COUNCIL'S 2020 ANNUAL REPORT

Author: **Mike Fermor - General Manager Finance**

Authoriser: **Kym Fell - Chief Executive**

Discussion

The General Manager Finance noted that it was important for the Committee to be aware of the progress of the Audit Process. Audit New Zealand has already started an audit of The Council's CCOs and will be onsite from next week to start their Council audit. Due to COVID-19, legislation has been passed to enable Councils to extend the deadline for adopting annual reports – for CCOs it has been moved to end of November and for Councils it is end of December. The General Manager Finance stated that Council was working towards meeting its original timeline.

The annual report is due to be adopted at Council at the end of October. There will be pressure on the CCOs to meet that deadline and that will potentially impact Council. Mayor Hamish McDouall asked what the impact of that would be and if there has been any correspondence from the Auditors regarding the potential delay in audits across the public sector. The General Manager advised he had not received any advice to that effect. He advised that if there was a delay the report would come to a Council Meeting before Christmas so the impact would be minimal.

Councillor Kate Joblin asked if Council was likely to get any pushback on the 'matter of emphasis', noting that this Council had not been as severely impacted by COVID-19 as some other Councils. The General Manager advised that this is more around the non-financial performance – such as venues being closed - whereas matter of emphasis drew attention to the impact of COVID-19 on some of those measures. The indication from the Auditor General is that there is likely to be a 'matter of emphasis' in all Councils' Audit Opinions.

Committee Resolution ARC/2020/19

Moved: Cr Kate Joblin
Seconded: Independent Member Susan Kosmala

That the Audit and Risk Committee receive the report – Audit of Whanganui District Council's 2020 Annual Report.

CARRIED

5.5 PROPOSED AUDIT AND RISK COMMITTEE PERFORMANCE REPORT

Author: **Debbie Watson - Risk Manager**

Authoriser: **Mike Fermor - General Manager Finance**

Discussion

The Risk Manager presented the draft performance report, stressing that it is a draft. It serves two purposes for this committee, firstly increasing visibility to others around the Council table, and secondly providing an opportunity to look at continuous improvement models to inform the Committee's future activity., This will provide clarity of purpose and inform the work programme.

Independent Member Mike Timmer suggested he would call this a record of work and performance report.

Independent Member Susan Kosmala noted the real value would come from the survey and how learnings are implemented, suggesting some time be set aside for that.

Committee Resolution ARC/2020/20

Moved: Mayor Hamish McDouall
Seconded: Independent Member Mike Timmer

That the Audit and Risk Committee receive the report – Proposed Audit and Risk Committee Performance Report.

CARRIED

6 MOTION TO EXCLUDE PUBLIC

RESOLUTION TO EXCLUDE THE PUBLIC

Section 48, Local Government Official Information and Meetings Act 1987.

Committee Resolution ARC/2020/21

Moved: Cr Josh Chandulal-Mackay
Seconded: Cr Kate Joblin

That the public be excluded from the following parts of the proceedings of this meeting, namely items listed overleaf.

Reason for passing this resolution: good reason to withhold exists under section 7. Specific grounds under section 48(1) for the passing of this resolution: Section 48(1)(a)

CARRIED

Note

Section 48(4) of the Local Government Official Information and Meetings Act 1987 provides as follows:

"(4) Every resolution to exclude the public shall be put at a time when the meeting is open to the public, and the text of that resolution (or copies thereof):

(a) Shall be available to any member of the public who is present; and

(b) Shall form part of the minutes of the local authority."

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

ITEM NO.	GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	SECTION	SUBCLAUSE AND REASON UNDER THE ACT	PLAIN ENGLISH REASON	WHEN REPORTS CAN BE RELEASED
7.1	Public Excluded Minutes of the Audit and Risk Committee Meeting held on 30 July 2020				
8.1	Strategic Risks - Top 10 Report	s7(2)(c)(ii)	Public Interest	The risks identified in the report may cause additional reputational damage to council should they be in the public domain.	
8.2	Risk Deep Dive	s7(2)(c)(ii)	Public Interest	The risks identified in the report may cause additional reputational damage to council should they be in the public domain.	

That Peter Oskam be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of the Whanganui Rural Community. This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because he is a member of the Whanganui Rural Community Board.

The Meeting closed at 2.40pm.

The minutes of this meeting were confirmed at the Audit and Risk Committee Meeting held on 26 November 2020.

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CHAIRPERSON

5 REPORTS TO COMMITTEE

5.1 INSURANCE UPDATE - DECEMBER 2020

Author: **Mike Fermor - Chief Financial Officer**

Authoriser: **Kym Fell - Chief Executive**

References: **Nil**

Recommendation

That the Audit and Risk Committee receive the report – Insurance Update - December 2020.

Key information

At the Audit & Risk Committee meeting 30 July 2020 an item was presented detailing the current insurance policies of Council, together with 2019/20 insurance premiums. Early indications from Council's insurance brokers, Aon New Zealand, is that there is going to be a substantial uplift in premiums for the 2020/21 year, which will flow into the 2021-31 Long-Term Plan. A verbal update will be provided to the Committee on the likely amount of this increase in premiums.

To provide context to the above increase, Sam Ketley and Steve Kane, Aon New Zealand, will be in attendance, through zoom, to discuss the insurance markets and answer questions from Committee members.

5.2 DRAFT TREASURY POLICIES

Author: **Mike Fermor - Chief Financial Officer**

Authoriser: **Kym Fell - Chief Executive**

References:
1. **Draft Liability Management Policy 2020 ⇩**
2. **Draft Investment Policy 2020 ⇩**

Significance of decision – In terms of the Significance and Engagement Policy 2018, the recommended decision is not significant.

Recommendation

That the Audit & Risk Committee recommends:

That Council:

(a) Adopts the Draft Liability Management and Investment Policies.

(b) Delegates to the Chief Executive and the Chief Financial Officer the following delegations:

1. Approval for providing security stock as security over borrowing
2. Re-financing existing debt
3. Adjust net debt interest rate risk profile within the risk control limits stated within the Liability Management Policy
4. Manage funding maturities within the risk control limits stated within the Liability Management Policy
5. Negotiation and ongoing management of lending arrangements to Council Controlled Organisations and Council Controlled Trading Organisations within the risk control limits stated within the Liability Management Policy
6. Manage borrowing, interest rate and foreign exchange risk management (excludes roll-overs on floating rate debt and interest rate roll-overs on swaps) up to a daily transaction amount delegation to the Chief Executive of $20M and delegations to the Chief Financial Officer of $10M.
7. Authorising lists of bank signatories including seal register signatories
8. Opening and closing bank accounts

(c) Delegates to the Chief Executive and the General Manager Property & Projects delegated authority for divestment of minor parcels of lands or parts of land, easements and licences up to the Chief Executives financial delegation and which are not significant as per Council's Significance and Engagement Policy

Executive summary

As part of the Long-Term Plan process Council reviews its treasury management policies. These policies include the Liability Management Policy and the Investment Policy.

As part of the review process, Council has engaged its treasury advisors, PricewaterhouseCoopers (PwC), to also review the policies. All changes, except those of a very minor nature, can be seen in track changes in the draft policies attached.

Brett Johansen, Partner PwC, will be present to speak to the changes to the Policies as well as discuss Council's approach to treasury management.

Background

The Local Government Act (LGA) requires Council to adopt both a Liability Management Policy and an Investment Policy (s102).

The objectives of these policies are to enable treasury risks to be prudently managed. This is achieved by such means as setting parameters within which Council can undertake its borrowing and investment activities, in addition to regular monitoring and reporting on treasury performance. Once adopted, these policies will be included in the 2021-2031 Long-term Plan.

These policies have been reviewed by Council officers and Council's Treasury Advisors, PwC. All changes to these policies, except those of a very minor nature, can be seen in track changes in the draft policies attached.

The major changes to the Liability Management Policy were made to:

- Align with recent changes to the NZ Local Government Funding Agency Ltd;
- Align with credit rating methodology of Standard & Poors;
- Interest rate risk management framework to provide greater flexibility.

For the Investment Policy the major change was to recognise Council's investment in the Port SPVs.

The draft policies have been presented for noting to the Strategy & Finance Committee at its meeting on 17th November.

Options

Option One (preferred option)

Adopt the draft policies.

The current policies have been reviewed to take into account changes in financial markets and reflect best practice. The changes also reflect the current credit rating methodology of Standard & Poors, Council's credit rating agency.

The policies align with Council's overarching obligation of financial prudence as outlined in the Local Government Act 2002 (s101).

Option Two

Do not adopt the draft policies. Under this option Council may choose to adopt the existing policies or adopt changes different to those outlined in the attached policies.

Summary of Considerations

Fit with purpose of local government

LGA 2002 s101(1) states a local authority must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community.

LGA 2002 s102(1&2) states a local authority must adopt a liability management policy and an investment policy.

Section 10 of the Local Government Act 2002

Fit with strategic framework

Select checkboxes to indicate whether the decision / report contributes, detracts or has no impact

	Contributes	Detracts	No impact
Leading Edge Strategy	☐	☐	☑
Long-Term Plan	☑	☐	☐
Infrastructure Strategy	☐	☐	☑
Economic Development Strategy	☐	☐	☑
Other Policies or Plans -	☐	☐	☑

These policies will be included with other financial policies in the LTP.

Leading Edge Strategy

Risks

The recommended decision has a minor degree of risk.

By its very nature treasury activity (borrowing, investing, and cash flows) carries risk. These risks include interest rate risks, i.e. exposure to fluctuations in interest rates, and maturity risks, i.e. having a disproportionate amount of borrowings maturing within a relativity short time frame. As Council receives public funds, e.g. through its ability to tax (set rates), it is important its treasury practices are 'risk-adverse'. The objective of these Policies are to manage Council's treasure risks, thereby protecting public funds and providing predictability of cash flows. These Policies have been reviewed by PwC to ensure they reflect best practice in regards to the environment within which Council operates.

The following risks have been considered and identified:

☐ **Financial** *risks related to the financial management of Council and the ability to fund Council activities and operations, now and into the future*

☐ **Service delivery** *risks related to the meeting of levels of service to the community*

☐ **Reputation / image** *risks that affect the way the Council and staff are perceived by the community - nationwide, internationally, by stakeholders, and the media*

☐ **Legal compliance (regulatory)** *risks related to the ability of management to effectively manage the Council, comply with legal obligations and avoid being exposed to liability*

☐ **Environmental** *risks related to the environmental impacts of activities undertaken by the Council. Includes potential or negative environmental and / or ecological impacts, regardless of whether these are reversible or irreversible*

☐ **Health, safety and wellbeing** *risks related to the health, safety and wellbeing of Council staff, contractors and the general public when using Council's facilities and services*

☐ **Information technology and management** *risks related to the integrity of the Council's IT network, including security, access and data management*

☐ **Infrastructure / assets** *risks related to the inability of assets to provide the required level of service in the most cost effective manner*

☐ **Project completion** *risk of failure to complete on time, on budget and to plan*

Risk Management Policy

Policy implications

As above

Financial considerations

Type here

☑ Nil ☐ Approved in LTP / AP ☐ Unbudgeted $

Legislative considerations

Under the LGA Council is required to manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community (s101(1)). To help achieve this, and to provide predictability and certainty regarding funding, the Council is required to adopt a number of financial policies, including both a Liability Management Policy and an Investment Policy (s102).

Significance

The recommended decision is considered not significant as per Council's Significance and Engagement Policy.

Significance and Engagement Policy 2018

Engagement

No community engagement is required prior to adopting these policies. Council has engaged its treasury advisors, PwC, to aid in the review of the policies.

Significance and Engagement Policy 2018

PRE-ENGAGEMENT Community groups / stakeholders	Date / Status	Techniques to engage

CONSULTATION Community group / stakeholder	Level of engagement on spectrum	Techniques to engage

Liability Management Policy

Purpose

The purpose of the Liability management policy is to outline approved policies and procedures in respect of all borrowing related activity to be undertaken by Council. The formalisation of such policies and procedures will enable treasury risks within Council to be prudently managed.

Council borrows for the following purposes:

- To fund capital works primarily for infrastructure and other major assets. The use of debt is seen as an appropriate and efficient mechanism for promoting inter-generational equity between current and future ratepayers.
- Short-term debt to manage timing differences between cash inflows and outflows, and to maintain liquidity.
- Specific debt associated with one-off projects.
- Borrowing through hire purchase, credit, deferred payment or lease arrangements in the ordinary course of Council business.
- Fund emergencies in the short term.

Objectives

The objectives of the policy are consistent with best treasury management practice and will take into account the Annual Plan and Long-term Plan. The key objectives in relation to borrowing are:

- Prudently manage borrowing activities to ensure the ongoing funding of the Council.
- Borrow only under approved facilities and as permitted by this policy.
- Minimise borrowing costs and risks within prudent risk management control limits.
- Minimise and manage exposure to adverse interest rate movements.
- Ensure operational controls and procedures to protect Council against financial loss, opportunity cost and other inefficiencies are maintained.
- Monitor, evaluate and report on treasury performance.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of Council's lending/security arrangements.
- Maintain a strong long term credit rating from Standard and Poor's (or equivalent agency) of at least A+.
- Borrow funds and transact financial risk management instruments within an environment of control and compliance under the Council-approved policy so as to protect Council's financial assets and costs.
- Comply with financial ratios and limits stated within this policy.
- Maintain appropriate liquidity levels and manage cash flows within Council to meet known and reasonable unforeseen funding requirements.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Develop and maintain relationships with financial institutions, credit agencies, trustees, registrars, brokers, investors and the Local Government Funding Agency ("LGFA").

Statutory objectives

All borrowing and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002. Council is governed by the following relevant legislation:

Liability Management Policy

- Local Government Act 2002, in particular Part 6 including sections 101, 102, 104 and 105.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
- Trustee Act2019 (effective 31 January 2020). When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trustee Act 2019 Part 4 Investments.
- Public Bodies Lease Act 1969 and Property Law Act 2007.

Other objectives:

- All projected borrowings are to be approved by Council as part of the Annual Plan process or resolution of Council before the borrowing is effected.
- All legal documentation in respect to new borrowing facilities and financial instruments will be approved by Council's solicitors prior to the transaction being executed.
- Council will not enter into any borrowings denominated in a foreign currency.
- Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by Council (without charging rates revenue as security).
- A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
    - The period of indebtedness is less than 91 days (including rollovers); or
    - The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding, in aggregate, an amount determined by resolution of Council.

This policy is prepared under sections 102 and 104 of the Local Government Act 2002. The sections require Council to state its policies regarding:

- Interest rate exposure
- Credit exposure
- Liquidity
- Debt repayment

Borrowing is included in the Annual Plan and the Long-term Plan. Projected borrowing/debt levels are ascertained from forecasts in the Annual Plan or the Long-term Plan.

Council is able to borrow through a variety of market mechanisms including the issue of local authority stock and debentures, direct bank borrowing, accessing the short-term and long-term wholesale and retail capital markets directly or indirectly (e.g. LGFA). Council may also use internal funds as a borrowing mechanism.

New Zealand Local Government Funding Agency Limited

Despite anything in this policy, Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA.

Liability Management Policy

- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself.
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required.
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.
- Subscribe for shares and uncalled capital in the LGFA.

In evaluating new borrowings (in relation to source, term, size and pricing) the Chief Executive or delegate will take into account the following:

- The size and the economic life of the project requiring funding
- The impact of the new debt on the borrowing limits
- Relevant margins under each borrowing source
- Council's overall debt maturity profile, to ensure concentration of debt and debt re-pricing is avoided at reissue/rollover time
- Prevailing interest rates relative to term for both stock issuance, capital markets and bank borrowing and management's view of future interest rate movements
- Available term from banks, debt capital markets, the LGFA, loan stock issuance and credit facilities
- Ensuring that the implied finance terms of any specific debt is at least as favourable as Council could achieve in its own right
- Legal documentation and financial covenants

Council's ability to readily attract cost-effective borrowing is largely driven by its ability to rate, maintain a strong credit rating, strong financial standing and manage its relationships with its investors, the LGFA, banks and brokers.

Borrowing management and internal controls

Council's borrowing activities are managed centrally through the Finance function. The Finance function is broadly charged with the following responsibilities:

- Manage Council's borrowing programme to ensure funds are readily available at margins and costs acceptable to Council
- Manage liquidity to ensure obligations are paid when due
- Raise authorised and appropriate borrowing, in terms of both maturity and interest rate
- Manage the impact of market risks such as interest rate risk on Council's borrowing by undertaking appropriate hedging activity in the financial markets
- Minimise adverse interest rate related increases on ratepayer charges and maintain overall interest costs within budgeted parameters
- Provide timely and accurate reporting of treasury activity and performance

Council's systems of internal controls over borrowing activity include:

- Adequate segregation of duties among the core borrowing functions of deal execution, confirmation, settling and accounting/reporting
- There are a small number of people involved in borrowing activity; however, the risk from this will be further minimised by the following processes:
    - A documented discretionary approval process for borrowing activity that will include when advice is sought from Council's treasury advisors, the internal borrowing process, authorisation and reporting through to Council

Liability Management Policy

(noting that all borrowing activity should be within the parameters set by this Policy)
    - Regular management reporting and review
- Organisational, systems, procedural and reconciliation controls to ensure:
    - All borrowing activity is bona fide and properly authorised
    - Reviews in place to ensure Council's accounts and records are updated promptly, accurately and completely

Council is prohibited from borrowing in a foreign currency by section 113 of the Local Government Act 2002.

Management of other liabilities

Council will from time to time enter into transactions and agreements that can expose Council to financial liability. These may include:

Creditors
Council wishes to maintain its credit standing and therefore pays all creditors by the due date in line with the terms agreed with the supplier.

Personnel liabilities
Council management reviews the level of staff liability balances and encourages the timely use of entitlements.

Deposits and bonds
These are primarily held for contract retentions until work is deemed to be complete.

Leases
Council utilises finance leases (as opposed to an operational lease i.e. renting) as a means of financing some office equipment.

Contingent liabilities
Council may provide financial guarantees to community and service organisations. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis. Should the guarantee be called up, Council takes immediate action to recover the money. Guarantees require prior approval by way of Council resolution.

Borrowing limits

Total Council borrowings will be managed within the following macro limits:

Ratio	LIMIT
Net debt as a percentage of total revenue	<200%
Net interest as a percentage of total revenue	<15%
Net interest as a percentage of annual rates	<20%
Liquidity (external debt + available committed bank facilities +cash or near cash financial investments, to existing external debt)	>110%

Revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue. Income excludes development contributions and vested assets and excludes non-government capital contributions.

Net debt is defined as total debt less cash or near cash financial investments.

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Disaster recovery requirements are to be met through the liquidity ratio.

Cash or near cash financial investments are defined as being:

- Overnight bank cash deposits
- Wholesale/retail bank term deposits no greater than 30-days
- Bank issued RCD's (Registered Certificates of Deposit) less than 181 days

External debt funding and associated term deposit activity relating to pre-funding is excluded from the liquidity ratio calculation.

The LGFA's lending policy has covenants which are less restrictive than those stated above. Due to the low socioeconomic demographics of the Whanganui community, including a low percentage population growth for the region, it is considered prudent to retain Council's current borrowing limits and not increase them in order to align with those of the LGFA.

Category	Approved Instrument
Cash management and borrowing	Bank overdraft Committed cash advance facilities (short term and long term debt facilities) Committed standby facilities (where offered) from the LGFA Uncommitted money market facilities Retail and Wholesale Bond and Floating Rate Note (FRN) issuance Commercial paper (CP) Forward starting committed debt with the LGFA

Interest rate management

Council's ongoing borrowing requirement gives rise to direct exposure to interest rate movements.

Interest rate risk management refers to managing the impact that movements in market interest rates can have on Council's cash flows, Annual Plan and Long-term Plan. This impact can be both favourable and unfavourable. The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of debt funding costs. Certainty around interest costs is to be achieved through the active management of underlying interest rate exposures.

Liability Management Policy

Fixed/floating interest rate profile

Interest costs are incurred on any bank funding facility, issuance of local authority stock/bonds and other borrowing arrangements. This policy recognises that the longer the term of borrowing, the greater the interest rate risk. Longer term fixed rate borrowings may be of benefit if market interest rates rise, but equally may not allow the Council to take advantage of periods of low interest rates.

A balance is achieved through having a mix of variable/floating interest rates and hedged/fixed interest rates.

The Council manages its interest rate exposures by defining minimum and maximum hedging percentages and spreading maturities across various time bands.

There is a tendency to have a higher percentage of fixed/hedged rate borrowing. Council believes this is a prudent approach given the long-term nature of Council's assets, projects and intergenerational factors. In addition, as the major revenue stream is rates, which are set on an annual basis, Council prefers to have reasonable certainty on the level of interest costs and therefore reduce the impact of interest rate increases adversely affecting rates.

The Chief Executive and Chief Financial Officer approve the interest rate risk management strategy based on advice from Council's Treasury Advisors who monitors the interest rate markets on a regular basis and evaluate the outlook for interest rates in comparison to the rates payable on fixed rate/hedged borrowing.

The following table provides guidelines for achieving a floating/fixed rate mix. The table reflects Council's preference for a reasonable level of certainty over interest costs. Notwithstanding the above, it may be appropriate from time to time, depending on Council's outlook on interest rates, to have a floating rate profile.

Council's forecast gross external debt must be within the following fixed/floating interest rate risk control limits:

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)		
Debt Period Ending	**Minimum Fixed**	**Maximum Fixed**
Current	40%	90%
Year 1	40%	90%
Year 2	35%	85%
Year 3	30%	80%
Year 4	25%	75%
Year 5	20%	70%
Year 6	0%	65%
Year 7	0%	60%
Year 8	0%	50%
Year 9	0%	50%
Year 10	0%	50%
Year 11 plus	0%	25%

Forecast gross external debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed (signed off by the Chief Financial Officer or equivalent), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the Policy minimum and maximum limits.

Liability Management Policy

"Fixed Rate" is defined as all known interest rate obligations on forecast gross external debt, including where hedging instruments have fixed movements in the applicable reset rate.

"Floating Rate" is defined as any interest rate obligation subject to movements in the applicable reset rate.

Fixed interest rate percentages are calculated based on the average amount of fixed interest rate obligations relative to the average forecast gross external debt amounts for the given period (as defined in the table above).

A fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by Council.

Any interest rate swap with a maturity beyond the maximum LGFA bond maturity must be approved by Council.

Interest rate risk management instruments

Interest rate risk can be managed by using interest rate risk management instruments that allow the re-profiling of the portfolios. Hedging use includes:

- Adjusting the average maturity of fixed rate borrowings, thereby managing interest rate risk within the confines of liquidity management
- Using interest rate risk management instruments to convert fixed rate borrowing into floating rate, floating rate borrowing into fixed or hedged borrowing. Using interest rate risk management instruments to hedge market interest rate re-pricing risk on existing and new debt

The following interest rate risk management instruments are approved by Council:

- Interest rate swaps including forward start swaps, and swap restructures
- Forward rate agreements on bank bills and government bonds
- Interest rate options on approved underlying instruments e.g. on interest rate swaps (purchased swaptions and one-for-one collars), bank bills (purchased options, one-for-one collars) and government bonds

Any other financial instrument must be specifically approved by Council on a case-by-case basis and only be applied to the one singular transaction being approved.

Approved use of interest rate risk management instruments:

- Buying and selling risk management instruments for the primary purpose of generating premium income is not permitted because of its speculative nature
- Interest rate options must not be sold outright. However, one-for-one collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased), otherwise both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money"
- Purchased swaptions mature within 12 months
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the

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appropriate swap rate cannot be counted as part of the fixed rate cover percentage calculation

- Forward start period on swaps and collar strategies to be no more than 36 months, unless linked to the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as reasonably possible. Maturities should be well spread.

Credit exposure management

Council's ability to readily attract cost-effective borrowing is largely driven by its ability to:

- Maintain a strong balance sheet
- Service loans as interest and principal amounts become due
- Manage its image in the marketplace and its relationships with bankers, the LGFA, trustees, brokers and wholesale investors
- Maintain a strong credit rating.

Liquidity management

Liquidity management refers to the timely availability of funds to Council when needed, without incurring penalty costs. Funding risk management centres on the ability to re-finance or raise new debt at a future time at acceptable pricing (fees and borrowing margins) and terms. A key factor of funding risk management is to spread and control the risk and reduce the concentration of risk at any one point in time so that if one-off internal or external negative credit events occur, the overall interest cost through adverse credit margins movements is not unnecessarily increased, or term availability and general flexibility reduced.

The following guidelines have been established to provide Council with appropriate levels of liquidity at all times,

- Cash flow forecasts are produced to assist in the matching of operational and capital expenditure to revenue streams and borrowing requirements
- Council will maintain its financial investments in liquid instruments
- Council will ensure that where Council-created investment reserves are maintained in liquid financial investments to repay borrowing, these investments are held for maturities not exceeding the relevant borrowing repayment date
- To minimise the impact of unexpected cash surpluses, Council may repay outstanding borrowings to benefit from the efficiencies of a committed cash advance facility
- External debt and committed available debt facilities together with cash or near cash financial investments must be maintained at an amount of at least 110% over the existing external debt
- The Chief Executive or delegate has the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be reported and ratified by Council at the earliest opportunity
- Council has the ability to pre-fund up to 18 months of forecast debt requirements including re-financings of existing debt.

To ensure funds are available on repayment of debt, financial investments are maintained in liquid assets and ready funds are available through various committed cash advance and note purchase facilities.

Liability Management Policy

Council also maintains with at least two banks (or alternatively at least one bank and the LGFA), committed cash advance/credit facilities to ensure funds are available when and if required.

Council ensures debt maturity is spread widely over a band of maturities to minimise the risk that large concentrations of debt may mature or be reissued when credit margins are high. Council manages this specifically by adopting maximum maturity percentages.

The maturity profile of the total committed funding in respect to all external loans and committed facilities is to be controlled by the following system:

Period	Minimum %	Maximum %
0 to 3 years	15%	60%
3 to 7 years	25%	85%
7 years plus	0%	60%

A funding maturity profile that is outside the above limits, but self corrects with 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval from Council.

To minimise concentration risk the LGFA require that no more than the greater of NZD 100 million or 33% of a council's borrowings will mature in a 12 month period.

Debt repayment

Funds are provided from operating surpluses, asset sales and general funds for repayment of most loans/or a reduction in borrowing requirements, unless the Council specifically directs that the funds be put to another use.

Council will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.

Each Council activity is rated for loan repayments depending on the life of the individual assets and the ability of that activity to repay the loan.

Repayment of debt (interest and principal) is governed by:

- Affordability of debt servicing costs
- Intergenerational equity principles (debt will be repaid over the life of the asset or 25 years, whichever is the lesser)
- Maintenance of prudent debt levels and borrowing limits
- Council repays borrowings from general funds, special funds or from an existing specific fund allocated to that borrowing
- Where a loan is raised for a specific purpose and the funds are no longer required, the funds will be held in a special fund until the funds can be applied against a future borrowing

Security

Council offers a charge over rates and rates revenue, as security for general borrowing programmes and interest rate risk management activity. From time to time, with prior Council approval and the Trustee, security may be offered by providing a charge over one or more of Council's assets. Council offers security under a Debenture Trust Deed.

Liability Management Policy

The utilisation of internal funds for internal borrowing purposes will be on an unsecured basis.

Internal borrowing

Council uses funds allocated to reserves in the manner which provides Council with the greatest benefit. Where possible, these funds are used to reduce external debt, effectively reducing the Council's net interest cost.

Where Council has a borrowing requirement for specific projects or activities, internal cash resources may be utilised first before any funds are borrowed externally. When Council's cash flows indicate that additional cash resources are required on an ongoing basis, officers will seek external borrowings in accordance with this policy.

Where internal funds are utilised to reduce borrowing, a record will be kept of the source of the funds and an interest rate will be credited to the internal source at the market rate applicable to borrowings over the period of the loan. The cost of the internal borrowing will be charged as an expense to the activity to which the funds have been applied. This is advantageous to Council as there is a difference between the margins that apply to borrowings as opposed to investments and also the costs of transactions.

Borrowing mechanisms for council controlled organisations and council controlled trading organisations

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO/CCTOs.

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.
Any lending arrangement to a CCO or CCTO must be approved by Council. In recommending an arrangement for approval the Chief Financial Officer considers the following:

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date.
- Impact on Council's credit standing, debt cap amount (where applied), lending covenants with the LGFA and other lenders and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as; CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to CCO/CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement.

All lending arrangements must be executed under legal documentation (e.g. loan, guarantee) reviewed and approved by Council's independent legal counsel.

Interest costs allocated to Council activities

Interest costs are prorated across those Council activities with internal loan balances. The exception are interest costs for internal loans relating to the Wastewater Treatment Plant. Due to the financial cost of this

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project and the desire to provide certainty to the users of the plant, the interest rates for these loans will be capped at 4.5%.

Foreign currency

Council may from time to time be exposed to foreign exchange risks through the occasional purchase of foreign exchange denominated services, plant and equipment etc. Generally, all significant commitments (greater than $500,000 NZD equivalent) for foreign exchange are hedged using foreign exchange contracts, once expenditure is approved and legally committed. Both spot and forward foreign exchange contracts can be used by Council. The following instruments may be used for risk management activity:

Category	Approved Instrument
Foreign exchange risk management	Spot foreign currency contracts Forward foreign exchange contracts Foreign currency deposits

Delegation of authority and authority limits

Council has the following responsibilities, either directly itself or via the following stated delegated authorities:

Activity	Delegated authority	Limit
Approving and changing policy	The Council	Unlimited
Approving borrowing programme and new debt	The Council	Unlimited (subject to legislative and other regulatory limitations)
Approval for charging physical assets as security over borrowing	The Council	Unlimited
Approval for providing security stock as security over borrowing	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Appoint Debenture Trustee	The Council	Unlimited
Re-financing existing debt	Chief Executive or Chief Financial Officer (or delegate)	Re-financing existing debt
Approving transactions outside policy	The Council	Unlimited
Adjust net debt interest rate risk profile	Chief Executive or Chief Financial Officer (or delegate)	Per risk control limits
Managing funding maturities	Chief Executive or Chief Financial Officer (or delegate)	Per risk control limits
Approving CCO/CCTO membership of the LGFA	Council	Unlimited
Approving new and refinanced lending activity with CCO/CCTOs	Council	Unlimited

Liability Management Policy

Approving of Council guarantees or uncalled capital relating to CCO/CCTO indebtedness	Council	Unlimited (subject to legislative and other regulatory limitations)
Negotiation and ongoing management of lending arrangements to CCO/CCTOs.	Chief Executive or Chief Financial Officer (or delegate)	Per approval / per risk control limits
Maximum daily transaction amount (borrowing, interest rate and foreign exchange risk management) excludes roll-overs on floating rate debt and interest rate roll-overs on swaps	Chief Executive or Chief Financial Officer (or delegate)	$20 million $10 million
Authorising lists of signatories including seal register signatories	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Opening/closing bank accounts	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Triennial review of policy	Chief Executive or Chief Financial Officer (or delegate)	N/A
Ensuring compliance with policy	Chief Executive or Chief Financial Officer (or delegate)	N/A

All management delegated limits are authorised by the Chief Executive. The following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind Council

Whenever a person with delegated authority on any account or facility leaves Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

Liability Management Policy

Counterparty credit risk management

The Council will satisfy itself, in all its borrowing and risk management transactions that a counterparty:

- has a long-term S&P (or equivalent Fitch or Moody's rating) credit rating of at least A or above; and a short term rating of A-1 or above.
- banks are New Zealand registered banks with the Reserve Bank of New Zealand.

The following matrix sets out the policy limits:

Counterparty	Minimum S&P long term / short term credit rating	Risk management limit maximum per counterparty ($m)	Total maximum per counterparty, including investments ($m)
NZ Registered Bank	A/ A-1	15.0	30.0

In determining the usage of the above gross limits, the following product weightings will be used:

- Interest Rate Risk Management (e.g. swaps) – Transaction Notional × Maturity (years) × 3%.
- Foreign exchange – transactional face value amount multiplied by the square root of the maturity (years) x 15%.

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of approved counterparties as possible. Maturities should be well spread. The approval process must take into account the liquidity of the instrument and prevailing market conditions the instrument is traded in and repriced from.

Individual counterparty limits are kept in a spread sheet by management and updated on a day to day basis. Credit ratings should be reviewed on an on-going basis and in the event of material credit downgrade this should be immediately reported to the Council and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Performance measurement

The performance of the borrowing activity will be measured against pre-determined benchmarks:

- Adherence to policy and in particular the borrowing limits
- Unplanned overdraft costs – specifically that daily bank balances are within limits taking into account unforeseen external activity
- Comparison of actual monthly and year to date interest costs vs budget borrowing costs
- Comparison of actual monthly borrowings with budgeted borrowing amounts
- Comparison of actual financial ratios to budgeted financial ratios as per the Annual Plan and Long-term Plan

Reporting to Council

The following reports are produced:

Liability Management Policy

Report name	Frequency	Prepared by/reviewed by	Recipient
Daily cash flow position	Daily	Finance Technician/ Financial Accountant	As required
Treasury report Policy limit compliance Borrowing limits Funding and interest position Funding facility New treasury transactions Cost of funds vs budget Cash flow forecast report Liquidity risk position Counterparty creditTreasury performance Borrowing and interest rate strategy commentary	Each bi-meeting of the Strategy & Finance Committee	Financial Accountant/ Chief Financial Officer	The Council
Annual Report – statement of debt and revaluation of financial instruments	Annual	Financial Accountant/ Chief Financial Officer	Stakeholders
Liability management policy review	3 yearly	Chief Financial Officer	The Council

Accounting treatment of financial instruments

Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense. Further detail of accounting treatment is contained within the appropriate operations and procedures manual.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to actively manage the Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's annual accounts.

The Chief Financial Officer is responsible for advising the Chief Executive of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least every twelve months for risk management purposes.

Liability Management Policy

Policy review

This Liability management policy is to be formally reviewed on a triennial basis.

The Chief Executive has the responsibility to prepare a review report that is presented to the Council. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

The Council receives the report, approves policy changes and/or rejects recommendations for policy changes.

Investment Policy

Purpose

The purpose of this Investment Policy (the policy) is to outline approved policy and procedures in respect of all Council investments. The formalisation of such policies and procedures will enable investment risk to be prudently managed.

Objectives

The key objectives of this policy are to:

- Manage investments in accordance with relevant legislation and use best practice from the market as appropriate
- Maximise investment income within prudent levels of risk. Council as a public entity is risk averse and as such will invest in safer assets with lower returns
- Invest in only those investments that are approved under this policy
- Ensure the appropriate liquidity levels are maintained as required and to optimise the use of cash not immediately required
- Manage the risk of interest rate movements
- Enable regular reviews of the performance (risk and return) of investments
- Maintain satisfactory internal controls and procedures to safeguard investments
- Ensure Council recognises when an acquisition or divestment of an investment may require public consultation
- Obtain a revenue return to reduce the reliance on and impact of rates
- Invest in activities that Council believes have a positive impact on the community which contributes to Council's vision and purpose statement
- Meet the obligations imposed by legislation or trusts, bequests and endowments

Application

This policy applies to any investment made by Council with an expected commercial return. While an investment may have other strategic economic objectives that are being met, the distinction between it and other spending is that it will be expected to generate a future flow of funds at a market rate of return.

Local Government Act 2002 requirements

This policy is prepared according to sections 102 and 105 of the Local Government Act 2002. The Act requires Council to state the following:

- The mix of investments
- The acquisition of new investments
- An outline of the procedures by which investments are managed and reported on
- An outline of how risks associated with investments are assessed and managed

Investment Policy

Mix of investments

Council holds the following mix of investments:

Surplus cash and working capital funds

- Short term on call deposits
- Long term deposits

Equity investments

- 100% ownership of the shares in Whanganui District Council Holdings Limited (WDCHL)
- WDCHL's 100% ownership of the shares in GasNet Limited, New Zealand International Commercial Pilot Academy Limited and Whanganui Port General Partner Limited
- Units in Whanganui Port Limited Partnership
- Shares in Civic Financial Services Limited

Property investments

- City Endowment property portfolio – investment focussed
- Harbour Endowment property portfolio – investment focussed (Ownership and management of the Harbour Endowment portfolio is being transferred to the (either Whanganui Port General Partner Limited or Whanganui Port Limited Partnership – Rob G to confirm)
- Community and operational portfolio (formerly known as the City Freehold property portfolio) – generally includes property held for operational or community purposes
- The contents of each of the property portfolios may change from time to time

Forestry investment

- The Emissions Trading Scheme (ETS) system may accrue a carbon asset that could allow that sale of carbon credits.

Loan advances

- For infrastructure works purposes
- For property freeholding of leasehold land
- For some community groups and activities
- For further capital investment (debt or equity) in subsidiary organisations
- For other investments that meet the Council's general objectives or desired outcomes

Acquisition/disposition of new investments and revenue

New investments may be acquired if an opportunity arises or if investment supports the Council's desired/required outcomes and is considered the best means of achieving the outcome.

Equities

Any equity acquisition or disposal must be approved by the Council. Council generally invests in equity investments to achieve other than just commercial outcomes. Revenue/dividends earned from equity investments other than WDCHL is minimal. All income is recognised in the Statement of Comprehensive Revenue and Expense and forms part of general funds.

Investment Policy

Property

Property investments are acquired to provide a better investment mix to any individual portfolio, so adjusting the portfolio will mean sales and purchases of individual properties.

Council controlled organisations (CCOs)

CCOs are consolidated into the Council's Annual Report according to generally accepted accounting practice. Any surplus generated by the CCO will generally be utilised by the CCO, except in the case that a dividend requirement is set out in the CCO's Statement of intent (SOI) or other such determination. Proceeds from the disposition of any CCO investment will form part of general or special funds. Additions to or disposal of any CCO investment requires Council approval. Council facilitates cost-effective external borrowings if required for CCOs by way of its standing in the marketplace and recognises that there is a financial benefit to CCOs from this. Council can pass funding to CCOs at cost or include a margin to reflect its support.

Any Council borrowing from the LGFA that is on-lent to a CCO/CCTO or any direct borrowing by a CCO/CCTO from the LGFA must be consistent with the policy outlined in the Liability Management Policy.

From time to time Council may provide direct financing to assist in cash flow management. Any funding in this form that is equal to or less than $50,000 requires Chief Executive approval. Amounts over $50,000 must be approved by the Council.

New Zealand Local Government Funding Agency Limited

Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment. The Council's objective in making any such investment will be to:

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

Because of these dual objectives, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA and is a Guarantor.

General monitoring procedure

For equities, the Annual Reports of the entity held are received and reviewed by the Council.

For CCOs, service level agreements between the Council and the CCO and the SOIs record the responsibilities of each party. Most CCOs are managed and reported on by the Council and the Chief Executive of the Council is generally delegated to appoint managers while the Council is generally responsible for appointing governance boards for the CCOs.

Investment Policy

The Annual Reports of CCOs are generally prepared by Council and are subject to audit.

Council controlled organisations

Whanganui District Council Holdings Limited (WDCHL)

Objectives

The objectives relating to the ownership of the company are to oversee individual investments and to advise Council on:

- The mix of investments in the portfolio
- The risk of investments in the portfolio
- The management of individual investments in the portfolio
- The overall strategy for investments in the portfolio
- To identify opportunities to enhance investments and returns
- To identify potential new investments that meet council investment objectives
- To identify opportunities to sell investments that no longer meet Council's investment objectives
- To identify appropriate structures that may better enhance focus and management of particular investments

It is the sole responsibility of Council, by resolution, to purchase or sell assets owned by WDCHL.

WDCHL has a 100% interest in GasNet Limited, New Zealand International Commercial Pilot Academy Limited and Whanganui Port General Partner Limited, which is owned by the company.

Investment Policy

Monitoring

WDCHL is required to submit a SOI to the Council annually. This document outlines what the company will be doing in the next three years to meet its objectives. Other monitoring tools are:

- A six-monthly report is required to report on progress against the objectives in the SOI
- An Annual Report is required to also report on objectives in the SOI
- An Annual General Meeting and also meetings with the Council to discuss issues and progress against objectives

Risks

Risks are assessed as part of the annual process of developing and adopting a SOI. Business plans will be prepared and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. Major risks will be monitored by the Board of Directors and will be discussed with Council from time to time.

GasNet Limited

Objectives

The objectives relating to the ownership of GasNet Limited by WDCHL are to:

- Protect the provision of an infrastructure investment
- Maximise dividends
- Enhance the value and moderate growth in investment

Monitoring

GasNet Limited is required to submit a SOI to WDCHL annually. This document outlines what the company will be doing in the next three years to meet its objectives. Other monitoring tools are:

- A six-monthly report is required to report on progress against the objectives in the SOI
- An annual report is required to also report on objectives in the SOI
- An Annual General Meeting and also meetings with WDCHL to discuss issues and progress against objectives

Risks

Risks are assessed as part of the annual process of developing and adopting a SOI. Business plans will be prepared and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. Major risks will be monitored by the company and will be discussed with WDCHL when they meet.

Investment Policy

New Zealand Commercial Pilot Academy Limited (NZICPA)

Objectives

The objectives relating to the ownership of NZICPA by WDCHL are to:

- Oversee the establishment and continued viability of NZICPA
- Maximise benefits to Whanganui Airport and the Whanganui community
- Enhance the value and moderate growth in investment

Monitoring

NZICPA is required to submit a SOI to WDCHL annually. This document outlines what the company will be doing in the next three years to meet its objectives. Other monitoring tools are:

- A six-monthly report is required to report on progress against the objectives in the SOI
- An annual report is required to also report on objectives in the SOI
- An Annual General Meeting and also meetings with WDCHL to discuss issues and progress against objectives

Risks

Risks are assessed as part of the annual process of developing and adopting a SOI. Business plans will be prepared and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. Major risks will be monitored by the company and will be discussed with NZICPA when they meet.

Whanganui Port

The Whanganui Port operations involves three entities:

- Whanganui Port General Partner Limited (WPGPL: 100% owned by WDCHL)
- Whanganui Port Operating Company Limited (WPOCL: 100% owned by WPGPL)
- Whanganui Port Limited Partnership (WPLP: Council is the Limited Partner and WPGPL is the General Partner. The Crown has a convertible loan interest in the Partnership.)

The establishment of the Whanganui Port entities involved the transfer of Council Port assets, the Harbour Endowment property portfolio and cash to the WPLP.

Objectives

The objective relating to the ownership of the Port assets are to:

- Oversee the rejuvenation and continued viability of the Whanganui port
- Operate the port in a sound and business-like manner
- Improve the long-term value and financial performance of the port while improving the economic value of the port to Whanganui

While the long-term objective of the port investment is to provide financial returns, initially this investment is for strategic purposes such as retaining local businesses and providing opportunities for new businesses to invest in Whanganui.

Investment Policy

In addition to the above objectives, the following objectives relate to the ownership of the Harbour Endowment property portfolio:

- To provide revenue for harbour maintenance operations
- To help fund infrastructure for harbour development
- To maintain the value of the portfolio
- To maintain investment in land and property
- To enhance opportunities for economic development on a commercial basis
- To act as a prudent investor

The Harbour Endowment requires that funds must be invested in property. However, proceeds from investment must be used for harbour purposes. Not all properties within the Harbour Endowment are regarded as investment properties as some are used for operational purposes or are owned for strategic reasons. Proceeds from property sales for the Harbour Endowment are not used for harbour maintenance but remain in the capital fund for the purchase of property.

Monitoring

All three entities are required to submit a SOI to their shareholder annually (the exception is where Council grants CCO exemption). This document outlines what the entity will be doing in the next three years to meet its objectives. Other monitoring tools are:

- A six-monthly report is required to report on progress against the objectives in the SOI
- An annual report is required to also report on objectives in the SOI
- An Annual General Meeting and also meetings with shareholders to discuss issues and progress against objectives

Risks

Risks are assessed as part of the annual process of developing and adopting a SOI. Business plans will be prepared and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. Major risks will be monitored by each entity and discussed with shareholders.

Whanganui Airport Joint Venture (WAJV)

Council has 50% ownership of the joint venture with the other 50% owned by the Crown. Council retains ownership of the airport because it is essential for the economic development of the Whanganui District.

Objectives

WAJV's primary objectives are to:

- Provide high quality facilities and service commensurate with existing levels of aviation activity and in accordance with all the appropriate Acts, Regulations and Rules pertaining to airport and aviation operations in line with the size of Whanganui Airport.
- Operate the airport in a sound and business-like manner.
- Improve the long-term value and financial performance of the airport while improving the economic value of the airport to Whanganui.

Investment Policy

Monitoring

WAJV is required to submit a SOI to the Council annually. This document outlines what the joint venture will be doing in the next three years to meet its objectives. Other monitoring tools are:

- A six-monthly report is required to report on progress against the objectives in the SOI
- An Annual Report is required to also report on objectives in the SOI

Risks

The primary objective for risk management of the airport is to maintain operational efficiency and safety. This is managed by regular Civil Aviation Authority audits.

Property investment portfolios

The objectives for investment and the use of the proceeds from each portfolio differ. The contents of each portfolio may change from time to time to achieve the Council's objectives and outcomes. This section should be read in conjunction with Council's Property Portfolio Investment Plan.

City Endowment property portfolio

The objectives of ownership of the portfolio are:

- To provide community facilities
- To provide revenue for general operations
- To enhance the value of the portfolio
- To maintain an investment in land and property
- To enhance opportunities for economic development on a commercial basis where prudent
- To act as a prudent investor

A large proportion of the value of the City Endowment property portfolio/fund is invested in property with a cash surplus balance available for reinvestment. Not all properties in the portfolio are regarded as investment properties as some are used for operational purposes or are owned for strategic reasons. Investment proceeds are used for the general purposes of Council. There is a requirement that any proceeds of sale be reinvested in property. Capital funds may be invested short term in cash deposits awaiting property investment and interest on those deposits may be used for general purposes.

Investment Policy

Community and operational portfolio (formerly known as the City Freehold property portfolio)

The objectives of ownership of the portfolio are:

- To provide property to support community activities and the operations of Council
- To enhance opportunities for economic development
- To act as a prudent property owner

The long term objective for the community and operational portfolio would be for all community related properties to be held within this portfolio, with the two Endowments only holding investment properties. This needs to remain a long term objective which can be achieved as and when the rate payer / community and operational portfolio can afford to purchase the community related properties that sit within the two Endowments.

Monitoring

The Council includes property investments within its annual planning cycle. A property investments business plan has been developed and Council will monitor progress against that.
Quarterly reports are prepared and presented to Council to evaluate performance against the plans.

The Council reviews the performance of its property investments on a regular basis. Targets for returns are included in the 10-Year Plan or Annual Plan.

Divestment of property investments requires Council approval. Proceeds from the sale of endowment property investments are allocated to the appropriate capital account and used for acquisition of another investment property within that portfolio. Proceeds from other property sales are allocated to general funds and used to repay debt or to fund capital improvements.

Risks

Risks are assessed as part of the annual process of developing and adopting an Annual Plan or 10-Year Plan. Business plans will be prepared for each portfolio and contain a section on risks relating to major sectors of business and the expected risk profile over the next three years. The Audit and Risk Committee and WDCHL will monitor major risks.

Cash and working capital management

Financial investments are those made in cash deposits or money market term deposits.

The objectives of Council maintaining financial investments are to:

- Invest surplus cash and working capital funds
- Invest amounts allocated to special funds if required
- Invest funds allocated for approved future expenditure to implement strategic initiatives or to support intergenerational allocations if required
- Prefund existing loan maturities
- Invest excess proceeds from the sale of assets if required

Investment Policy

Council maintains a cash flow projection (by day) for the financial year and surplus cash is managed on a daily basis.

Risks

This policy sets operating parameters for financial investment activity including approved counterparties, instruments and limits. The following principles form the key assumptions of the operating parameters contained in the investment framework:

- Credit risk is minimised by placing maximum limits for each broad class of non-Government issuer and by limiting investments to local authorities and registered banks within prescribed limits
- Liquidity risk is minimised by ensuring that all negotiable investments must be capable of being liquidated in a readily available secondary market
- Any financial investments must be restricted to a term of no more than 91 days (unless linked to a debt pre-funding strategy or known capital works programme), ensuring future cash flow and capital expenditure projections are met
- Council may only make financial investments in approved creditworthy counterparties. Creditworthy counterparties and investment restrictions are provided below

Council's financial investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its investments.

Management implements an interest rate risk management strategy by reviewing rolling cashflow forecasts and adjusting the maturity of its investments as appropriate. Interest rate management instruments are not approved instruments.

Financial investments - approved issuers, instruments and limits

Counterparty credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Council. Treasury-related transactions would only be entered into with organisations specifically approved by the Council.

Counterparties and limits can only be approved on the basis of long-term credit ratings (Standard & Poor's, Fitch or Moody's) being A+ and above or short term rating of A-1 or above.

Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure. The following matrix guide will determine limits.

Counterparty/Issuer	Minimum long term/short term credit rating	Approved investment instruments	Total maximum investment ($m) ($m)
NZ Government	N/A	Treasury bills	unlimited

Investment Policy

Local Government Funding Agency (LGFA)	A	LGFA borrower notes/Commercial paper	20.0m
NZ Registered Bank	A / A-1	Money market call deposits Money market term deposits Registered certificates of deposits Bank bills	Up to 100% of total portfolio but no more than $15m with one registered bank

In determining the usage of the above gross limits, the following product weightings will be used:

- Investments (e.g. bank deposits) – transaction amount x weighting 100%.

To avoid undue concentration of exposures, financial investments should be used with as wide a range of approved counterparties as possible. The approval process must take into account the liquidity of the investment and prevailing market conditions the instrument is traded in and repriced from.

Individual counterparty limits are kept in a spread sheet by management and updated on a day to day basis. Credit ratings should be reviewed on an on-going basis and in the event of material credit downgrade this should be immediately reported to the Council and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council along with a strategy to achieve policy compliance as soon as practical.

Treasury reporting requirements are outlined in the Liability Management Policy.

Loan advances

Loan advances may be made from time to time to assist the Council to achieve its investment objectives and Council outcomes. Council approval is required for all loan advances.

Council has made advances with respect to infrastructure works loans to its ratepayers.

Council will make advances and other investments after considering the impact of these on the community and the security and return of the advance. Council may offer advances at concessionary interest rates. According to Section 63 of the Local Government Act 2002, concessionary interest rates are unable to be provided to Council Controlled Trading Organisations.

On occasion, Council may also approve loans to trusts or other community-based organisations where there is social or community benefit to be achieved from the lending. Often such lending might be made at significantly discounted or nil interest rates, again in recognition of the clear social and community benefit that is being provided.

Investment Policy

Delegation of authority and authority limits

Council has the following responsibilities, either directly itself or via the following stated delegated authorities:

Activity	Delegated authority	Limit
Approving and changing policy	The Council	Unlimited
Approving transactions outside policy	The Council	Unlimited
Authorising lists of signatories including seal register signatories	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Opening/closing bank accounts	Chief Executive or Chief Financial Officer (or delegate)	Unlimited
Triennial review of policy	Chief Executive or Chief Financial Officer (or delegate)	N/A
Ensuring compliance with policy	Chief Executive or Chief Financial Officer (or delegate)	N/A

All management delegated limits are authorised by the Chief Executive. The following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind Council

Whenever a person with delegated authority on any account or facility leaves Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

Policy review

This Investment Policy is to be formally reviewed on a triennial basis.

The Chief Executive has the responsibility to prepare a review report that is presented to the Council. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

The Council receives the report, approves policy changes and/or rejects recommendations for policy changes.

5.3 INTERNAL AUDIT REVIEWS - SHORT FORM CONSULTANT ENGAGEMENT CONTRACTS AND LEASED CARPARK RENTALS

Author: Mike Fermor - Chief Financial Officer

Authoriser: Kym Fell - Chief Executive

References:
1. Internal Audit Consultants Agreements Report November 2020 ⇩
2. Internal Audit Car Park Rentals Report November 2020 ⇩

Recommendation

That the Audit and Risk Committee receive the report – Internal Audit Reviews - Short Form Consultant Engagement Contracts and Leased Carpark Rentals.

Executive Summary

The purpose of this report is to update the Committee on the results of the internal audit of Council's controls and processes around Short Form Consultant Engagement Contracts and Leased Car Park Rentals.

The work was undertaken by MWLASS internal auditors Cotton Kelly Smit Limited (CKS Audit).

Rachael Dean, Senior Internal Auditor from CKS Audit will be present to speak to the reports.

Key information

An internal audit programme for 2019/2020 was presented to the committee at its March 2020 meeting. The programme consists of the following:

Scope	Elements	Risk Alignment	Work Areas within scope
Consultant Engagements (completed)	Review to ensure OAG Guidance, delegations and Council policy is followed for the engagement of Consultants	Financial, Reputation and Service Delivery	All work groups with Consultants – typically based on the Short Form Agreement for Consultant Engagement
Leased Carparks Revenue (completed)	Review of the leased carparks rental agreement, billing and collection processes	Financial, Reputation and Service Delivery	Regulatory and Revenue
Cash handling (pending December 2020 - January 2021)	Controls and processes including electronic banking	Financial, Reputation and Service Delivery	i-Site, Parking, Pound, Glassworks, Sarjeant Gallery, Davis Library, Gonville Library, Alexander Library, Airport Café, Venues & Events – RWOH, Mobile Library and Customer Services.

Discussion – Consultant Engagement Agreements

The audit reviewed a number of consultant engagement agreements across various functional areas. While the results of the audit show that Council has largely followed its controls and processes, it has highlighted areas for improvement and future consideration. These include:

- Ensuring that the IPENZ – ACENZ terms and conditions are reflected on any/all supplier 'own' template based contracts for service or delivery
- Ensuring conflicts of interest are documented, including where there are none
- Consideration of expanding the use of purchase orders to capture financial liabilities related to in-progress contracts
- Council complete some refresher training for those work groups that use Short Form Contracts in respect of delegations and processes

Discussion – Leased Car Park Revenue

The audit reviewed a 30 Leased Car Park agreements from a total population of 133 rental car parks across various locations. While the results of the audit show that Council has largely followed its controls and processes, it has highlighted areas for improvement and future consideration. These include:

- Ensuring documentation is to hand for agreements that pre-date 2013 – this is the timeframe where the document management system moved from a TRIM system to the current Hubble SharePoint system.
- Ensuring all parts of the rental agreement form are completed
- Implementation of a process to ensure that car parks spaces align to the tenant allocation records

Future Actions

These areas for improvement have been noted by management with comments made in the reports as to how these can be implemented.

All internal audit findings and their subsequent remedial actions are also captured in the Corrective Action Reporting (organisational improvement) by the Risk Manager and are subject to regular monitoring as to progress.

Rachael Dean, Senior Internal Auditor from CKS Audit, will be present to expand on both reports, and the findings, and be able to answer questions from committee members.

Update

The third element of the Internal Audit Programme (Cash Handling) will be subject to audit during December 2020 and January 2021 with a final report due to the Audit and Risk Committee in March 2021. The audit programme for this year was delayed by COVID-19.

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Internal Audit Project

Whanganui District Council
Review of Short-form Consultant Engagement Contracts

November 2020

CKS AUDIT
COTTON KELLY SMIT LIMITED

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Executive Summary

A sample of seven short-form consultant engagement contracts ("short-forms") from a supplied population of twenty-two, were reviewed as part of this project. The period the short-forms covered was from the 29th of August 2018 to the 19th of February 2020. Three of the seven short-forms were for work that formed part of the Sarjeant Gallery redevelopment. None of the short-forms were for unplanned or for additional expenditure. One of the short-forms was setting hourly rates for consultants if Whanganui District Council (WDC) was to use the services of that firm. For the remaining six short-forms, all but one were either for, or expected to be for less than $100,000. The exception to this was the short-form engaging the services of the Project Director for the Sarjeant Gallery redevelopment CAPEX project.

It would be beneficial to obtain further clarity regarding where short-forms sit in relation to the Procurement Policy and the WDC Delegations Register. For example, for one, possibly two of the samples, the amount authorised by the signing of the short-form exceeded the authority delegated to the role of the signatory as listed in the WDC Delegations Register. For the first one we were advised that the relevant manager was fully aware of the work being done. Also, that for the actual payments (which were via two invoices) the authority to pay each was within the financial delegated authority of the signatory.

WDC Procurement policy requires a Full Business Case (FBC) and Procurement Plan (PP) for procurements that are either over $50,000 in value or are high risk, or sensitive expenditure. Excluding the Sarjeant Gallery re-development short-forms, which are subsets of the larger project, there was one short-form that was a three-year contract and a continuation of a previous agreement for ongoing work. This contract was for more than $50,000 over the three-year period. FBCs and PPs had not been done, the explanation given being that it was considered that the price was a reasonable increase on the previous agreement.

No issues came to our attention regarding the timeliness of the work being done.

Six of the seven contracts were on the IPENZ – ACENZ short-form agreement form, with the seventh being on a modified version of the IPENZ – ACENZ short-form agreement form. This latter short-form had replaced the 20 items in the terms and conditions, with a single paragraph covering just three points. It was not noted on the short-form as to whether WDC policy had been met regarding scrutinising these supplier provided terms and conditions.

WDC policy does not require a contract and a purchase order, and in our sample of seven there was only one confirmed usage of a purchase order. Council has processes in place at month-end and year-end to capture the potential liabilities/commitments that result from short-forms. However, the use of purchase orders as standard procedure for all procurements would strengthen these processes, as they would enable faster reporting at any point in time of commitments and should reduce the possibility of spends inadvertently exceeding authorised limits.

With one exception, we did not locate any written documentation showing acknowledgement of the absence, or presence of conflicts of interest.

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We would like to express our appreciation to the senior management team and staff of the Whanganui District Council for their friendly support and assistance provided to us in completing this assurance project.

This report was finalised on 12 November 2020.

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Introduction and background

The agreed internal audit work for Whanganui District Council (WDC) is as per the engagement letter dated 21 July 2020 was to review short-form consultant engagement contracts and their compliance with WDC policy and delegations for the engagement of consultants.

The extracts below are from WDC's Procurement Policy.

Short-form Contracts

- A number of suppliers have their own conditions of service or delivery. When these are provided as part of a quotation or tender, they should be carefully examined to ensure they do not have the effect of changing the outcome desired by the Council. Please also refer to clause 10.4 of this policy.

- Simple contracts may be used in the appropriate circumstances only, such as low risk or direct procurements. The short-form contract should be a GMC (Government Model Contract) for Services or Goods.

- For purchases over $50,000, purchase orders may still be raised, but must have the terms and conditions and/or specifications documented for the goods or services being procured, and a contract is required. This will provide a greater level of protection for WDC.

Full Business Cases and Procurement Plans

- All procurements that are either over $50,000 in value or are high risk, or sensitive expenditure, are required to have a Full Business Case (FBC) and Procurement Plan (PP) prepared by the contract manager and authorised by a Manager.

- For procurements between $10,001 to $49,999 non-direct payment must be used e.g. either a purchase order or agreed conditions of contract.

Financial Delegations

- WDC's Financial Delegations Policy and Delegations register sets out the limits of financial delegation for individual members of Council's staff. The Financial Delegations Policy applies to budgeted expenditure only. Items of expenditure not contemplated in the Council's Annual or 10-Year Plans require specific approval by the Chief Executive [up to $200,000], or Council as appropriate.

- The Chief Executive has the authority to implement all Council resolutions including procurement decisions originating from the Annual and 10-Year Plans.

Purchase Orders

- For procurements up to $10,000, direct payment (cash or Council credit card) or non-direct payment (purchase orders are to be raised wherever appropriate).

- For procurements between $10,001 to $49,999 non-direct payment must be used e.g. either a purchase order or agreed conditions of contract.

Conflicts of Interest

- WDC will take care that its decision-making processes cannot be challenged on the basis of actual, potential or perceived conflicts of interest.

Contract for Service

- Other contract forms which are occasionally used include the Association of Consulting Engineers "Conditions of Contract for Consultancy Services" and a "Contract for Service" (located in Hubble), which are used for independent contractors that are not employees. They can also be used for all administration type contract arrangements that fall outside of other generally accepted forms of contract.

In addition to the above, WDC's *Conflicts of Interest Policy* states that conflicts of interest are not easily managed by a simple set of rules as they can arise in a variety of situations. *The policy places the obligation on staff to identify and disclose any conflict of interest to the relevant people and in a timely manner*.

With respect to the calculation of the value of a procurement, the July 2020 WDC Delegations register states:

> *"Commitments/Contracts with multiple payments: Where a commitment has been entered into, or a contract signed, the total value of the commitment/contract must be taken into account when considering the relevant financial delegation. For example, a three-year contract requiring monthly payments of $1,200 has a total value of $43,200 (36 months x $1,200). Providing this expenditure is within an approved budget, only those with financial delegations above $43,200 have the authority to commit to this expenditure. Commitments includes such arrangements as leases and rentals."*

Objective and Scope

The agreed scope was to review a sample of seven from a supplied population of twenty-two short-form contracts. All work groups that engage consultants were in scope. None of the short-forms were for unplanned or additional expenditure. The selection by functional area is shown in the table below.

WDC Functional Area	Population	Sample
Finance	1	0
Infrastructure	3	1
Operations	10	3
Property	7	2
Property – parks	1	1

The period covered by the short-forms in the sample was 29/8/2018 to 19/2/2020.

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Six of the seven contracts were on the IPENZ – ACENZ short-form Agreement form. The seventh was modified from the IPENZ – ACENZ Short-form Agreement and was on the supplier's letterhead.

Three of the seven short-forms were for work that formed part of the Sarjeant Gallery redevelopment CAPEX project. One of the short-forms was setting hourly rates for consultants, if WDC was to use the services of that firm. Of the remaining six short-forms, all but one were either for, or expected to be for, less than $100,000. The exception to this was the short-form engaging the services of the Project director for the Sarjeant Gallery redevelopment CAPEX project.

The matters reviewed for each of the short-forms in the sample were as follows; and are reported against on page 8, under the section "Detailed Findings":

- the existence of authorisation for the spend, for example whether it was in Council's budget/ annual plan/long term plan;
- the actual spend to date, or to completion where the work had been completed, compared to the original budget;
- whether the spend was initially in, and remained within, the delegated financial authority of the contract owner or other signatory, for example the relevant General Manager;
- the timeliness of the work when compared to expectations at time of engagement of the supplier;
- purchase orders being present or absent;
- compliance with WDC Procurement Policy in so far as it related to the scope of this review; and
- the existence of documentation to evidence conflicts of interest had been considered.

The review also comments on any other matters considered useful to report on at this time.

Excluded from scope were:

- examining Annual Plans, Long Term Plans, budgets or the detail behind the Sarjeant Gallery redevelopment CAPEX project for evidence that the contracts in the sample where included in these plans, projects and budgets.
- seeking external evidence of work having been completed; and
- processes pertaining to the selection of the supplier with whom the short-form was ultimately signed.

Approach and Work Done

The approach for this review included the following:

- reviewing relevant sections of WDC's Procurement Policy - Revised version effective: From July 2017;
- reviewing relevant financial delegation sections of the WDC Delegations Register – Version 2, July 2020;
- reviewing the samples of seven short-forms and attached supporting documentation;
- making inquiry into the existence of authorisation for the spend, for example whether it was in Council's budget/annual plan/long term plan as outlined in Objectives and Scope;

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- making inquiry into the actual spend to date, or cost completion where the work had been completed;
- making inquiry into completion dates;
- gathering further information and obtain explanations as needed; and
- sighting evidence.

Detailed Findings

1. Matters pertaining to authorization and spend

Rating: Necessary

What we found:
All the short-forms in the sample were for work that had been contemplated in budgets/plans, that is, there was no unplanned or additional expenditure. Three of the seven short-forms were connected with the Sarjeant Gallery redevelopment CAPEX project.

One of the short-forms in the sample was for the engagement of the Project Director for the Sarjeant Gallery redevelopment. This short-form is budgeted and paid for from the Sarjeant Gallery redevelopment Project budget for consultancy and professional fees. There is an escalation provision in the budget should the engagement be extended.

One, possibly two of the short-forms were for amounts that were greater than the financial delegation limit for the roles that signed the contracts. We were advised with respect to one of these that the engagement via the short-form was done with the full knowledge of the staff member's manager. The actual invoicing of this short-form was in two parts. Each of these stages was within the financial delegation level of the signatory of the short-form. A process of aligning the delegated authority with the amount of the invoice as opposed to the spend on the short-form however, appears to be at variance with the expectation in the extract below from the July 2020 WDC Delegations register:

> **"Commitments/Contracts with multiple payments**
> Where a commitment has been entered into, or a contract signed, the total value of the commitment/contract must be taken into account when considering the relevant financial delegation. For example, a three-year contract requiring monthly payments of $1,200 has a total value of $43,200 (36 months x $1,200). Providing this expenditure is within an approved budget, only those with financial delegations above $43,200 have the authority to commit to this expenditure. Commitments includes such arrangements as leases and rentals."

With respect to the second short-form that may have been signed by a role that did not have sufficient delegated authority, there was a purchase order used and this may have been authorised

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at the appropriate level of delegation. However, at time of writing we had not yet been advised of the amount of that purchase order so are not able to comment on whether there was an issue with respect to the level of delegation.

The WDC Procurement Policy states that all procurements that are either over $50,000 in value or are high risk or sensitive expenditure, are required to have a Full Business Case (FBC) and Procurement Plan (PP) prepared by the contract manager and authorised by a Manager.

Only two of the samples were in excess of $50,000, one of which was the engagement of the Project Director discussed earlier and part of The Sarjeant Gallery redevelopment. The second for $58,355 did not have an FBC or PP prepared as it was an extension for a further three years of an existing required monitoring service and it was considered that it was a reasonable increase on the previous agreement.

Recommendation
That WDC carry out some refresher training on relevant policies, procedures and delegation limits for those in the workgroups that use short-forms; and subsequent to this, an assessment for compliance improvement be carried out.

Management comment
A Contract Management Focus Group has been formed to support the training and mentoring of contract managers, which will include ensuring that documents/templates are consistent, guidance.is available and compliance is achieved. Procurement and delegations polices are also included in the Internal Control Assurance Tool.

2. Matters pertaining to timeliness

What we Found
Of the four short-forms that this question was relevant to, three had been completed in the agreed timeframe. The fourth had been delayed due to COVID-19. The remaining three were ongoing. No issues were identified.

Recommendations
No matters came to our attention.

Management comment
Noted

3. Shortform Documentation

Rating: Necessary

What we found
Six of the seven contracts were on the IPENZ – ACENZ Short-form Agreement form. The seventh

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was modified from the IPENZ – ACENZ Short-form Agreement and was on the supplier's letterhead. This short-form did not have the 20 Terms and Conditions that are on page 2 of the IPENZ – ACENZ form. We were advised that the only terms and conditions were in the last paragraph on the one-page agreement, which stated that:

> *"the SFA is a commercial transaction only and not under C.A.A., is governed by New Zealand law, is in New Zealand dollars and the parties shall in good faith attempt to settle any disputes by mediation".*

At the time of writing we had not ascertained as to whether the single paragraph replacing the 20 terms and conditions had been "... carefully examined to ensure they do not have the effect of changing the outcome desired by the Council..." as per WDC policy.

The short-forms regarding the engagement of the SGD Project Director, prima facie appeared more of the nature of a Contract for Service than a short-form. We were advised with respect to this that the use of a short-form for this type of consultant engagement is a national standard and was the appropriate agreement for the scale and value of service.

Recommendation
Where suppliers have their own conditions of service or delivery that the signatory to the short-form should also include a note to confirm that these conditions have been "... carefully examined to ensure they do not have the effect of changing the outcome desired by the Council..."

Management comment
Noted – this will form part of the Contract Management Focus Group outcomes.

4. Use of Purchase orders

Rating: Beneficial

What we found:
A purchase order had been raised for one of the short-forms. For another of the short-forms, the question is not applicable as the short-form is for agreed rates should that supplier be used. For a third short-form the person responsible for the continuation of the service via a new short-form was unsure if there had been a purchase order. For the remaining four no purchase order was raised. For one of these four we were advised there was a short-form hence no purchase order. Note that WDC policy does not require a contract and a purchase order. (which aligns with policy as per below).

In the absence of purchase orders, we are advised the overarching process to capture the potential liabilities/commitments that result from short-forms is as follows:

As part of monthly reporting the Management Accountant does variance analysis, plus has regular meetings with the budget managers. This process would detect anything material which would then be accrued. At year end purchase orders are not accrued. Instead the process is to wait until

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the 20th of the month before closing Accounts Payable, so as many "in period" invoices as possible are captured.

Recommendations

In our procurement review in 2019 we noted there was no overarching process for capturing all the liabilities (related to in-progress contracts) of WDC at any moment in time. We also note that purchase orders, are now often part of an Enterprise Resource Planning (ERP) software system and are the usual mechanism by which organisations capture this data. We further noted that the use of purchase orders should also ensure that a purchase is authorised before a commitment is entered into. While we understand that this is not current WDC policy for short-forms, we suggest that WDC look into expanding the existing use of purchase orders, so their use becomes 'the norm'. Where exceptions are clearly practical, they could be detailed as part of a purchase order policy.

Management comment

Noted - this recommendation will be considered by the Contract Management Focus Group.

5. Declarations of interest being present or absent

Rating: Beneficial

What we found

With one exception, we located no written documentation showing acknowledgement of the absence, or presence of conflicts of interest. The exception was one short-form in which the firm engaged specially stated that if they were engaged for the Early Contractor Involvement advice role they would be happy to advise on an on-going basis but would not be able to be the builder.

For one of the short-forms, we were advised that while Conflict of Interest forms are used by Tender Evaluation Teams, the short-form did not go out for tender as the work is highly specialised, the company had previous knowledge and has been engaged by WDC previously on coastal projects.

Inquiries were not made regarding conflicts of interest and the Sarjeant Gallery redevelopment project as reviewing the tendering and other procurement processes of this project was outside of the scope of this review. One of the short-forms in the sample reviewed was the engagement of the Project Director. We were advised that while there was nothing captured in documentation, there are no identified conflicts.

Recommendation

It is recommended that consideration of the possibility of conflict of interests is noted on short-forms, including when the conclusion is that there are none.

Management comment

Noted - this recommendation will be considered by the Contract Management Focus Group

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Appendix A – WDC Distribution List

Draft copy, for management comment

Kym Fell	- Chief Executive
Mike Fermor	- Chief Financial Officer
Catherine Dutton	- General Manager, People & Performance
Hamish Lampp	- Group Manager, Regulatory & Planning
Mark Hughes	- General Manager Infrastructure
Leighton Toy	- General Manager Property & Projects
Marianne Cavanagh	- Group Manager, Customer Experience
Stephanie Macdonald-Rose	- Group Manager, Corporate
Debbie Watson	- Risk Manager

Final copy, including management comment

Mrs. Jenny Duncan	- Acting Chair Audit and Risk Committee
Mr. Hamish McDouall	- His Worship the Mayor

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Appendix B – Ratings Definitions

Individual finding ratings

Rating	Explanation
Priority	Needs to be addressed urgently. These recommendations relate to a significant deficiency that exposes the Council to significant risk or for any other reason need to be addressed without delay.
Necessary	Address at the earliest reasonable opportunity, generally within six months. These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.
Beneficial	Address, generally within 6 to 12 months These recommendations relate to areas where the Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

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Appendix C – For information: recent procurement/expenditure related good practice reports from the Office of the Auditor-General

Below for information are two procurement/expenditure related good practice reports issued recently by the Office of the Auditor-General:

1. Managing conflicts of interest: A guide for the public sector - June 2020"; and
2. Controlling sensitive expenditure: Guide for public organisations - October 2020

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Appendix D – For information: extract from 2017 legal case in case of interest

The extract below is publicly available on the web. We have included it here in case the principle is of interest. Note that some short-form nowadays, possibly all given that standard template used, do have a limit of $500,000 as suggested below. However even this amount may be low in when considered against the passage of time and depending on the value of each short-form, the potential losses in each case.

"Consultant's Agreements, Short-form Agreements and Liability Limits

A recent case considered whether or not the model IPENZ – ACENZ short-form Agreement was incorporated into a contract between a client and an engineering firm. This was important because negligence had been alleged. If the short-form applied, it included a limitation of the engineer's liability to $100,000.00.

On the facts of the case it was decided that the model short-form agreement had not been included in the contract. The architect had engaged the engineering firm on behalf of the client. Although the model short-form agreement had been provided at various points, including when invoices were issued by the engineering firm and paid by the client, it was found that it was not in fact part of the contract. Nor was there a sufficient course of dealing such that the terms could be deemed to apply in the circumstances. Whilst the architect and the engineer had worked together numerous times the same arrangement was not imputed to the client. There had also been the added complexity of the architectural firm incorporating over the period.

Although the lessons learned here are not new they are worth repeating. The best and safest route is always a signed contract incorporating all the terms.

There is another important point though. The short-form agreement, which is routinely used, includes limitation of liability clauses. For example, liability might be limited to 5 times the fee with a maximum limit of $500,000.00. Liability might be limited to claims made within 6 years. Loss of profit, indirect and consequential losses excluded. Proportionate liability clauses included to limit the damages payable when others are also responsible. Professional indemnity insurance typically is required only for the amount of the liability cap. Clients should ensure they consider this at the outset against the risk profile for their project, the procurement plan and other commercial imperatives. These terms can be negotiated with the consultant team to ensure they are right for the project.

By Denise Marsden[1]"

[1] https://www.alexanderdorrington.co.nz/consultants-agreements-short-form-agreements-liability-limits/. Extracted 1 November 2020.

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Internal Audit Project

Whanganui District Council
Review of Leased Carpark Rentals

November 2020

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Contents

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Executive Summary

A sample of 30 tenants from a total population of 133 rented carparks were reviewed. The sample was a mixture from all car parks and all categories of tenants, that is: staff; third party individuals; third party businesses; and Whanganui District Council ("WDC") owned or supported organisations that also paid rentals.

The car parks at the museum were subsequently added to the sample of 30 tenants above.

The period for examining the rental documentation ranged from rental agreements which commenced prior to 2013 to an agreement signed in September 2020. The period in which the receipt of lease payments was verified was for the year ended 30 September 2020.

With respect to payment of rentals, one of the agreements had an earlier commencement date than the actual payment commenced from. We were advised the later date was the correct commencement date. Two other tenants had weekly rentals increased, some time prior to 1 October 2019, however these increases were not recorded on the rental agreements All rentals were being paid in a timely way.

No documentation was able to be located for five of the rental agreements which predate the existing WDC document management system. A search was also made of the previous document management system's archives; however this did not locate the agreements sought. We have been advised that 'WDC Compliance' is now in the process of contacting these five tenants and arranging for new rental agreements to be signed and documented.

Rental agreements existed for the remaining 25 tenants in the sample.

The declaration section on all rental agreements had been signed and dated by the tenants.

The part of the declaration section on the rental agreements for internal use had not always been completed. In some cases this included not entering the amount of rental to be paid or, in the situation of multiple car parks being rented by one tenant, whether the amount entered was the cost per park or the total for all parks. It is recommended that these forms are completed in all cases so there is no room for misinterpretations or misunderstandings, particularly in the event of there being a dispute. The addition of the words "per park" to the form would remove any possible ambiguity regarding how many parks a recorded dollar amount related too.

We would like to express our thanks to the senior management team and the WDC staff who assisted us with this review for their friendly support and provision of requested information.

This report was finalised on Tuesday 18th November 2020.

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Introduction and background

The agreed internal audit work for WDC as per the engagement letter dated 21 July 2020 included a review of leased car park rental agreements including the billing and collection of the rentals.

Objective and Scope

The agreed scope was to review a sample of 30 rental agreements being both a mixture from all car parks and a mixture of the different categories of tenants. The categories of tenants are staff; third party individuals; third party businesses; and WDC owned or supported organisations that also paid rentals. Not all car parking areas had all four categories of tenants.

In addition to the 30 rental agreements in the sample, inquiry was also made regarding the status of four car parks at Queen's Park rented to the museum.

The sample was selected to include rentals which spanned the period prior to 2013, up to a rental agreement signed in September 2020.

Regardless of the commencement date of the lease, the period in which the receipt of lease payments was verified for was for the year ended 30 September 2020.

WDC car parking area	Population as represented by number of rented car parks	Sample (number of rental agreements)
Kingsway	25	5
Hannah's	47	6
Drews Ave	8	4
Queen's Park	13	3
The Opera House	10	4
The Regent	6	2
Phoenix	8	3
Taupo Quay	16	3
Total	**133**	**30**

Some of the rental agreements were for more than one carpark, for example the sample of six from Hannah's car park included two tenants who rented 18 parks between them.

Each rental agreement was reviewed for:

- documentation related to the rental agreement. This primarily consisted of the rental agreement however also included comparisons with internal recording of car park rental tenants; and
- that rental payments were up to date and received in a timely way for the 12 months ended 30 September 2020.

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Approach and Work Done

The approach for this review included the following:

- reviewing all the car parking areas and their uses and extracting a sample as outlined in Objective and Scope above;
- reviewing available car parking rental agreements and associated documentation for the sample;
- reviewing car park rental income as provided by WDC Finance Department 'Revenue';
- making inquiry and obtaining explanations as needed; and
- sighting evidence.

Detailed Findings

1. Payment of car park rentals

Rating: Beneficial

What we Found:
One of the rental forms recorded the commencement date as being 24 June 2020 however no payment had been received for the period from the date of commencement to 30 September 2020. We were advised by WDC Finance Department 'Revenue' that this was because the car park rental did not commence until November 2020.

All other rentals were being paid in a timely way.

Recommendation
We recommend that to avoid the possibility of future misunderstandings, if the actual start date for a rental period differs from that recorded on the agreed rental form, that the approved change be recorded on (or included with), the rental form.

Management comment

2. Car park rental documentation

Rating: Beneficial

What we Found
No documentation could be located for five of the old rental agreements which predate the existing WDC document management system. Around 2013 WDC moved the document

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management system from 'TRIM' to 'Hubble'. A search in the TRIM archives did not produce any documentation for the five agreements. All the reporting below is based on the findings for the remaining 25 rental agreements in the sample.

With respect to the five tenants for which rental agreements could not be located, we are advised that 'WDC Compliance' is now in the process of contacting these five tenants and arranging for new rental agreements to be signed and documented. WDC Payment records show that all five tenants are paying $20 per week for carparks.

One of the rental agreements, for a term of nine years commencing on 24 August 2015, is for 10 car parks rented to a business. This agreement, which also has two rights of renewal and two rent reviews, is on a lease agreement under the common seal of WDC and was signed by the Mayor and the CEO. We were advised a rent review was carried out in August 2018 as per the lease, however as the tenant was already paying the set rate of $20 per week per park, no change was made as a result of the review.

The remaining 24 rental agreements are on the WDC Application Rental Car Park form ("rental form").

The rental form requires the tenant to sign a declaration at the bottom that sets out the weekly time period for which the park is available, the amount of weekly rent to be paid and the requirement with respect to giving notice to terminate the agreement. The parking area and parking space, or spaces, are identified on the rental form.

The declaration section on the rental form also has a space for internal use which WDC staff complete by filling in the date of commencement, the amount of the rental fee per week, and the date the park was allocated.

The declaration section on all 24 rental forms had been signed and dated by the tenants.

Of the 24 rental forms, seven did not record the weekly rental amount in the declaration box on the rental form. Of the remaining 14 rental forms, two, which were for three car parks each, recorded the weekly rental as $20 without being specific as to whether this referred to all three car parks of $20 each. For one of these however, the intent was clear by the inclusion of a direct debit form for $60 per week and for the other it was noted that the payments being made are for $60 per week. For two of the tenants in the sample, based on the amount of rental actually being paid, the rentals per park as shown on the 2013 and 2016 rental forms had at some point prior to 1 October 2019, been increased to $20 per week.

The internal section of the rental form had not been filled out on 10 of the rental forms. two others, which had an older 2013 rental form replaced by a more recent one (2016 and 2018 respectively), had this section completed on the 2013 rental form but not on the 2016 and 2018 ones.

The car parking situation with respect to the museum was under review when we commenced our review. A historic arrangement had been identified whereby the Museum had been given

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four carparks without payment and work was underway to review the car parking arrangement between WDC and the museum and to place the museum on the same footing as similar organisations.

It was also noted during our review that the car park spaces as per the rental forms did not always align with the tenant allocations on the WDC car park rental working spreadsheet summarizing the car park allocations by space and by parking area. We noted five examples of a discrepancy in the park numbers from our sample of 25 tenants.

Recommendations

Actions are already underway to ensure documentation is on file for the rentals that pre-date 2013 and to formalize the situation regarding the museum car parks, therefore we have no additional recommendations on either of those matters.

We recommend that all parts of the internal section of the rental form be completed for all agreements, including when an old agreement is replaced by a more recent one. This would remove the possibility of misinterpretations or misunderstandings, particularly in the event of there being a dispute.

The addition of the words "per park" after the "rental fee of $... per week" would remove any potential ambiguity regarding how many parks that a recorded dollar amount relates to.

Where there is a change/variation to the agreed conditions of rental, for example an increase in the weekly rental, we recommend the variation is retained with the masterfile data for that tenant, i.e. with the original signed rental form.

We further recommend that a process is implemented to ensure that the car park spaces as per the WDC car park rental working spreadsheet be kept up to date/align with the tenant parking space allocations, as per the rental forms.

Management comment

Noted, recommendations will be included in the Corrective Action follow up with responsible managers, as actions are already underway as referenced in the report.

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Appendix A – WDC Distribution List

Draft copy, for management comment

Kym Fell	- Chief Executive
Mike Fermor	- Chief Financial Officer
Catherine Dutton	- General Manager, People & Performance
Hamish Lampp	- Group Manager, Regulatory & Planning
Mark Hughes	- General Manager Infrastructure
Leighton Toy	- General Manager Property & Projects
Marianne Cavanagh	- Group Manager, Customer Experience
Stephanie Macdonald-Rose	- Group Manager, Corporate
Debbie Watson	- Risk Manager

Final copy, including management comment

Mrs. Jenny Duncan	- Acting Chair Audit and Risk Committee
Hamish McDouall	- His Worship the Mayor

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Appendix B – Ratings Definitions

Individual finding ratings

Rating	Explanation
Priority	Needs to be addressed urgently. These recommendations relate to a significant deficiency that exposes the Council to significant risk or for any other reason need to be addressed without delay.
Necessary	Address at the earliest reasonable opportunity, generally within six months These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.
Beneficial	Address, generally within 6 to 12 months These recommendations relate to areas where the Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

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5.4 RISK MANAGEMENT ACTIVITY REPORT NOVEMBER 2020

Author: Debbie Watson - Risk Manager

Authoriser: Catherine Dutton - General Manager People & Performance

Mike Fermor - Chief Financial Officer

References: Nil

Recommendation

That the Audit and Risk Committee receive the report – Risk Management Activity Report November 2020.

Executive Summary

The purpose of this report is to update the Committee on current and proposed risk management activities.

Key information

Risk Register Review

On 12 November 2020 the Executive Leadership Team participated in a Risk Register Review workshop facilitated by the Risk Manager. The workshop covered a range of risk related topics and outcomes as detailed below:

- Current 2020-2021 Strategic, Operational and Emerging Risks reviewed including consequences, likelihoods, controls and treatments
- Future 2020-2021 Strategic, Operational, Project and Emerging Risks identified
- Any changes to existing risk profiles

Attendees were prompted to consider risks that might impact on the achievement of the 2020-2021 Strategic Plan objectives, pending legislation changes, new emerging risks and how existing emerging issues might actually be Strategic or Operational Risks as the risk has been realised.

Also during this period engagement has occurred with Tier 3 managers, as owners of operational risk, to complete a review of existing risks and to identify any changes including emerging risks.

The CAMMS Risk Register has been updated by the Risk Manager, to reflect changes to existing risk profiles and the addition of newly identified risks and emerging issues.

Ongoing activities in the wider Risk Management space have contributed to and will continue to influence the following:

- Improved understanding of risk concepts
- Improved risk culture
- Improved identification and understanding of the potential impact of emerging risks
- Upskilling of organisational Tier 3 managers to take active ownership of operational risks
- Access and training support to CAMMSRISK
- Risk type identification, consequences, likelihoods, controls and treatments

Legal Compliance Assurance Programme

The Legal Compliance Assurance Programme recommenced on 1 July 2019 with the key outcome being the provision of reasonable assurance that Council is complying with legislative obligations and the risk on non-compliance is low. A separate, detailed report has been compiled for Legal Compliance within the agenda for this meeting.

Internal Audit Programme 2020

The role of internal audit is to provide independent assurance that an organisation's internal control processes are working effectively. The internal audit report will present objective findings and make recommendations for corrective measures.

MWLASS have for the 2018-2020 period, contracted an external party (Cotton Kelly Smit – CKS), to complete the Internal Audit programme across the various Councils.

The Internal Audit Programme for 2020 was deferred due to COVID-19 and is has now commenced with two reports being presented within the meeting agenda.

The internal audit scope is noted below:

- **Consultant Engagements** - Review to ensure OAG Guidance, delegations and Council policy is followed for the engagement of Consultants
  Work Areas within scope: All work groups with Consultants – typically based on the Short Form Agreement for Consultant Engagement
- **Leased Carpark Revenue** - Review of the leased carparks rental agreement, billing and collection processes
  Work Areas within scope: Regulatory and Revenue
- **Cash Handling** - Controls and processes including electronic banking
  Sites/processes within scope are: i-Site, Parking, Pound, Glassworks, Sarjeant Gallery, Davis Library, Gonville Library, Alexander Library, Airport Café, Venues & Events – RWOH, Mobile Library and Customer Services.

The reports for the Consultant's Engagements and Leased Carpark Revenue are being presented to the committee with the Cash Handling reporting being completed for the meeting scheduled for March 2021.

Corrective Action Report Update

Audit recommendations assist in the identification and realisation of factors including efficiency, effectiveness and are a means to strengthen performance and resilience.

A Corrective Action Report (CAR) supports good governance, a cycle of continuous improvement, and allows for the retrospective identification of risk.
The reporting and subsequent actions by General Managers provides assurance to the Audit and Risk Committee that audit recommendations are being acted upon, mitigated and meet the principles of due diligence.

A separate report detailing recent key actions by management has been compiled within the agenda for this meeting.

Organisational Policies

As a result of recent organisational changes, an opportunity has been identified to better manage operational/organisational policies to ensure the following objective is met:

Policy documents govern the organisational management of Council and support the achievement of the Council's strategic and operational objectives. Policy documents also support the achievement of quality outcomes and reduce organisational risk.

The purpose of organisational policy documents are to enable the effective and efficient management of council resources and supports Council staff and management to exercise good judgment and be informed as to the expected organisational standards within Council.

As previously noted to the Committee, a number of organisational policy reviews have been scheduled for completion, currently all organisational policies are in the process of being reviewed and review process guidelines are being developed. The guidelines will support those who are identified as the officer responsible for the relevant policy to work within some predefined processes for the following:

- document and version control
- presentation in accordance with formatting requirements based on a policy template document

COVID-19 Response

The Risk Manager alongside the Emergency Management Team have maintained a watching brief/situational awareness over the current COVID-19 status and emergent cases.

Resurgence planning has been completed and relevant supplies held. Plans are in readiness for dissemination/action as appropriate.

QR code reminders for Council sites have been sent to ensure the accessibility of codes. Refer also to the Strategic Risk Register COVID-19 actions.

Privacy Act 2020

Changes to the Privacy Act (effective from 1 December 2020) have been promulgated to staff, starting with a promotion during Privacy Week (2-8 November) to prepare staff for the changes. A comparison table between the Privacy Act 1993 and the Privacy Act 2020 was also provided.

Key changes noted were:

- Notifiable privacy breaches - If a business or organization has a privacy breach that has caused serious harm to someone (or is likely to do so), it will need to notify the Office of the Privacy Commissioner as soon as possible. It is an offence to fail to notify the Privacy Commissioner of a notifiable privacy break. If a notifiable privacy breach occurs, the business or organization should also notify affected people. This should happen as soon as possible after becoming aware of the breach.
- Compliance notices - The Privacy Commissioner will be able to require a business or organisation to do something, or stop doing something, if it is not meeting its obligations under the Privacy Act.
- Binding decisions on access requests- The Privacy Commissioner will now be able to make decisions on complaints relating to access to information. This will mean a faster resolution to information access complaints.
- Disclosing information overseas - A New Zealand business or organisation may only disclose personal information to an overseas agency if that agency has a similar level of protection to New Zealand, or the individual is fully informed and authorises the disclosure.

- Extraterritorial effect - The Privacy Act has extraterritorial effect. This means that an overseas business or organisation may be treated as carrying on business in New Zealand for the purposes of its privacy obligations – even if it does not have a physical presence in New Zealand. This will cover businesses such as Google and Facebook.
- New Criminal Offences - it will now be a criminal offence to:
    - Mislead a business or organisation by impersonating someone, or pretending to act with that person's authority, to gain access to their personal information or to have it altered or destroyed.
    - Destroy a document containing personal information, knowing that a request has been made for that information.

5.5 LEGAL COMPLIANCE PROGRAMME SUMMARY 2019-2020

Author: **Debbie Watson - Risk Manager**

Authoriser: **Mike Fermor - Chief Financial Officer**

References: **Nil**

Recommendation

That the Audit and Risk Committee receive the report – Legal Compliance Programme Summary 2019-2020.

Executive Summary

The Legal Compliance Programme provides reasonable assurance that Council is complying with legislative obligations and the risk on non-compliance is low.

The purpose of this report is to update the Audit and Risk Committee with the outcomes of the Legal Compliance Programme.

Key information

Background

Whanganui District Council derives the majority of its functions, duties and responsibilities from a range of Acts, Regulations and other legislative instruments. Legislative obligations affect all aspects of Council's work – how it operates, consults, runs meetings, makes decisions and carries out its activities.

Compliance with legislation is fundamental to effective and accountable governance and management. The Office of the Auditor General advises local authorities to be meticulous about complying with the law and fulfilling their statutory obligations. Local authorities must be able to respond promptly to changes in legislation and show that they are acting within the law.

Council must ensure that is it compliant with these instruments. In order to do so it must periodically review its performance against these instruments to ensure ongoing compliance.

A legislative compliance framework is required to reduce the risk of consequences such as:

- Loss of reputation
- Loss of accreditation
- Civil and criminal proceedings
- Legal breaches
- Negative audit reporting from monitoring bodies

A mandatory programme was developed to provide assurance that Council is complying with its legal requirements and managing its legal risk. A Legal Compliance Programme had been identified as an opportunity for improvement in previous Audit Management Reports and now serves to provide Council with reasonable assurance that we are complying with legislative obligations.

The Legal Compliance Programme commenced on 1 July 2019. This risk based programme incorporates mechanisms of monitoring, review and audit, and utilises the three lines of defence approach.

The Legal Requirements Spreadsheet records the key Acts and other legal obligations or requirements relevant to Council, and assigns a 'risk owner' to each piece of legislation. The Risk Manager also has a 'lens' over pending legislation. The spreadsheet is a 'live' document and is continually reviewed and updated, as new and amended legislation is enacted.

The programme for 2019-2020 was divided into four quadrants:

- Quadrant One – Legislation relating to People, Employment, Health & Safety and Emergency Management (28 separate pieces of legislation)
- Quadrant Two – Legislation relating to Resource Management, Assets, Finance and Infrastructure (52 separate pieces of legislation)
- Quadrant Three – Legislation relating to Information, Operations and Administration (25 separate pieces of legislation)
- Quadrant Four – Legislation relating to Governance, Compliance and Regulatory Roles (41 separate pieces of legislation). This quadrant was delayed due to COVID-19.

Within the quadrant period, each risk owner completed a risk assessment on each of the pieces of legislation under their ownership using a risk assessment template. The extent and detail of the risk assessment varied according to the significance of the legislation. The risk assessment is Step One of the Legal Compliance process.

Following the risk assessment, the Risk Manager will assign, based on the risk rating, a process of risk review to ensure conformance to the legislation in accordance with accepted SOLGM peer review practice. This is Step Two of the process.

The key outcome from the Legal Compliance Assurance Programme is the provision of reasonable assurance that Council is complying with legislative obligations and the risk on non-compliance is low.

Reporting

During the 2019-2020 year, with 146 legislative instruments initially identified for assessment, the first line of defence (legislation owners), supported by the Risk Management Policy and Framework completed risk assessments which resulted in the following outcomes:

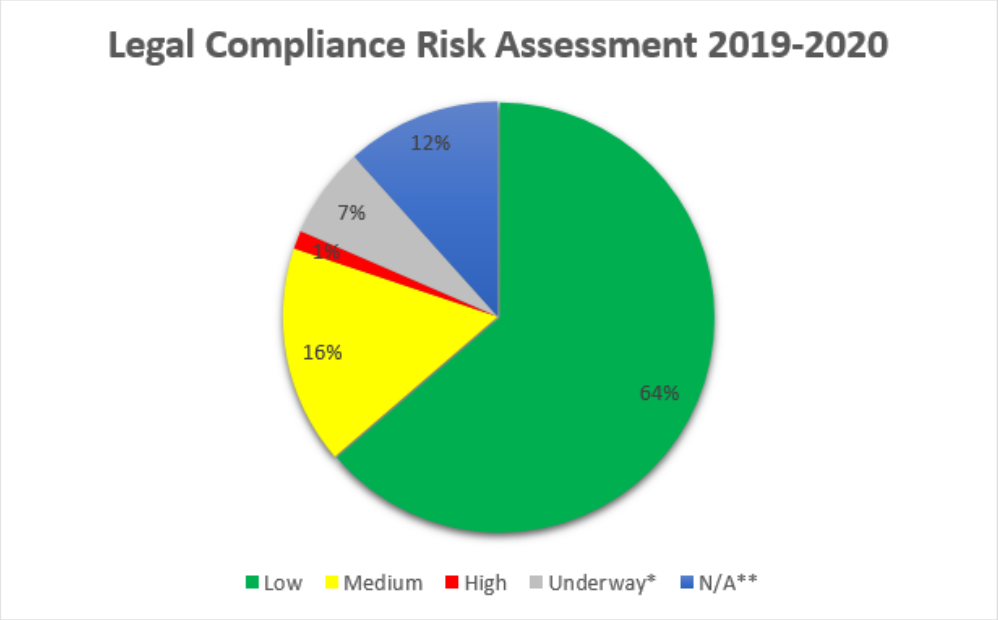
Risk of Non-Compliance with Legislative Instrument	Number
Low	93
Medium	24
High	2
Underway*	10
N/A**	17

Underway indicates that the risk assessment is not finalised.

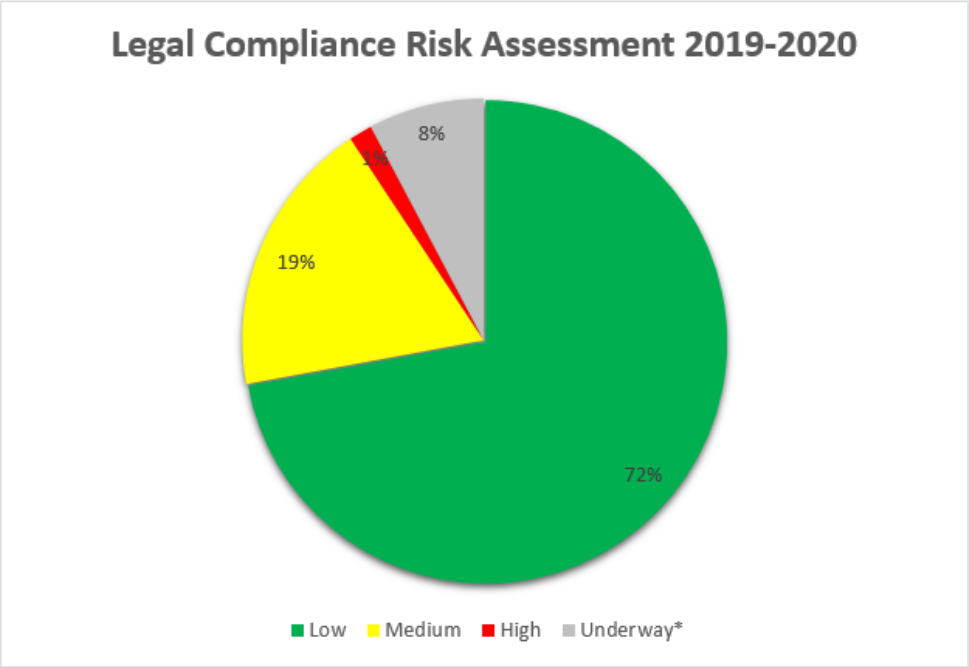
N/A means that upon review by the legislation owners, the legislation was deemed not relevant to Local Government i.e. no responsibilities defined. Examples being: Criminal Procedure Act, Interpretation Act, Insolvency Act, Standards and Accreditation Act and the Summary Offences Act.

Commentary

The Legal Compliance Assurance reporting outcomes for 2019-2020 are further illustrated below as a percentage:



It should be noted the 2019-2020 year was the recommencement of the Legal Compliance process, so a broader approach was taken across the legislative instruments.



If we take a different view and remove the legislation deemed not applicable, as referenced above we achieve a low risk of non-compliance with 72% of the legislative instruments.

A risk rating of Low indicates strength in operational controls, or in some cases minimal relativity of the legislation to Local Government.

Medium indicates some risk, often due to recently changed legislation, whereby operational guidance is still being imbedded into day to day business activities. Medium can also indicate that the risk is known to the organisation, and with controls in place, still has a residual risk that requires treatment. Examples being the Civil Defence Emergency Management Act 2002, the Climate Change Response Act, the Health and Safety at Work Act 2015, and the Public Records Act 2005.

High indicates newly introduced legislation or significant changes to existing legislation which require a greater level of interpretation, process and/or procedures within operational activities to ensure full compliance. A high rating should not been seen as a negative, rather it should be seen as an opportunity for improvement and assurance of future compliance and conformance.

Risks rated at medium and high are transferred to either the Strategic or Operational Risk Registers, so as to monitor causes, consequences, existing and future controls.

Future Actions

With the completion of Step One of the Legal Compliance Programme the focus now moves to Step Two, where the Risk Manager will assign, based on the risk rating, a process of risk review to ensure conformance to the legislation in accordance with accepted SOLGM peer review practice.

This commences with a review of mandatory documents as required by legislation and a focus on the remedial actions and controls for all risks deemed medium and high. This will also include random sampling of the assessments rated as low to ensure compliance with legislative instruments continues to occur. At the same time any new and amended legislation will be subject to inclusion in the compliance review programme.

Where non-compliance is identified and documented in a Compliance Incident Register and be subject to corrective action follow up.

5.6 CORRECTIVE ACTION UPDATE REPORT NOVEMBER 2020

Author: **Debbie Watson - Risk Manager**

Authoriser: **Mike Fermor - Chief Financial Officer**

References: **Nil**

Recommendation

That the Audit and Risk Committee receive the report – Corrective Action Update Report November 2020.

Executive Summary

The purpose of this update is to provide the Audit and Risk Committee with a summary report on corrective actions derived from Audit NZ, PwC and Internal Audit reporting, inclusive of urgent, necessary and recommended/beneficial actions.

Key information

Audit recommendations assist in the identification and realisation of factors including efficiency, effectiveness and are a means to strengthen performance and resilience.

The Corrective Action Report (CAR) supports good governance, a cycle of continuous improvement, and allows for the retrospective identification of risk.

The report format allows for management comment, a management action plan, implementation timeframe and for an update on progress.

Outcomes from the recommended consolidated actions inform and support future organisational strategies, planning, and contribute to decision making across the organisation.

The Corrective Action reporting process provides assurance to the Audit and Risk Committee that audit recommendations are being acted upon, mitigated and meet the principles of due diligence.

Background

In August 2018, a number of previous Audit Management and Internal Audit reports were collated in order to identify and monitor key response actions, and to assign the required actions to respective General Managers.

This approach meant that the recommended actions from the various audit reports were addressed, and in most cases did not become 'rolling' actions in future audit reports.

The following reports were included in the compilation of the original 2018-2019 Corrective Action Report:

- Audit NZ Annual Audit for the year ending June 2017 (received in 2018)
- Audit NZ previous Audit Management Reports (various)

- MWLASS Fraud Risk Management Internal Audit March 2018
- MWLASS Internal Control Internal Audit March 2018

There were 89 outstanding actions in the original report, this has been now reduced to 21 outstanding actions as noted below.

Reporting Update
In 2019 and 2020 the following audit reports were received:

- Audit NZ Annual Audit for the year ending June 2018 (received in February 2019) with six open actions
- MWLASS Internal Audit on Procurement Controls (received in July 2019) with six open actions
- PwC PAYE/WHT Compliance Evaluation (completed in March 2020 and delayed by COVID-19) with 15 open actions
- Audit NZ Annual Audit for the year ending June 2019 (received in March 2020) with two actions, both of which have been completed.

In August 2020, respective General Managers with open items or those previously noted as pending were requested to update their respective corrective action items.

The current Corrective Action status, combines the residual items (in progress and pending) to provide a progress update with recommended actions.

Report Name	Open Actions at receipt of reporting	Completed	In Progress	Pending
Original CAR (2017/2018)	89	68	16*	5
CAR (2019)	12	11	0	1
CAR (2019 Audit NZ)	2	2	0	0
CAR (2020 - PwC)	15	4	2	9

*Includes 7 specifically relating to the CRM project

The actions taken by General/Group Managers and their team members to respond and take action on Corrective Action items provides a level of assurance and visibility of progress. It also clearly demonstrates to the auditors and the Audit and Risk Committee the approach taken to act on the recommendations.

Significant progress has been made to address outstanding items, with quarterly progress checks being made by the Risk Manager to ensure the actions to mitigate audit outcomes and recommendations are maintained.

6 MOTION TO EXCLUDE PUBLIC

RESOLUTION TO EXCLUDE THE PUBLIC

Section 48, Local Government Official Information and Meetings Act 1987.

Recommendation

That the public be excluded from the following parts of the proceedings of this meeting, namely items listed overleaf.

Reason for passing this resolution: good reason to withhold exists under section 7. Specific grounds under section 48(1) for the passing of this resolution: Section 48(1)(a)

Note

Section 48(4) of the Local Government Official Information and Meetings Act 1987 provides as follows:

"(4) Every resolution to exclude the public shall be put at a time when the meeting is open to the public, and the text of that resolution (or copies thereof):

(a) Shall be available to any member of the public who is present; and

(b) Shall form part of the minutes of the local authority."

This resolution is made in reliance on Section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

ITEM NO.	GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED	SECTION	SUBCLAUSE AND REASON UNDER THE ACT	PLAIN ENGLISH REASON	WHEN REPORTS CAN BE RELEASED
7.1	Public Excluded Minutes of the Audit and Risk Committee Meeting held on 3 December 2020			Refer to the previous public excluded reasons in the agenda for this meeting.	
8.1	Strategic Risk Register Review November 2020 - Public Excluded	s7(2)(e), s7(2)(i)	Material Loss to members of the public, Negotiations	Withholding of this report with specific reference to both the insurance risk and the Three Waters reform may contribute to material loss and also impact on future negotiations should this information be made public at this time. Reasons for public excluded discussed with Rob Goldsbury - Legal Counsel	
8.2	Whanganui and Partners Risk Register November 2020	s7(2)(i)	Negotiations	Negotiations	

That <Enter name(s)>be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of <Type reason>. This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because <Type reason>.