

# **AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA**

**TUESDAY 6 DECEMBER 2011**

**AT 3PM**

**IN COMMITTEE ROOM 2, SECOND FLOOR, CIVIC OFFICES, 53 HEREFORD STREET**

**Subcommittee:** Councillor Sally Buck (Chair)  
Councillors Helen Broughton, Jimmy Chen and Jamie Gough  
and Messrs John Hooper and Michael Rondel.

**General Manager  
Corporate Services**  
Paul Anderson  
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**Committee Adviser**  
Warren Brixton  
Telephone: 941-8439

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5. **RESOLUTION TO EXCLUDE THE PUBLIC**

**1. APOLOGIES**

**2. CONFIRMATION OF MINUTES OF MEETING: 1 JUNE 2011**

**Attached.**

It is recommended that the Subcommittee confirm the minutes of the meeting of 14 October 2011.

**3. DEPUTATIONS BY APPOINTMENT**

## CHRISTCHURCH CITY COUNCIL

MINUTES OF A MEETING OF THE  
AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

Held in the Board Room, Polson & Higgs 62 Worcester Boulevard  
on Friday 14 October 2011 at 12.30 pm.

**PRESENT:** Councillor Sally Buck (Chairman), Councillors Helen Broughton, Jimmy Chen and Jamie Gough. Messrs John Hooper and Michael Rondel.

**APOLOGIES:** Nil

1. DEPUTATIONS BY APPOINTMENT	ACTION
Nil.	
2. CONFIRMATION OF MINUTES OF MEETING - 1 JUNE 2011	
It was <b>resolved</b> that the Minutes of the meeting of 1 June 2011, as circulated, be confirmed, subject to the first bullet point of the proposed Committee Terms of Reference being amended to read	
<ul style="list-style-type: none"> <li>• Approving the Annual Report and Annual Financial Statement for final adoption by the Council.</li> </ul>	
3. DEPUTATIONS BY APPOINTMENT	
Nil.	
4. CORPORATE FINANCE REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2011	
<b>Insurance</b>	
Cr Broughton asked if it was staff intention to leave up to 30 percent of the city's above ground infrastructure uninsured for non-earthquake perils. The General Manager Corporate Services responded that it was intended to seek cover for all the Council's above-ground assets, but that this would be done on a progressive basis as outlined in the Corporate Finance Report. Council would be kept updated as to progress in securing insurance cover.	
It was <b>resolved</b> that	
(i) The report be received	
(ii) That the Council continue to seek full insurance cover for all its above ground assets and the Council be kept informed on progress with this.	
(iii) Note that the recent borrowings have caused liquidity limits to be exceeded and this decision was made due to the expectation that Government reimbursements would be forthcoming within four months.	

**5. LOCAL GOVERNMENT FUNDING AGENCY – IMPLEMENTATION PROCESS**

Further to his written report the General Manager Corporate Services highlighted the following points

- Council's consultation on the LGFA included reference to the fact there would be a utilisation commitment required by each participating Council. This will be 80 percent of new borrowings (apart from Auckland Council who has committed to 30 percent due to its very large size).
- Christchurch City Council, along with the other 8 establishment Councils, have provided advances of \$200,000 to the establishment costs of the LGFA. These will be deducted from the final \$2.5 million equity subscription.
- An initial Board has been appointed comprising of 4 independent directors and two non-independent directors. Paul Anderson has been nominated by the shareholding councils to take one of the non-independent director positions. In this capacity, Mr Anderson is representing the interests of all shareholding councils – not just those of Christchurch City Council.
- A Shareholders Council has been formed to make recommendations to shareholding Councils when important decisions are required.

Councillor Gough asked if there was a potential conflict of interest between Mr Anderson's role as a director of LGFA and Christchurch City Council's requirement to borrow at least 80 percent of its debt from LGFA – especially if the interest rates in the first two years were above market. Mr Anderson responded that this did not create a conflict because every shareholding local authority apart from Auckland Council would be required to enter into the same shareholder agreement which specifies the same utilisation commitment. Further, the Constitution provides that the non-independent directors do not participate in pricing decisions or decisions to take action against a specific Council in the event of a default.

The report was received.

**6. INSURANCE UPDATE**

Further to the written report contained in the Corporate Finance Report on Insurance, brief mention was made of Parametric Cover, as an alternative to traditional insurance products. It would be of potential use in insuring underground assets against catastrophic events and the product is being further investigated.

The information was received.

**7. AUDIT NEW ZEALAND**

Paul Anderson thanked Scott Tobin, external auditor for his pragmatic approach taken in dealing with the Council's financial activity and the assistance he had provided.

**8. RESOLUTION TO EXCLUDE THE PUBLIC**

It was resolved that the Resolution to exclude the public, as set out on Page 72 of the Agenda be adopted.

The meeting concluded at 2.48 pm.

## 4. CORPORATE FINANCE REPORT FOR PERIOD ENDED 31 OCTOBER 2011

<b>General Manager responsible:</b>	General Manager Corporate Services, DDI 941-8540
<b>Officer responsible:</b>	Corporate Finance Manager
<b>Author:</b>	Diane Brandish

**PURPOSE OF REPORT**

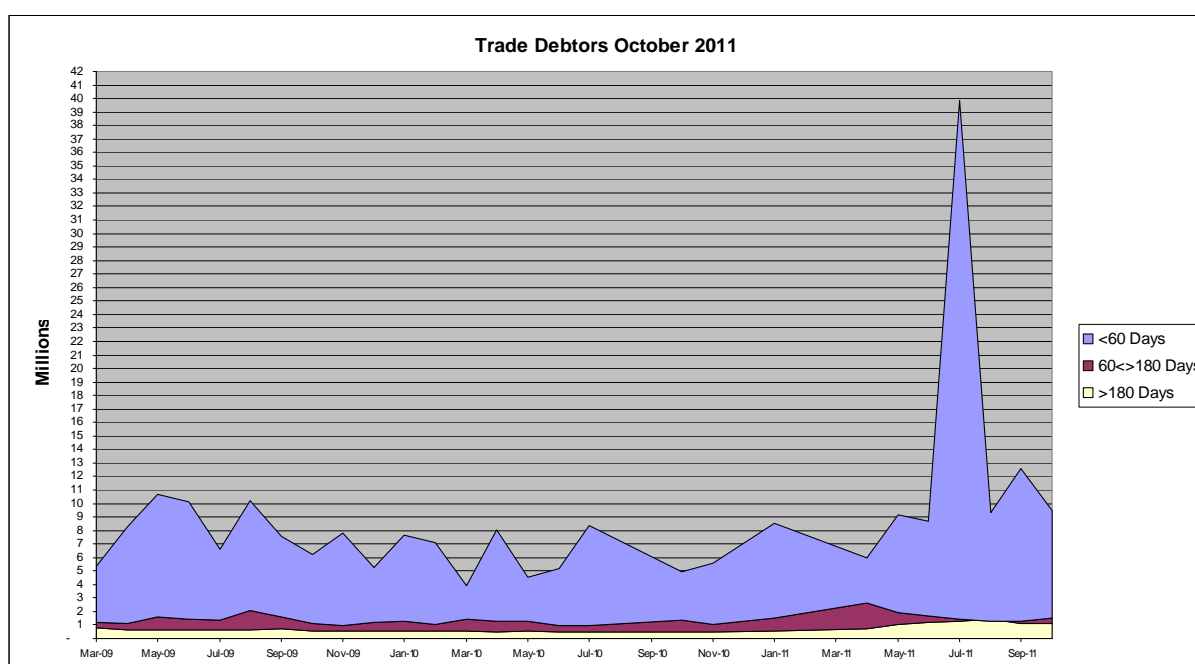
1. The purpose of this report is to provide the Audit and Risk Management Subcommittee with an update on key financial and treasury matters for the period ending 31 October 2011.

**TREASURY**

2. The table attached (**Appendix 1**) sets out the key treasury performance measures. As with the previous report we have remained within all but one of the financial ratio limits, being the liquidity and funding risk ratio where we have elected to have a higher percentage of funds available in the short term. There has been no additional borrowing in the period since 30 September. Recovery from our insurers continues to be slow with \$21.5 million of the \$110.9 million indemnity claim being received in the last month. Fifty percent remains outstanding.

**DEBTORS**

3. At 31 October 2011 the debtors' balance stood at \$9.5 million, \$3.1 million below that reported in September 2011 due to the payment of the New Zealand Transport Authority (NZTA) and City Care invoices invoiced in September. Building Consent totals have increased over last month as the Council resumes some of its normal business and all other debtor classifications have either improved or remained steady.
4. Overdue debtors total \$1.5 million, or 16.1% of total debt. The September figures were \$1.2 million and 9.8%. The main increase is in Resource Consents and is reflected in the overdue debtors over \$20,000 report which is **attached** as a separate Public Excluded report.
5. Debt written off for the year to date totals \$111.9 thousand compared to \$99.3 thousand for the same time last year. The largest increase for the month is in residential rents, and year to date residential rents and library debt. Further detail is provided in **Appendix 2** (attached).



4. Cont'd

**INSURANCE**

7. Deducting the earthquake damage estimates from Council's \$4.1 billion of insurable assets, leaves approximately \$2.7 billion to insure. Council has secured limited cover for \$445 million of above ground assets (Housing and CBS Canterbury Arena) and is covered for the Crown's 60% share of the below ground (~\$800 million). This leaves a total of \$1.5 billion of insurance still to place (\$1 billion above ground and \$500 million below ground).
8. We continue to work with Aon to secure insurance for a further \$560 million of the city's assets and in preparing the data required to obtain quotes for the parametric cover.

**FINANCIAL AND LEGAL CONSIDERATIONS**

9. There are no financial or legal implications other than those covered above.

**STAFF RECOMMENDATIONS**

It is recommended that the report be received.

## Christchurch City Council Treasury Management Report for period to 31 October 2011

Key Performance Measures			
	Policy Limits	Actual 2011/12 period ended 31 October 2011	
<b>INVESTMENT POLICY</b>			
<b>Counterparty Credit Risk Limits (see attachment for split per bank)</b>			
<b>Max Investment per counterparty</b>			
NZ Govt	unlimited		
NZD Registered Supernationals	\$50 m		
SOEs	\$15 m		
NZ Registered Bank	\$50 m		
	Up to	See (a) & (c)	
	guarantee		
	maximum		
NZ Registered Bank	\$10 m		
Corp Bonds/CP	\$40 - \$25 m		
Local Govt Stock/Bonds/FRN/CP			
<b>Interest rate risk mgmt instrument max per counterparty</b>			
NZ Govt	none		
NZD Registered Supernationals	none		
SOEs	none		
NZ Registered Bank	70m		See (a) & (c)
NZ Registered Bank	none		
Corp Bonds/CP	none		
Local Govt Stock/Bonds/FRN/CP	none		
<b>LIABILITY MANAGEMENT POLICY</b>			
<b>Liquidity &amp; funding risk management</b>			
0-3 years	10 - 60%	65%	Outside limits
3-5 years	20 - 60%	23%	Within limits
5 years plus **	15 - 60%	12%	Outside limits
<i>** this minimum will rise to 15% when net debt exceeds \$50 million.</i>			
<b>Borrowing mechanisms &amp; limits</b>			
Net debt as a percentage of equity	<20%	4.1%	Within limits
Net debt as a percentage of total revenue***	<100%	30.9%	Within limits
Net interest as a percentage of total revenue***	<10%	0.8%	Within limits
Net interest as a percentage of annual rates income (debt secured debenture)	<15%	2.4%	Within limits
Liquidity (term debt+committed loan facilities+liquid investments to current external debt)	>120%	147.7%	Within limits
<i>*** excludes non-govt capital contributions</i>			
<i>When 24-month forecast net debt exceeds \$25 million:</i>			
<b>Interest rate exposure</b>			
Master fixed/floating risk control limit	50 - 95%	64.0%	Within limits
Fixed maturity profile limit			
1-3 years	15 - 60%	19.0%	Within limits
3-5 years	15 - 60%	37.2%	Within limits
5 years plus	10 - 60%	43.8%	Within limits
<b>Counterparty Credit Risk Limits</b>			
NZ Registered Bank (per bank) - Min LT/ST credit rating	A-/A2		
- Interest rate risk mgmt in:	70m		See (b) & (c)

\* Council is a net borrower as at 31 October 2011

## (a) Counterparty Credit Risk Limits

Counterparty	Min Long Term/Short Term credit rating	Max Investment per counterparty	Interest rate risk mgmt instrument max per counterparty **	Total max per counterpart y (c)
NZ Govt	A- / A2	unlimited	none	unlimited
NZD Registered Supernationals SOEs	AAA A- / A2	50m 15m	none none	50m 15m
NZ Registered Bank	A- / A2	50m Up to Govt guarantee	70m	70m Up to guarantee
NZ Registered Bank Corp Bonds/CP	guaranteed A- / A2	maximum 10m	none	maximum 10m
Local Govt Stock/Bonds/FRN/CP	A- / A2 (if rated) unrated	40 25	none	40m 25m

\*\* To determine the counterparty amount for Interest Rate Risk Management, the formula  $\text{notional principal} \times \text{maturity (years)} \times 3\%$

Max investment per Counterparty	Actual \$m	Max allowed \$m	Credit rating	
ANZ	25.0	50.0	AA	Within limits
ASB Bank	40.5	50.0	AA	Within limits
Auckland International Airport	4.5	10.0	A-	Within limits
Bank of New Zealand	48.7	50.0	AA	Within limits
Canty Museum Trust Board	2.6	25.0	Unrated	Within limits
Far North District Council	2.0	25.0	Unrated	Within limits
Fonterra Co-op Group	3.0	10.0	A+	Within limits
Horowhenua DC	3.0	25.0	Unrated	Within limits
HSBC	20.0	50.0	AA	Within limits
Interstar NZ Millennium	0.1	10.0	AA-	Within limits
Kiwibank	48.3	50.0	AA-	Within limits
Manukau City Council	5.0	25.0	Unrated	Within limits
Masterton District Council	3.0	25.0	Unrated	Within limits
New Plymouth District Council	2.0	40.0	AA+	Within limits
NZ Post	1.5	15.0	AA-	Within limits
Rabobank	0.0	50.0	AA	Within limits
Rotorua District Council	5.0	25.0	Unrated	Within limits
SBS Oreti	0.3	50.0	AA-	Within limits
Selwyn DC	5.0	25.0	Unrated	Within limits
Tauranga City Council	5.0	50.0	A+	Within limits
TCNZ Finance Ltd	2.0	10.0	A	Within limits
Westpac Inst. Bank	20.0	50.0	AA	Within limits
Whangarei District Council	10.0	25.0	Unrated	Within limits

Interest rate risk mgmt instrument max per counterparty	Actual \$m	Max allowed \$m	Credit rating	
ANZ	0.0	70.0	AA	Within limits
BNZ	0.0	70.0	AA	Within limits
Westpac	0.0	70.0	AA	Within limits

## (b) Counterparty Credit Risk Limits

	Actual \$m	Max allowed \$m	Credit rating	
ANZ	29.0	70.0	AA	Within limits
Bank of New Zealand	16.7	70.0	AA	Within limits
Westpac Inst. Bank	13.5	70.0	AA	Within limits
	59.2			

## (c) Total max per counterparty

	Actual	Max allowed	Credit rating	
ANZ	54.0	70.0	AA	Within limits
ASB Bank	40.5	50.0	AA	Within limits
Auckland International Airport	4.5	10.0	A-	Within limits
Bank of New Zealand	65.5	70.0	AA	Within limits
Canty Museum Trust Board	2.6	25.0	Unrated	Within limits
Far North District Council	2.0	25.0	Unrated	Within limits
Fonterra Co-op Group	3.0	10.0	A+	Within limits
Horowhenua DC	3.0	25.0	Unrated	Within limits
HSBC	20.0	50.0	AA	Within limits
Interstar NZ Millennium	0.1	10.0	AA-	Within limits



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**ATTACHMENT TO CLAUSE 4  
Appendix 1**

Kiwibank	48.3	50.0	AA-	Within limits
Manukau City Council	5.0	25.0	Unrated	Within limits
Masterton District Council	3.0	25.0	Unrated	Within limits
New Plymouth District Council	2.0	40.0	AA+	Within limits
NZ Post	1.5	15.0	AA-	Within limits
Rabobank	0.0	50.0	AA	Within limits
Rotorua District Council	5.0	25.0	Unrated	Within limits
SBS Oreti	0.3	50.0	AA-	Within limits
Selwyn DC	5.0	25.0	Unrated	Within limits
Tauranga City Council	5.0	50.0	A+	Within limits
TCNZ Finance Ltd	2.0	10.0	A	Within limits
Westpac Inst. Bank	33.5	70.0	AA	Within limits
Whangarei District Council	10.0	25.0	Unrated	Within limits

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ATTACHMENT TO CLAUSE 4  
Appendix 2

Debt written off - summary report for the year ended 30 June 2012

	July	August	September	October	November	December	January	February	March	April	May	June	YTD Total	%
Write Offs < \$2000.00	25,700.95	34,220.36	3,807.56	9,060.34									72,789.21	65.0%
Write Offs => \$2000.01	17,409.99	3,811.57	8,159.36	9,767.70									39,148.62	35.0%
<b>Total to approve</b>	<b>43,110.94</b>	<b>38,031.93</b>	<b>11,966.92</b>	<b>18,828.04</b>	-	-	-	-	-	-	-	-	<b>111,937.83</b>	
<i>Breakdown:</i>														
Parking	448.45	528.35	243.00	102.40									1,322.20	1.2%
Residential Rents	18,718.26	11,527.91	1,070.89	11,435.95									42,753.01	38.2%
Regulatory	436.72	830.97	3,805.12	1,113.49									6,186.30	5.5%
Library (ex SAP)													-	0.0%
Library - Unicorn Only	8,761.38	21,407.32	620.65										30,789.35	27.5%
Sundry	14,746.13	3,737.38	6,227.26	6,176.20									30,886.97	27.6%
Abandoned Vehicle													-	0.0%
Street Pole													-	0.0%
Commercial													-	0.0%
<b>Total 2011-2012</b>	<b>43,110.94</b>	<b>38,031.93</b>	<b>11,966.92</b>	<b>18,828.04</b>	-	-	-	-	-	-	-	-	<b>111,937.83</b>	
Total 2010-2011	32,333.68	5,321.06	47,952.25	13,637.54	14,756.63	10,772.44	11,645.35	33,116.02		10,758.96	10,228.69	24,172.62	214,695.24	
Variance to Last Year	10,777.26	32,710.87	- 35,985.33	5,190.50	- 14,756.63	- 10,772.44	- 11,645.35	- 33,116.02		- 10,758.96	- 10,228.69	- 24,172.62	- 102,757.41	

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**5. RESOLUTION TO EXCLUDE THE PUBLIC**

**Attached.**

**AUDIT AND RISK MANAGEMENT SUBCOMMITTEE****RESOLUTION TO EXCLUDE THE PUBLIC**

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

I move that the public be excluded from the following parts of the proceedings of this meeting, namely items 6, 7, 8 and 9.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987, for the passing of this resolution are as follows:

	<b>GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED</b>	<b>REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER</b>	<b>GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF THIS RESOLUTION</b>
6.	<b>CONFIRMATION OF MEETING MINUTES</b>	)	
7.	<b>LEGAL BRIEFING</b>	)	
8.	<b>INTERNAL AUDIT ACTIVITY REPORT</b>	)	<b>SECTION 48(1)(a)</b>
9.	<b>RENEWAL OF CONTRACT - INTERNAL AUDIT AND RISK MANAGEMENT SERVICES</b>	)	
10.	<b>OVERDUE DEBTORS OVER \$20,000</b>	)	
		)	

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:

<b>Item 6</b>	<b>Maintain legal professional privilege</b>	<b>(Section 7(2)(9))</b>
<b>Item 7</b>	<b>Maintain legal professional privilege</b>	<b>(Section 7(2)(9))</b>
<b>Item 8</b>	<b>Prevention of improper advantage</b>	<b>(Section 7(2)(j))</b>
<b>Item 9</b>	<b>Disclosure may prejudice contract negotiations with the supplier</b>	<b>(Section 7(2)(i))</b>
<b>Item 10</b>	<b>Protection of the privacy of natural persons Prejudice commercial position</b>	<b>(Section 7(2)(a)) (Section 7(2)(b)(ii))</b>

**Chairman's**

**Recommendation:** That the foregoing motion be adopted.

**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."