

AUDIT AND RISK MANAGEMENT SUBCOMMITTEE AGENDA

FRIDAY 14 OCTOBER 2011

AT 12:30PM

**IN POLSON HIGGS, LEVEL 8 HSBC TOWER,
62 WORCESTER BOULEVARD**

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

Principal Adviser
Paul Anderson
Telephone: 941-8540

Committee Adviser
Warren Brixton
Telephone: 941-5575

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5. **INSURANCE UPDATE (VERBAL)**
6. **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 1 June 2011.

3. DEPUTATIONS BY APPOINTMENT

4. LOCAL GOVERNMENT FUNDING AGENCY – IMPLEMENTATION PROGRESS

5. INSURANCE UPDATE (VERBAL)

6. RESOLUTION TO EXCLUDE THE PUBLIC

CHRISTCHURCH CITY COUNCIL

MINUTES OF A MEETING OF THE
AUDIT AND RISK MANAGEMENT SUBCOMMITTEE

Held in the Board Room, Beckenham Service Centre
on Wednesday 1 June 2011 at 3 pm.

PRESENT: Councillor Sally Buck (Chairman), Councillors Jimmy Chen and Chrissie Williams.

APOLOGIES: Apologies for absence were received and accepted from Mayor Bob Parker, Councillors Helen Broughton (lateness) and Jamie Gough.

	ACTION
<p>1. DEPUTATIONS BY APPOINTMENT</p> <p>Nil.</p>	
<p>2. AUDIT AND RISK MANAGEMENT SUBCOMMITTEE STRUCTURE AND TERMS OF REFERENCE</p> <p>Councillor Williams tabled a revised set of Subcommittee Draft Terms of Reference dividing them into three subheadings of Purpose, Delegations and Practices.</p> <p>Discussion took place on the level at which the Subcommittee operated, as to that of the Council, particularly with regard to compliance reporting and risk management, and whether there was a bridge/link between the two. It was explained that the Subcommittee operated at a lower, but more detailed level, than that of the Council.</p> <p>(a) It was resolved that the Subcommittee recommends to Council that its terms of reference be based on:</p> <ul style="list-style-type: none"> • Approving the Annual Report and Audited Financial Statement of the Council. • Reviewing and approving significant accounting policy changes. • Reviewing the format of financial reports prior to audit. • Evaluating the adequacy and effectiveness of the administrative, operating and accounting policies through active communication with the external and internal auditors and consideration of their management report. • Recommending to the Council amended terms of reference for this subcommittee. <p>(b) Agrees that practices should be standard for the subcommittee:</p> <ul style="list-style-type: none"> • The Subcommittee will meet at least four times a year. • At least once a year the Subcommittee may meet with the external and internal auditors, without management present. • The subcommittee will principally rely on discussions and reports from staff, and remains at arms length from any operational activity. • The subcommittee will be serviced by the Secretariat. • The Chairperson of the Subcommittee may initiate meetings as they see fit. <p>It was agreed that the Terms of Reference should be presented in a similar format to other Council committees and the Subcommittee requested that staff complete this work and refer them back to the Subcommittee for approval.</p>	

3. COUNCIL RISK MANAGEMENT FRAMEWORK

Murray Harrington of PriceWaterHouseCoopers explained to the Subcommittee the robust internal process that had been undertaken to identify the “key” business unit and organisational risks. It was noted that these risks are organisational risks rather than City-wide risks (eg. climate change) in that they focus on the organisation’s delivery of the LTCCP / LTP and other Council resolutions. It was further noted that these risks form the basis of internal management reporting, bi-annual reporting to the Subcommittee as well as informing the Internal Audit Programme..

It was **resolved** that the report be received.

3. CORPORATE FINANCE REPORT FOR THE PERIOD ENDED JUNE 2010

It was noted that due to the earthquake, debt collection was temporarily curtailed but this had now been resumed. The Subcommittee noted that it was likely that due to the earthquake, the level of service for rates collected on time would need to be reduced..

It was noted that the Council's Insurers were having trouble with re-insurance and there was no certainty that “earthquake” cover would be obtained.

The situation would be reported back to the next meeting.

It was **resolved** that the report be received.

4. AUDIT ARRANGEMENTS LETTER FOR THE YEAR ENDED 30 JUNE 2011

A letter from Audit New Zealand outlined the arrangements for the Audit of Christchurch City Council for the year ended 30 June 2011.

It was **resolved** that the details of the audit are acknowledged and the Chairman be authorised to sign the Letter of Agreement.

4. NEXT MEETING

The next meeting will be held possibly early in October, so as the Annual Report can be adopted at the Council’s 13 October 2011 meeting.

5. RESOLUTION TO EXCLUDE THE PUBLIC

It was **resolved** that the Resolution to exclude the public, as set out on Page 16 of the Agenda be adopted.

4. LOCAL GOVERNMENT FUNDING AGENCY – IMPLEMENTATION PROGRESS

General Manager responsible:	General Manager Corporate Services, DDI 941-8528
Officer responsible:	General Manager Corporate Services
Author:	Paul Anderson

PURPOSE OF REPORT

1. The purpose of this report is to inform Council of the implementation progress of the Local Government Funding Agency.

EXECUTIVE SUMMARY

2. On 23 January 2011, Council resolved to support the establishment of the New Zealand Local Government Funding Agency (LGFA) by becoming a principal shareholding local authority and by making the amendments necessary to its Investment and Liability Management Policies to allow it to invest in and subsequently borrow from the LGFA.
3. The email attached as Appendix 1 was sent recently to the CEOs and Mayors of the nine establishment shareholders. The email provides a useful overview of the establishment process to date, and the important steps towards incorporation of the LGFA. We reached an important milestone recently with the passing of the Local Government Borrowing Act 2011, which incorporates the legislative provisions that enable the establishment of the LGFA.
4. An important consideration for the first two years of operation of the LGFA is to ensure the entity builds scale in its lending programme. As outlined in the Information Memorandum that accompanied the Special Consultative Procedure, this requires the shareholding local authorities to meet a certain proportion of their borrowing needs from the LGFA. The shareholder agreements require that the shareholding local authorities, including the Christchurch City Council, secure 80% of their funding requirements from the LGFA.

FINANCIAL IMPLICATIONS

4. The financial implications were addressed in the 2011/12 Annual Plan process.

Do the Recommendations of this Report Align with 2009-19 LTCCP budgets?

5. N/A

LEGAL CONSIDERATIONS

6. The Council's Legal Services Unit provided legal advice to Council when the Council approved its involvement in the LGFA. Further to this the nine establishment shareholders have retained Simpson Grierson to provide independent legal review from a shareholder's perspective of the establishment documentation.

Have you considered the legal implications of the issue under consideration?

7. Yes.

ALIGNMENT WITH LTCCP AND ACTIVITY MANAGEMENT PLANS

8. N/A

Do the recommendations of this report support a level of service or project in the 2009-19 LTCCP?

9. N/A

4. Cont'd

ALIGNMENT WITH STRATEGIES

10. The recommendation of this report aligns with Council's strategies.

CONSULTATION FULFILMENT

11. Consultation has been undertaken and requirements fulfilled on this matter.

STAFF RECOMMENDATION

It is recommended that the Audit and Risk Subcommittee receive this report.

Appendix 1: Email to CEOs and Mayors of the Nine Establishment Shareholders

4 October 2011

Mr Bob Parker, Mayor

Mr Tony Marryatt, Chief Executive

cc Paul Anderson, Chief Financial Officer

By email

Dear Bob and Tony

Local Government Funding Agency Limited (LGFA)

Given the recent passage of legislation which enables the creation of the LGFA I thought it would be timely to send a personal letter to you introducing myself and outlining progress to date and what remains to be done to launch the LGFA. This will ensure that you are aware of our critical tasks. Your Council's support has been essential to the establishment of the LGFA and on behalf of the Establishment Board, I would like to extend our thanks for your Council's ongoing support.

I have been asked by prospective local government shareholders to chair the LGFA Establishment Board. Other members of the Establishment Board are Mark Butcher Auckland Council, Paul Anderson Christchurch City Council, Matthew Walker Hamilton City Council and Eugene Bowen Local Government New Zealand. My background is in central government, financial services, professional directorships and entrepreneurship.

I agreed to Chair the LGFA Establishment Board because consolidation of local government borrowing to drive down borrowing costs makes economic sense for Councils and their ratepayers. I took time in my due diligence to review existing global peers undertaking similar activities, such as Sweden's Kommuninvest (www.kommuninvest.com) and was impressed at what those local governments had achieved by clubbing together. I also see the LGFA as a very long-term sustainable business based upon servicing your borrowing needs, so I expect the LGFA will evolve as your needs change.

The Establishment Board is charged with the task of incorporating and resourcing the LGFA as a CCTO. There has been an enormous amount of work to date. I should acknowledge the work of our advisors, fellow Board members, the Tight Nine^[1]; other prospective founding shareholders^[2] and the Crown. The status of key workstreams undertaken and required through to incorporation of the LGFA is as follows:

- Appointment of Commercial Advisors - Cameron Partners Ltd and Asia Pacific Risk Management Ltd have been involved since inception with the project. They were appointed following a competitive RFP process led by LGNZ. Their formal role will wind down after incorporation.
- Capital funding - The Tight Nine and the Crown have contributed \$1.35 million to July 2011 (\$100,000 per Council and \$450,000 from the Crown) and have agreed to contribute a further \$1.4 million (\$100,000 per Council plus \$500,000 from the Crown) to get to launch. It is important to acknowledge that the Crown will be a \$5m or circa 20% shareholder at incorporation of the LGFA. Their support has been critical.
- Business Model -The LGFA will commence operations as a relatively simple broker-model borrowing on its own behalf and on-lending to Local Authorities on a back-to-back basis. It has a principal objective of optimising the funding terms and conditions for Local Authorities. This will be explicit in its Statement of Intent. It plans to pay dividends out of future profits but these will be capped. This is based upon Council borrowing needs identified in Council ten year plans and assumptions around Council commitments to use the LGFA.

^[1] Auckland Council; Christchurch City Council; Greater Wellington Regional Council; Hamilton City Council; Tasman District Council; Tauranga City Council; Wellington City Council; Western Bay of Plenty District Council; Whangarei District Council.

^[2] Bay of Plenty Regional Council; Hastings District Council; Kapiti Coast District Council; Masterton District Council; New Plymouth District Council; Otorohanga District Council; Selwyn District Council; South Taranaki District Council; Taupo District Council; Waipa District Council.

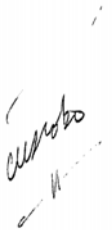
14.10. 2011

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- Appointment of Legal Advisor - Russell McVeagh were appointed in July 2011 following a competitive RFP process.
- Executive Search Advisors - Hobson Leavy were appointed in July 2011 following a competitive RFP process.
- Shadow Board/Board of Directors - Searches have been completed and shadow directors chosen. They are Craig Stobo (Chair), Paul Anderson (Christchurch City Council), Mark Butcher (Auckland Council), John Avery (Independent), Philip Cory-Wright (Independent), Abby Foote (Independent).
- Chief Executive - Searches have been completed and a shortlist of three outstanding candidates has been compiled for the shadow board to choose from. This appointment is critical.
- Service Level Agreement (SLA) with the Crown's Treasury Office, NZ Debt Management Office (NZDMO) - As you may be aware, LGFA will outsource its middle and back office functions to the NZDMO as a means to effectively manage a range of financial markets and operational risks. The SLA is near to completion. In addition we are negotiating a standby liquidity facility from the Crown.
- Documentation - Documents on capital subscription, shareholder agreements, guarantees etc are close to being finalised for sign off by shareholders / borrowers in late October.
- Regulatory requirements - Discussions have been held with the Reserve Bank and Office of the Auditor General.
- Credit Rating - We are engaged with Rating Agencies to confirm their earlier indications of a credit rating for the LGFA commensurate with the NZ Government.
- Communications - Press coverage has commenced; discussions have been held directly with the Tigt Nine at meetings in Wellington and with the other prospective founding shareholders who wish to join on incorporation by phone and email; prospective domestic institutional investors have been met; global investors need to be targeted; and a website is being constructed.
- A Shareholders Council has been formed and is led by Matthew Walker. Its initial role is to coordinate LGFA shareholders ahead of incorporation, and to review the performance of the Company in general and Directors in particular. The Shareholders Council will make recommendations to the shareholding Councils when important decisions are required.

As you can see this is a significant initiative, which has direct benefits for you and ratepayers. I thank you for your support to date and in future and hope to meet you in due course. In the meantime if you have any queries please contact me.

Regards



Craig Stobo
Chair, Local Government Funding Agency

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