If calling please ask for: Democratic Services

2 March 2018

Finance, Risk and Assurance Committee

Order Paper for meeting to be held in the Council Chamber, Greater Wellington Regional Council, Level 2, 15 Walter Street, Te Aro, Wellington on:

Tuesday, 6 March 2018 at 9.30am

Membership of Committee

Cr Swain (Chair)

Cr Blakeley
Cr Laidlaw
Cr McKinnon
Cr Donaldson
Cr Lamason
Cr Ogden

Kim Skelton

Recommendations in reports are not to be construed as Council policy until adopted by Council

Finance, Risk and Assurance Committee

Order Paper for meeting to be held on Tuesday, 6 March 2018 in the Council Chamber, Greater Wellington Regional Council, Level 2, 15 Walter Street, Te Aro, Wellington at 9.30am.

Public Business

Please note that these minutes remain unconfirmed until the meeting of the Finance, Risk and Assurance Committee on 6 March 2018

Report 17.430
26/10/2017
File: CCAB-22-285

Minutes of the Finance, Risk and Assurance Committee meeting held in the Jerningham room, Copthorne Hotel, 100 Oriental Parade, Wellington on Thursday, 26 October 2017 at 10:00am

Present

Councillors Swain (Chair), Blakeley, Donaldson, Laidlaw, Lamason, and McKinnon.

Kim Skelton.

Public Business

1 **Apologies**

Moved *(Cr Swain/ Cr McKinnon)*

That the Committee accepts the apology for absence from Councillor Ogden.

The motion was **CARRIED**.

2 **Conflict of Interest declarations**

There were no declarations of conflict of interest.

3 **Public Participation**

There was no public participation.

4 **Confirmation of the minutes of 21 September 2017**

Moved *(Cr Donaldson/ Cr Blakeley)*

That the Committee confirms the public minutes of the meeting of 21 September 2017, Report 17.354 and the public excluded minutes of the meeting of 21 September 2017, Report PE17.355.

The motion was **CARRIED**.

5 **Annual Report for the year ended 30 June 2017**

Councillor Swain thanked officers and Audit New Zealand for their efforts under challenging circumstances in completing the Annual Report 2016/17.

Dave Humm, General Manager Corporate Services/Chief Financial Officer, spoke to the report.

Jacques Coetzee, Associate Audit Director, Audit New Zealand, commended the remarkable team effort to produce the Annual Report and thanked the Council for their support in the difficult circumstances.

Jacques Coetzee assured the Committee that adequate disclosure has been made with appropriate emphasis in respect of the estimates and judgements made in relation to the November 2016 earthquake.

Report 17.416 File: CCAB-22-270

Moved *(Cr Donaldson/ Ms Skelton)*

That the Committee:

1. *Receives the report.*
2. *Notes its contents.*
3. *Recommends that Council approves the following net amounts, in addition to those budgeted, being added to (or deducted) from the respective reserves, subject to any changes requested by the Committee:*

Reserve	Balance	
Public Transport Rate Reserve	3,938,899	B1
Sustainable Transport Department Reserve	(66,422)	B2
Transport Planning Reserve	(176,680)	A1
Transport Data & Analysis Reserve	(364,759)	B3
Possum Predator Rate Reserve	13,268	B4
Wai Rating Schemes-Catchment Awhea	(13,083)	A2
Wai Rating Schemes-Catchment Whareama	(2,976)	A3
Wai Rating Schemes-Catchment Homewood	(5,870)	A4
Wai Rating Schemes-Catchment Mataikona	2,184	A5
Wai Rating Schemes-Catchment Maungaraki	(1,015)	A6
Wai Rating Schemes-Catchment Kaiwhata	465	A7
Wai Rating Schemes-Drainage	132,257	A8
Wai Shingle Royalty	(3,890)	B5
Wai Rating Schemes-River LWVD-Opex	(30,686)	A9
Wai Rating Schemes-River Waiohine-Opex	(12,530)	A10
Wai Rating Schemes - Gladstone	583	B6
Wai Rating Schemes-River Waipoua	(12,914)	A11
Wai Rating Schemes-River Waingawa	2,989	A12
Wai Rating Schemes-River Lower Taueru	429	B7
Wai Rating Schemes-River Lower Whangaehu	(422)	B8
Wai Rating Schemes- Te Ore Ore	(3,841)	A13
Wai Rating Schemes - Mt Bruce	5,488	B9
Wai Rating Schemes - Kopuaranga	(2,122)	A14
Wairarapa Workshop	(8,598)	B10
WREMO Reserve (TA contributions)	(54,077)	B11
Iwi Projects Reserve	204,060	A15
Forestry Infrastucture Reserve	17,695	A16
Regional Parks Reserve	490,000	A17
Harbours Vehicle Replacement	(21,000)	B12
Science equipment upgrade	(100,000)	B13
Bioworks	223,519	A18
River Rate Reserve-Hutt City	130,230	A19
River Rate Reserve-Kapiti Coast	(271,290)	B14
River Rate Reserve-Porirua City	(550)	B15
River Rate Reserve-Upper Hutt City	(27,967)	A20
River Rate Reserve-Wellington City	(489)	B16
IT Operations Capex Reserve	905,070	A21
Wgtn Regional Strategy - Office Wakefield street Grow Wellington	269,615	A22
WRS Reserve - Grow Wellington	(167,000)	B17
Rebudget 15/16:Belmont Capex NZTA funding	163,576	B18
Rebudget 17/18:Battle Hill - Ranger maintenance	30,000	A23
Rebudget 17/18:Tier 2 monitoring	96,000	A24
Rebudget 17/18:River Water Quality & Ecology	30,000	A25
Rebudget 17/18:Catchment monit - Ruamahanga	35,500	A26
Rebudget 17/18:Regional Hazard Management Strategy	34,000	A27
Rebudget 17/18:GW EMO cc	35,000	A28
Rebudget 17/18:Science Research Strategy	89,000	A29
Rebudget 17/18:PH Biodiversity Management	40,000	A30
Rebudget 17/18:LM - Riparian Management WBS	600,000	A31
Rebudget 17/18:Bio Plants Admin	50,000	A32
Rebudget 17/18:Parks Policy wbs	60,000	A33
Rebudget 17/18:RLTP	50,000	A34
Rebudget 17/18:Programme Business Cases	150,000	A35
Rebudget 17/18:Te Marua BAC Filter	76,529	A36
Rebudget 17/18:Belmont - Asset Mngt. - Capex	7,576	A37
Rebudget 17/18:Belmont - Asset Mngt. - Capex 2	5,404	A38
Rebudget 17/18:QEP - Asset Mngt. - Capex	54,225	A39
Rebudget 17/18:EH Tracks remetalling	3,282	A40
Rebudget 17/18:Pencarrow upgrade (dredging dependant)	8,425	A41
Rebudget 17/18:Harbours diving platform	5,462	A42
Rebudget 17/18:Hinds point light	1,706	A43
Rebudget 17/18:Collaborative Modelling Project (capex)	28,274	A44
Rebudget 17/18:Resource consent project	23,730	A45
Rebudget 17/18:Lower Waitohu Improvements	7,582	A46
Rebudget 17/18:LWVD River Scheme Capex	25,442	A47
Rebudget 17/18:Te Kauru capex wbs	21,061	A48
Rebudget 17/18:Pinehaven Stream Improvements	10,531	A49
Rebudget 17/18:Hutt Environmental strategy implementation	2,106	A50
Rebudget 17/18:City Centre Upgrade	189,552	A51
Rebudget 17/18:Transport Model CAPEX.	15,979	A52
Rebudget 17/18:IT Capex - SAP (Hardware & Software)	291,329	A53
Rebudget 17/18:CAPEX - Office20xx	1,023	A54
Rebudget 17/18:IT Capex - GIS (aerial photography)	32,520	A55
Rebudget 17/18:IT Capex - CRM	12,694	A56
Rebudget 17/18:IT Capex - SaaS implementations	6,347	A57
Rebudget 17/18:CAPEX - Perfomance Indicator Reporting Layer	6,347	A58
Rebudget 17/18:Belmont - Asset Mngt. - Capex Stoney Mills	12,440	A59
Rebudget 17/18:Depot Shunt Crab - LTP	2,639	A60
Rebudget 17/18:Matangi - Heavy Maint/Overhauls	106,478	A61
Rebudget 17/18:SW & SE Cars - Heavy Maint/Overhauls	77,643	A62
Rebudget 17/18:M1 Retrofit - Contingency	91,494	A63
Rebudget 17/18:Matangi 2 Driver Simulator	42,123	A64
Rebudget 17/18:Matangi 2 Contingency.	15,887	A65
Rebudget 17/18:Park and Ride Development	12,856	A66
Rebudget 17/18:Capex Interim Bus Ticketing Solution	32,613	A67

4. *Recommends that Council adopts the Annual Report and Summary Annual Report for the year ended 30 June 2017, subject to receiving final audit clearance and any changes requested by the Committee.*

5. *Recommends that Council authorises the Council Chair and Chief Executive Officer to make minor changes that may arise as part of finalising the audited Annual and Summary Annual Reports for the year ended 30 June 2017.*

The motion was **CARRIED**.

The Committee agreed to accord priority to agenda item 10 - Risk report.

6 **Bulk Water risk presentation**

Oral presentation

Colin Crampton, Chief Executive, and Erin Ganley, Manager, Risk and Assurance, Wellington Water, gave a presentation to the Committee in relation to bulk water risk.

The Committee discussed water storage in response to increased growth, focusing on demand, and regional resilience.

7 **Summary of Financial Statements for the three months to 30 September 2017**

Mark Ford, Manager Strategic Finance, spoke to the report.

Report 17.415 File: CCAB-22-269

Moved *(Cr Laidlaw/ Cr Blakeley)*

That the Committee:

1. *Receives the report.*

2. *Notes the content of the report.*

The motion was **CARRIED**.

8 **Long term economic projections**

Oral presentation

Dave Grimmond, Economist, gave a presentation to the Committee regarding the Wellington Region's long term economic projections and trends. Dave Grimmond advised the Committee that the projections are scenario-based, established from population statistics.

Noted*:* The Committee requested that officers periodically report back with updates.

9 **Approach to managing fraud risk**

Mike Timmer, Treasurer, spoke to the report.

Report 17.421 File: CCAB-22-272

Moved *(Cr Lamason/ Cr Laidlaw)*

That the Committee:

1. *Receives the report.*
2. *Notes the content of the report.*

The motion was **CARRIED**.

Noted: The Committee requested for officers to report back when the Fraud Policy has been updated.

10 **Health and safety update**

Lucy Matheson, General Manager, People and Customer, spoke to the report, and introduced Leeanne Walters from Wilson Consulting Group to the Committee. Wilson Consulting is currently undertaking a review of health and safety at GWRC.

Mike Ward, Acting Health and Safety Manager, introduced Wayne Cowan, Senior Biosecurity Officer (Plants), to the Committee. Wayne Cowan gave a presentation in relation to how GWRC works closely with contractors to manage risk.

Report 17.409 File: CCAB-22-266

Moved *(Cr Donaldson/ Cr Lamason)*

That the Committee:

1. *Receives the report.*
2. *Notes the content of the report.*

The motion was **CARRIED**.

The meeting closed at 12:16pm.

P Swain
(Chair)

Date:

greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

Report	**18.49**
Date	1 March 2018
File	CCAB-22-305
Committee	**Finance, Risk and Assurance Committee**
Author	**Mike Timmer, Treasurer**

Treasury Risk Management - review of the treasury function

1. Purpose

To report to the Finance, Risk and Assurance Committee in terms of the treasury function over the past three years.

2. Background – policy update

Section 10 of the Treasury Risk Management Policy (the Policy) sets out that the Policy is required to be reviewed every three years.

The Policy is up for review and this is included under a separate paper.

As part of this process a review report is to be provided to this Committee.

3. Review of the Treasury function

Section 10 of the Treasury Risk Management Policy sets out a number of review points. These review points are addressed in sections 3.1 to 3.6 below.

> **10. Policy review**
>
> This Treasury Risk Management Policy will be formally reviewed every three years. The CFO has the responsibility to prepare a review report (following the preparation of annual financial statements) that is presented to Finance, Risk and Assurance. The report will include:
>
> - Recommendations on changes, deletions and additions to the policy.
> - Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).
> - Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.
> - Analysis of bank and lender service provision, share of financial instrument transactions, etc.

- Comments and recommendations from the Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- Total net debt servicing costs.

The policy review will be completed and presented to Finance, Risk and Assurance within five months of the financial year-end. Finance, Risk and Assurance will approve any resulting policy changes.

3.1 Overview of the treasury function – achievement of objectives

The objectives are set out in section 2.3 of the Policy, these are repeated and addressed as follows:

3.1.1 Objective: Minimise the Council's costs and risks in the management of its borrowings and maximise its return on investments

Comment

This is the overall objective of the Policy. There is always a trade-off between risk and return.

In terms of borrowing the approach has been to err on the side of conservatism meaning we have a higher level of fixed rate debt rather than expose the rate payers to variable interest costs. The focus has been on minimising the margin we pay on our debt by borrowing longer terms when margins are low, and shorter terms when long term margins are higher.

We seek the advice from our advisers PricewaterhouseCoopers in terms of our fixed rate debt profile and they meet with us quarterly to discuss treasury matters.

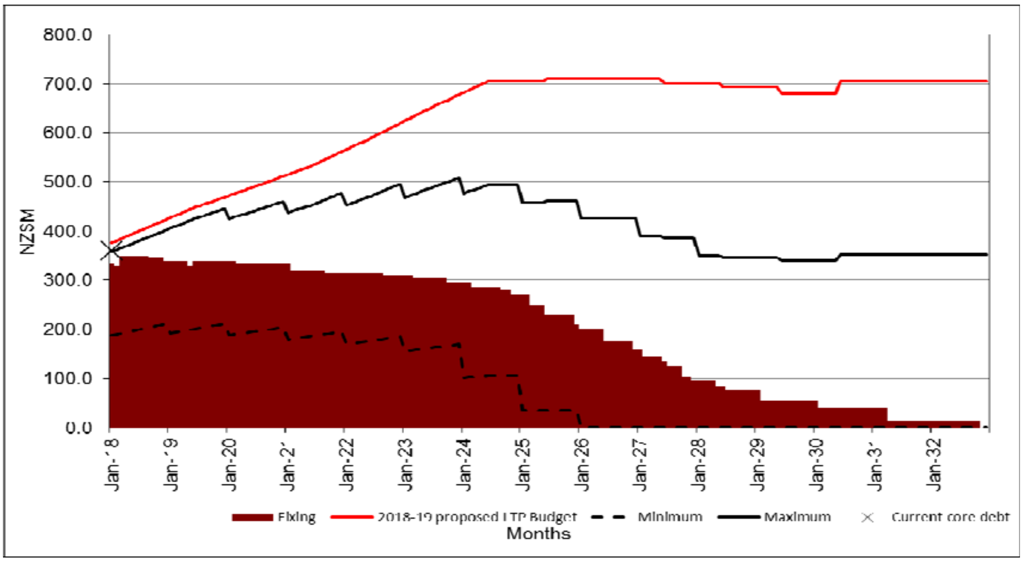
In terms of financial investments the approach has been to maintain a high level of liquidity and invest in short dated deposits and debt instruments which can be readily liquidated into cash at relatively short notice with no exposure to capital loss to meet the needs of a crisis.

Recently we have placed a greater portion of funds on bank deposit as opposed to securities (these are liquid i.e. can be converted to cash any time) as the latter are paying a much higher interest rate sometimes in the vicinity of 1%. The maturities are staggered which indirectly provides liquidity thus providing a ready access to funds over time.

3.1.2 Objective: Minimise the Council's exposure to adverse interest rate movements

Comment

The Council generally borrows on a floating rate basis and converts a portion of this into fixed rate debt via interest rate swaps. This apportionment is controlled via the treasury policies fixed rate debt profile limit that is reported to Council quarterly.



3.1.3 Objective: Monitor, evaluate and report on treasury performance

Comment

Treasury performance is reported in detail on a quarterly basis to the CFO. The report looks at the Local Government Funding Agency (LGFA) and Policy covenants and limits, reviews past, current and future debt and investment levels. The report also reviews the Investment Management cost centre performance against budget as well as Reserves, Internal loans, Contingency funds, Credit Margins, Derivatives, Maximum Probably Loss funding liquidity and Performance against benchmarks. A subset of this report is included in the quarterly reporting to this Committee and Council.

3.1.4 Objective: Borrow funds and transact risk management instruments within an environment of control and compliance under the Council-approved Treasury Risk Management Policy so as to protect the Council's financial assets and costs

Comment

Funds have been borrowed in terms of policy, i.e. borrowings have been approved and are approved annually when the Annual Plan is set.

There is a rigorous process of documentation required to borrow funds both from the LGFA and via Commercial paper. Bank lines have been approved by Council.

The Chief Executive may be required (and does each time we borrow from the LGFA) to sign a certificate in terms of section 118 of the Local Government Act to certify that borrowings are in order i.e. necessary approvals etc are in place. This certificate is for the benefit of borrowers.

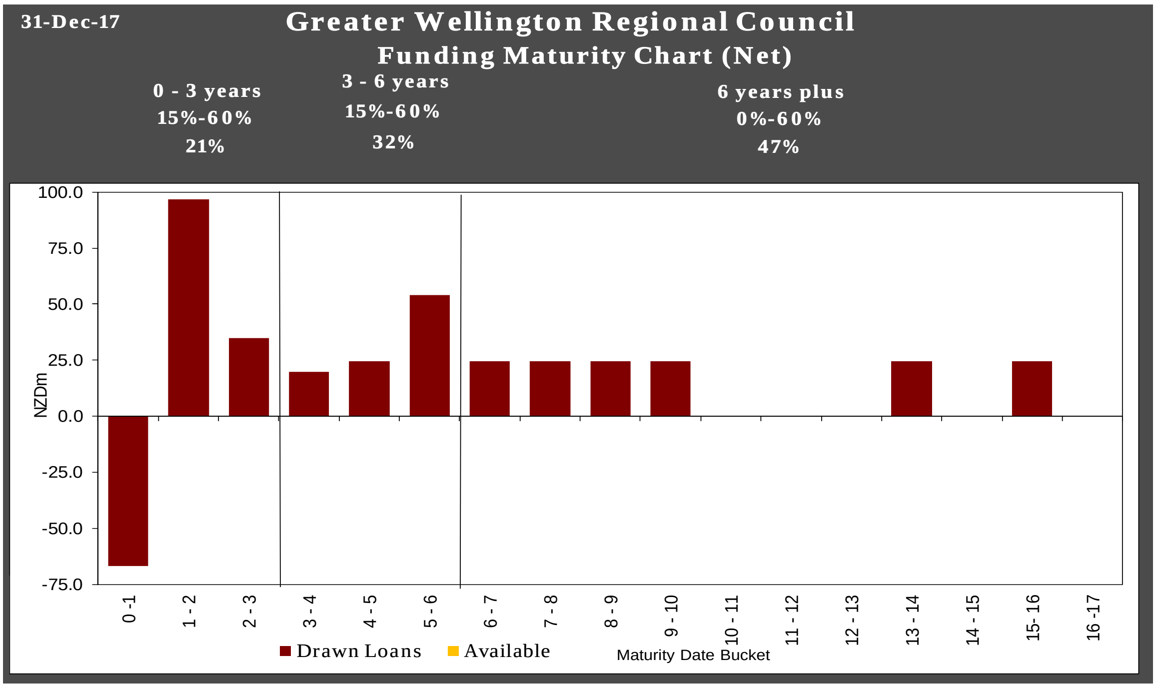
All financial investments have been with approved counterparties and within approved credit limits. All derivative transactions have been undertaken in compliance with the Policy

3.1.5 Objective: Arrange and structure appropriate funding for the Council at the lowest achievable interest margin from debt lenders. Optimise flexibility and spread of debt maturity within the funding risk limits established by this policy statement.

Comment

The predominance of Council's borrowing is via the LGFA which provides the lowest cost of funds in terms of credit margins available. Our debt portfolio is structured in accordance with the Policy such that debt maturities are spread over a 16 year term. Credit margins for short term debt 90 day debt are in the vicinity of 0.05% as opposed to margins for 16 year debt which is the vicinity of 1.00%. We utilise short term borrowing and target this at around 25% to 30% of total debt.

Appended below is the spread of our debt over time. The negative represents our investments. Last week we borrowed $25 million from the LGFA which matures in April 2029, which fits into the 11-12 year time band.



3.1.6 Objective: Monitor and report on financing/borrowing covenants and ratios under the obligations of the Council's lending/security arrangements

Comment

Financial borrowing covenants of the LGFA are reported to Council quarterly.

Our bank documentation does not have any covenants like the LGFA other than being in compliance with the law, delivering documents (Long Term Plan, Annual Reports) to the banks on a timely basis plus a number of other undertakings a lender would normally have to do.

We report on our financial covenants to the LGFA annually after our year end and also on report to the Security Trustee in relation to security stock issued under our Debenture Trust Deed. Audit New Zealand provides a report to the Security Trustee in relation to this.

WRC Holdings Board reports to the Security Trustee annually than no event of default has occurred and that the $50 million of uncalled capital from Council remains available as security to the lenders to WRC Holdings Limited.

We have completed all the above reporting on a timely basis and within the time frames stipulated in the various legal documents.

3.1.7 Objective: Comply with financial ratios and limits stated within this policy

Comment

We have been in compliance with the financial ratios stated in this policy. We have breached one of the policy limits, this is discussed under section 3.3 and section 3.5.

3.1.8 Objective: Maintain a long-term Standard & Poor's credit rating at AA- or better

Comment

Council has maintained it long term credit rating of AA over the last 3 years. It cannot move higher as Standard & Poor's have rated the Crown at AA+ and no other Council other than the LGFA is rated at AA+. Our credit rating has maintained a 'stable' outlook.

3.1.9 Objective: Monitor the Council's return on investments in CCTOs, property and other shareholdings

Comment

This is undertaken via WRC Holdings predominately. Capital Investments in Wellington Water and WREDA are small and are managed separately from Treasury.

3.1.10 Objective: Ensure management, relevant staff and, where appropriate, the Council are kept abreast of latest treasury products, methodologies, and accounting treatments through training and in-house presentations

Comment

The Treasurer and the Treasury Accountant keep abreast of changes relating to treasury in relation to accounting via seminars and Chartered Accountants Australia and New Zealand and Treasury related matters via bank presentations, local interest groups with both Treasury staff having membership of Institute of Finance Professionals New Zealand Incorporated. Our advisors PricewaterhouserCoopers also keep us abreast of treasury related matters. Important changes affecting the business are reported in the regular quarterly updates to Council.

3.1.11 Objective: Maintain liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements

Comment

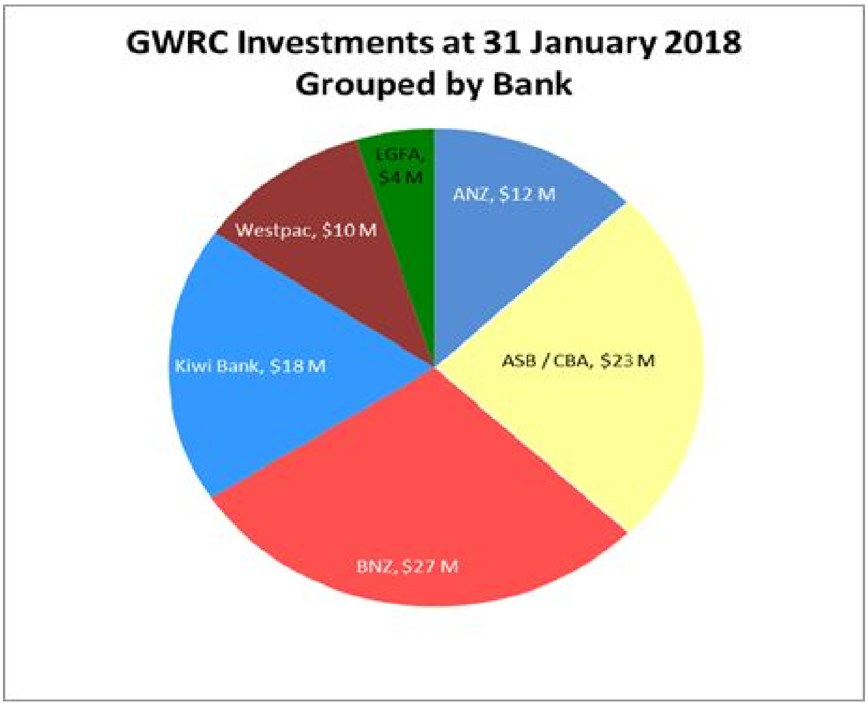
The liquidity ratio has not been breached and banking facilities have been adequate to meet unexpected cash requirements (these are very rare). No cash crises have occurred as we have comprehensive cash flow forecasting.

3.1.12 Objective: Minimise counterparty credit risk.

Comment

Investments are spread between allowable counterparties and have at all times been within Treasury Policy limits.

There is a focus to ensure investments are spread between counterparties to reduce/diversify credit risk, even though at times we might receive slightly lower returns. Below is a chart of our investments. The LGFA investment is in their mandatory borrower notes which are subscribed to each time we issue debt to the LGFA.



3.1.13 Objective: Adhere to all statutory requirements of a financial nature

Comment

We confirm to the best of our knowledge that we are in compliance with all statutory requirements relating to the Treasury function, which are now incorporated into the proposed amended Policy.

3.1.14 Objective: Provide adequate internal controls to protect the Council's financial assets and to prevent unauthorised transactions

Comment

We have not received any adverse comments from Audit New Zealand in relation to Treasury internal controls. All dealing with banks is via approved Council personnel. Treasury personnel don't have any authority in relation to making physical bank account payments.

3.1.15 Objective: Develop and maintain relationships with financial institutions and investors and Investment counterparties

Comment

The Treasurer meets regularly with our banking providers to update them on our organisation and Treasury activities. This includes an update of investment of funds, purchase of council commercial paper debt and Council and our subsidiary companies activities. We are in regular contact with the LGFA who recently presented to Council on their activities. We completed a power point presentation on our Council for Bankers Trust at their request and would do so again should there be a demand. The institutional investors rely heavily on Standard & Poor's credit rating.

3.1.16 Objective: Manage foreign exchange risk associated with capital expenditure and goods and services on imported items as outlined in section 6.5 of the Treasury Management Policy

Comment

The Council has limited foreign currency transactions that exceed $100,000 NZD. The major transactions of asset purchases centred around the Matangi Electric Multiple Units - this transaction was denominated in NZD. Wellington Water has in the past had purchases denominated in foreign exchange and can access our treasury should they need to conduct foreign exchange transactions.

3.1.17 Objective: Keep Council abreast of macro-economic trends.

Comment

Our economist presents to this committee on a regular basis and has regular input in to our Standard and Poor's annual presentation.

3.2 Performance trends actual interest cost against budget

in $1,000	YE 30.06.16		YE 30.06.17		YTD January 18	
	Actual	Budget	Actual	Budget	YTD Actual	YTD Budget
Investment Revenue	8,445	7,353	4,603	6,542	2,744	1,833
Financial Costs	12,464	15,411	16,477	16,534	11,304	11,323

Investment Revenue has been better than budget except for the 2017 year when CentrePort did not pay a dividend. In other years prefunding of debt which has not been budgeted for has been the main reason for exceeding budget.

Financial Costs have tended to be lower that budget even through though prefunding of debt has not been budgeted for this is generally due to a slower capex spend by the business than budgeted.

3.3 Summary of breaches and approvals

There has been one breach of the Treasury Policy over the last 3 years. This is discussed under section 3.5 below.

3.4 Analysis of bank and lender service provision

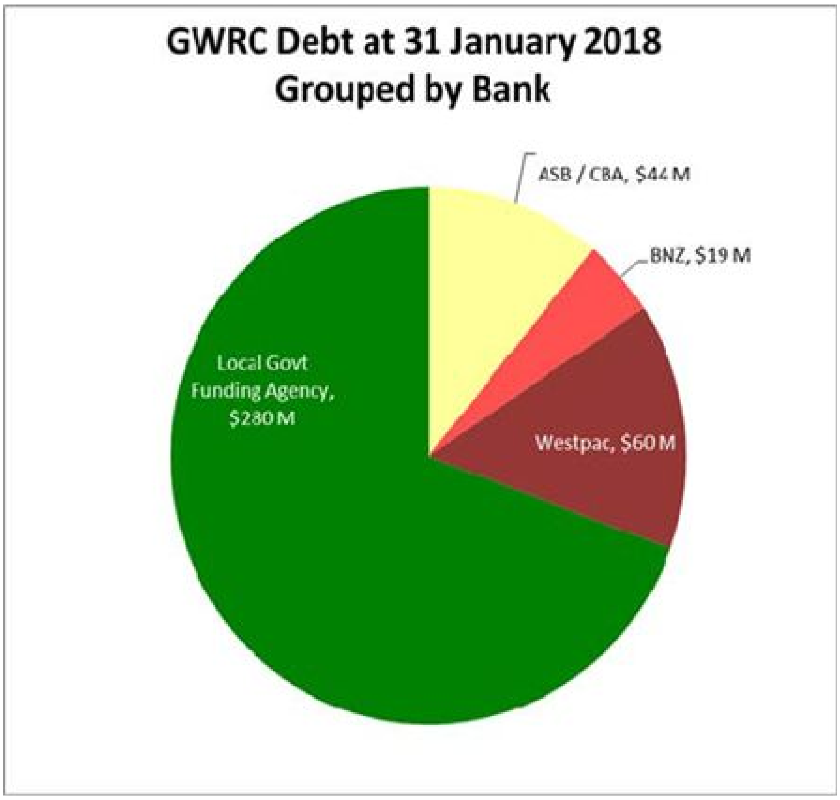
Debt from various counterparties is summarised in the chart below as of 31 January 2018.

Note commercial paper borrowing is supported by un-drawn bank facilities. These are with BNZ - $35 million and ANZ $35 million and CBA $44,000,000.

We use Westpac as our dealer for commercial paper who run a tender process on our behalf.

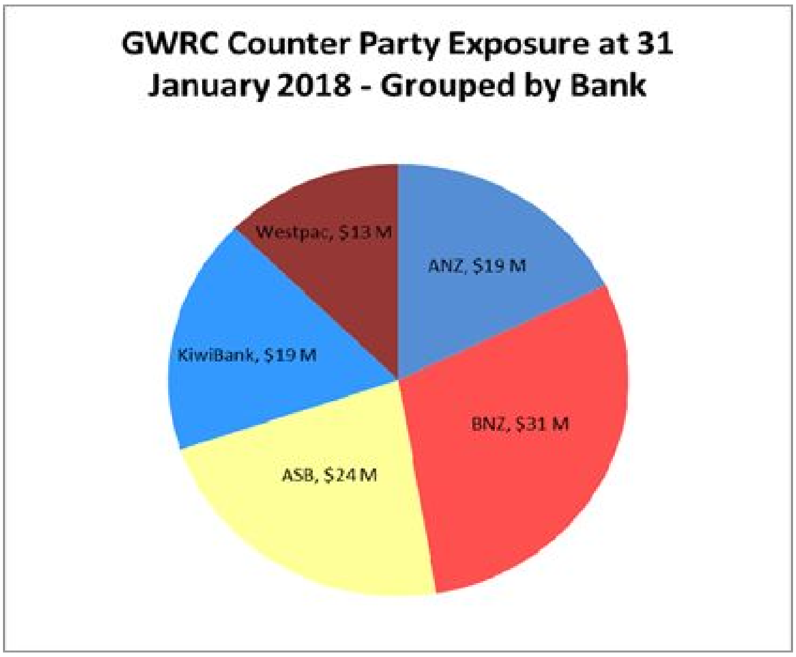
The banks are the initial holders of our commercial paper but then sell this down to institutional investors so the graph below is not technically correct.

Our longer term borrowing is via the LGFA. While we could borrow via the institutional market, the most cost effective route is via the LGFA presently.



Counterparty exposure relates to our investments with bank and interest rate swaps we have with banks. Interest rate swaps are included as if the bank defaults and the interest rate swap is in the money then we could suffer a financial loss.

Our exposure compares very favourably with a $92.9 million limit with ANZ, BNZ CBA/ASB and Westpac. The Kiwi Bank exposure limit is $38.7 million.



3.5 Comments from Council's external auditors on the Treasury function

We have reviewed the Audit Management letters for the last 3 years and note the following comments about Treasury related activities.

30 June 2016 Management report – Audit noted a temporary breach of the Council's debt maturity profile for a few days in late February 2016. This saw the % of Debt maturing in the 3 year to 5 year band at 14.5% of total debt against limits of 15%-60%. Audit indicated they were satisfied that management had appropriate oversight over the Council's Treasury function.

The breach was remedied the following month, it occurred as we concentrated on increasing our longer term debt in the 6 year plus band. The band was subsequently widened in May 2016 to 3 to 6 years with the percentages remaining at 15%-60% as part of an interim Treasury Policy update approved by Council.

We are now seeking, as per advice from our advisors PricewaterhouseCoopers, a change to the Treasury Policy which sees a 90 day period to remedy a breach which self corrects if the funding maturity profile limit is breached.

3.6 Total net debt servicing costs

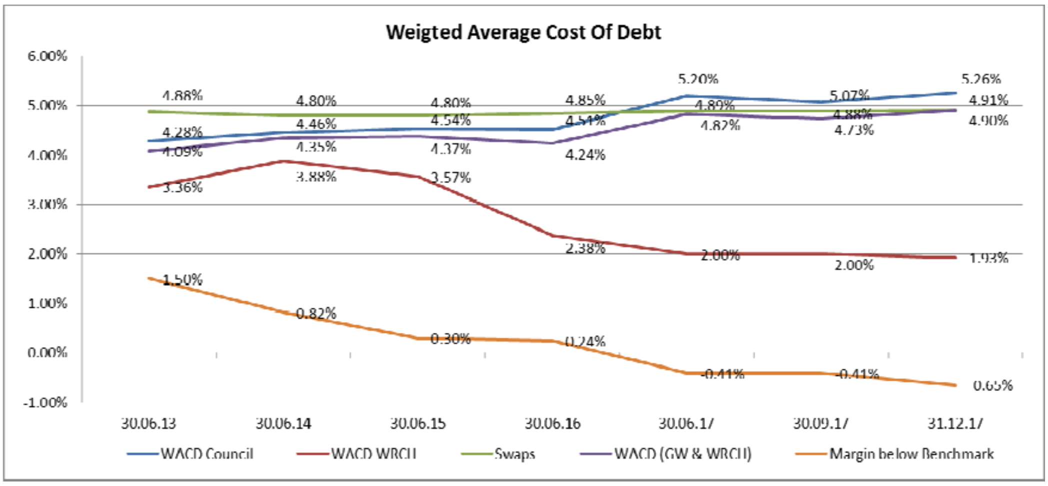
Weighted average cost of Funds

The graph below shows the Council's weighted average cost of funds over time. The purple line is the overall cost of WRC Holdings and Council which is currently 4.91% inclusive of all margins.

While interest rates have been declining in recent years, Council has not received the full benefit as a large portion of its debt has been fixed. This is mainly due to the Matangi train purchase which Council supported to have fully hedged.

The orange line in the graph is our funding benchmark performance which is based on the cost of the 7 year swap rate less our cost of funds. This has deteriorated over time as debt levels have increased at a slower rate than budget meaning we have a higher level of fixed rate debt when interest rates have been in decline.

If interest rates rise as predicted this margin should turn positive again.



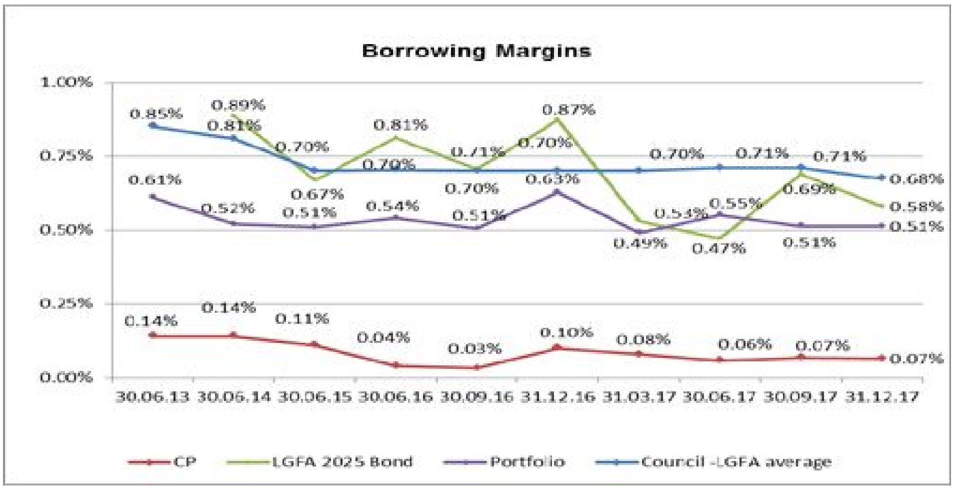
Debt borrowing margins

Our aim in Treasury, and one of our major areas of focus, is to keep these as low as possible. This can be achieved by borrowing shorter term and taking the opportunity to only borrow long term when margins are low.

This needs to be balanced against our funding maturity mix, i.e. maintaining a spread of maturing debt and at the same time meeting the Council's requirement for debt which is beyond Treasuries control and varies from year to year.

Our average margin is currently around 0.50% and has been trending down over time see the purple line in the graph below.

We have used the LGFA 2025 7 year bond (see the green line on the graph) as our target benchmark to beat as it is the best fit compared to our average LGFA debt duration of 6.7 years



4. Communication

No communication of the matters considered in this report is necessary.

5. Consideration of climate change

The matters addressed in this report have been considered by officers in accordance with the process set out in the GWRC Climate Change Consideration Guide.

5.1 Mitigation assessment

Mitigation assessments are concerned with the effect of the matter on the climate (i.e. the greenhouse gas emissions generated or removed from the atmosphere as a consequence of the matter) and the actions taken to reduce, neutralise or enhance that effect.

Officers have considered the effect of the matters on the climate. Officers consider that the matters will have no effect.

Officers note that the matter does not affect the Council's interests in the Emissions Trading Scheme (ETS) and/or the Permanent Forest Sink Initiative (PFSI).

5.2 Adaptation assessment

Adaptation assessments relate to the impacts of climate change (e.g. sea level rise or an increase in extreme weather events), and the actions taken to address or avoid those impacts.

Officers have considered the impacts of climate change in relation to the matters. Officers recommend that climate change has no bearing on the matters.

6. The decision-making process and significance

Officers recognise that the matters referenced in this report may have a high degree of importance to affected or interested parties.

The matter requiring decision in this report has been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act). Part 6 sets out the obligations of local authorities in relation to the making of decisions.

6.1 Significance of the decision

Part 6 requires Greater Wellington Regional Council to consider the significance of the decision. The term 'significance' has a statutory definition set out in the Act.

Officers have considered the significance of the matter, taking the Council's significance and engagement policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining consideration of the decision-making process is required in this instance.

7. Engagement

Engagement on the matters contained in this report aligns with the level of significance assessed. In accordance with the significance and engagement policy, no engagement on the matters for decision is required.

8. Recommendations

That the Committee:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Endorses** a 90 day policy breach exemption in respect of the interest rate control and funding maturity risk control limits to reflect timing differences causing temporary non-compliance with limits.*

Report prepared by:	Report approved by:
Mike Timmer	**Dave Humm**
Treasurer	GM Corporate Services / CFO

greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

Report	**18.56**
Date	08 February 2018
File	CCAB-22-316
Committee	**Finance, Risk and Assurance Committee**
Author	**Mike Timmer, Treasurer**

Amendment of the Treasury Risk Management Policy

1. Purpose

To review the existing Treasury Risk Management Policy (Policy) and update it to reflect changes in the environment we operate in and ensure it reflects best practice and provide to Council for approval.

To seek Committee support to extinguish the requirement of limiting commercial paper issuance to $90 million.

2. Background – Policy update

The Policy is reviewed every three years as provided for in section 10 of the Policy, this coincides with the Long Term Planning process.

The Policy had an interim amendment in May 2016 due to changes in our business (predominately due to increased debt). The changes made at the time were:

a) An increase the fixed debt interest rate risk management policy parameters from year 11 to year 15

b) A change in the methodology on how the counter party credit risk threshold is calculated and updated counter party credit risk limits.

c) Adjustment to the funding maturity bands.

The Policy contains the Council's Liability Management and Investment Policies. These policies form part of the funding and financial policies that the Council is required to adopt in accordance with section 102 of the Local Government Act 2002.

The Council is not required to consult prior to adopting or amending its Liability Management or Investment Policies.

Currently, the Policy is included in the Council's Long-Term Plan supporting documents for ease of reference.

2.1 Treasury policy update

Together with our treasury advisor, PricewaterhouseCoopers (PwC), we propose a number of alterations to the Policy which reflect changes in the market place and bring the policy up to what could be considered best practice for a local government treasury.

3. Summary of substantive proposed changes to Policy

- A section on statutory objectives has now been included – refers to relevant legislation and provides essential treasury related sections.
- The definition of Liquidity has been further expanded to outline those investments which constitute "Liquid Investments."
- Investment in Fossil fuels – notes Council's policy not to invest directly in fossil fuel and to investigate non direct investment with a view to preventing these investments where practical.
- The interest rate risk control limits have been extended to a 16-year horizon to reflect the ability to borrow on a fixed rate basis through the Local Government Funding Agency (LGFA). This reflect the recent issuance by the LGFA of a long term April 2033 bond.
- The maximum term of interest rate derivatives allowable without Council approval has been increased to 16-years with further interest rate fixing beyond 16-years allowable if it is by way of fixed rate borrowing through the LGFA
- A 90-day policy breach exemption in respect to interest rate risk control limits and the funding maturity risk control limits has been introduced to reflect timing differences causing temporary non-compliance with limits.
- Investments definitions have been updated to exclude structured and subordinated debt instruments on the basis they are generally illiquid i.e. can be difficult to dispose of in times of crisis.
- Include the LGFA's requirement of no more than the greater of 33% of Council's debt or $100m will mature within a 12 month period.
- Pre-funding activity is allowable up to 18-months ahead of the maturity of the existing funding. Reflecting what we do presently i.e. up to 12 months but increases the time-frame to provide additional flexibility.
- The process of setting an appropriate FX budget rate has been updated for further clarity.
- Accounting treatment of financial instruments has been updated to reflect NZ IPSAS methodology in a general sense.

4. Council $90 million commercial paper limit

When Council first began issuing commercial paper (CP) to fund itself back in 1998, a limit of $90 million was set.

The Treasury Policy at the time was significantly different than it is today. We have been mindful of the limit and our advisers PwC confirm it is **not** usual to have a limit on CP issuance or programme size limited by the Treasury Policy or Council. This is because the key risk revolves around the funding risk control limits contained in section 6.2 of the Policy, i.e. its limits our ability to have too much debt (including CP) maturing in the 1-3 year time frame.

The risk lies in having too many debt maturities at any point in time. CP is simply a short term mechanism to raise funds alongside other forms of debt be it LGFA bonds, LFGA floating rate notes or bank loans.

With our debt levels rising, a greater level of flexibility to issue more commercial paper is required, maintaining existing portfolio percentages.

We are presently working through the best options to raise short term debt and in line with this will likely bring to Council in the near future a request for an increase in banking lines which support commercial paper issuance.

Increased banking lines will also assist with maintaining compliance with our liquidity ratio which is one of the four covenants we are monitored on by the LGFA.

We therefore request that this limit be removed and our CP programme be made an unlimited programme.

5. Communication

The Committee's recommendations will be reported to Council for its consideration.

6. Consideration of Climate Change

The matters addressed in this report have been considered by officers in accordance with the process set out in the GWRC Climate Change Consideration Guide.

6.1 Mitigation assessment

Mitigation assessments are concerned with the effect of the matter on the climate (i.e. the greenhouse gas emissions generated or removed from the atmosphere as a consequence of the matter) and the actions taken to reduce, neutralise or enhance that effect.

Officers have considered the effect of the matters on the climate. Officers consider that the matters will have no effect.

Officers note that the matter does not affect the Council's interests in the Emissions Trading Scheme (ETS) and/or the Permanent Forest Sink Initiative (PFSI).

6.2 Adaptation assessment

Adaptation assessments relate to the impacts of climate change (e.g. sea level rise or an increase in extreme weather events), and the actions taken to address or avoid those impacts.

Officers have considered the impacts of climate change in relation to the matters. Officers recommend that climate change has no bearing on the matters.

7. The decision-making process and significance

Officers recognise that the matters referenced in this report may have a high degree of importance to affected or interested parties.

The matter requiring decision in this report has been considered by officers against the requirements of Part 6 of the Local Government Act 2002 (the Act). Part 6 sets out the obligations of local authorities in relation to the making of decisions.

7.1 Significance of the decision

Part 6 requires Greater Wellington Regional Council to consider the significance of the decision. The term 'significance' has a statutory definition set out in the Act.

Officers have considered the significance of the matter, taking the Council's significance and engagement policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining consideration of the decision-making process is required in this instance.

8. Engagement

Engagement on the matters contained in this report aligns with the level of significance assessed. In accordance with the significance and engagement policy, no engagement on the matters for decision is required.

9. Recommendations

That the Committee:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Endorses** no formal limit being placed on commercial paper issuance.*
4. ***Notes** that the Treasury Risk Management Policy funding risk control limit is the appropriate mechanism to limit commercial paper issuance.*

5. ***Endorses** the proposed changes to the Treasury Risk Management Policy as set out in sections 3 and 4 of this Report, and as contained in the draft Policy as set out in attachment 1 to this Report.*

6. ***Recommends** that Council adopts the Treasury Risk Management Policy.*

Report prepared by:	Report approved by:
Mike Timmer	**Dave Humm**
Treasurer	GM Corporate Services / CFO

Attachment 1: Amended Treasury Risk Management Policy (marked up)

Attachment 1 to Report 18.56

TREASURY RISK MANAGEMENT POLICY, INCLUDING LIABILITY MANAGEMENT AND INVESTMENTS POLICIES

Attachment 1 to Report 18.56

Table of Contents

Attachment 1 to Report 18.56

1. Introduction

The purpose of the Treasury Risk Management Policy is to outline the approved policies and procedures in respect of all treasury activity to be undertaken by the Wellington Regional Council (the Council). The formalisation of such policies and procedures will enable treasury risks within the Council to be prudently managed.

As circumstances change, the policies and procedures outlined in this policy will be modified to ensure that treasury risks within the Council continue to be well managed. In addition, regular reviews will be conducted to test the existing policy against the following criteria:

- Industry "best practices" for a council the size and type of the Wellington Regional Council.
- The Council's risk-bearing ability and tolerance levels.
- Effectiveness and efficiency of the Treasury Risk Management Policy and treasury management function in recognising, measuring, controlling, managing and reporting on the Council's financial exposures.
- Robustness of the policy's risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- The extent to which the policy assists the Council in achieving strategic objectives relating to ratepayers.

The policy will be distributed to all personnel involved in any aspect of the Council's financial management. In this respect, all staff should be completely familiar with their responsibilities under this policy at all times.

~~A twelve month phase-in period to debt and interest rate control limits is permitted upon ratification of this policy.~~

2. Scope and objectives

2.1 Scope

This document identifies the policy and procedures of the Council in respect of treasury management activities.

The policy has not been prepared to cover other aspects of the Council's operations, particularly transactional banking management, systems of internal control and financial management. Other policies and procedures of the Council cover these matters. Planning tools and mechanisms are also outside of the scope of this policy.

2.2 Principles

- All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.
- All projected borrowings will be approved by the Council as part its Annual Plan.

- All legal documentation in respect to borrowing and financial instruments will be approved by the Council's solicitors.
- The Council will not enter into any borrowings denominated in a foreign currency.
- The Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those which the Council would achieve without pledging rates revenue.
- A resolution of the Council will not be 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 the Council.

2.3 Objectives

~~The objective of this Treasury Risk Management Policy is to control and manage costs and investment returns that can influence operational budgets and public equity and set debt levels. Specific objectives are as follows:~~ **Statutory objectives**

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All external borrowing, investments and incidental financial arrangements (eg use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy. GWRC is governed by the following relevant legislation:

- 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 Act 1956. 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 1956 Part ll Investments.
- All projected external borrowings are to be approved by Council as part of the Annual Plan or the Long Term Planning (LTP) process, or resolution of Council before the borrowing is effected.
- All legal documentation in respect to external borrowing 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 itself.
- 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.

General objectives

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The objective of this Treasury Risk Management Policy is to control and manage costs and investment returns that can influence operational budgets and public equity and set debt levels. Specific objectives are as follows:

- Minimise the Council's costs and risks in the management of its borrowings and maximise its return on investments.
- Minimise the Council's exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council-approved Treasury Risk Management Policy so as to protect the Council's financial assets and costs.
- Arrange and structure appropriate funding for the Council at the lowest achievable interest margin from debt lenders. Optimise flexibility and spread of debt maturity within the funding risk limits established by this policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of the Council's lending/security arrangements.
- Comply with financial ratios and limits stated within this policy.
- Maintain a long-term Standard & Poor's credit rating at AA- or better.
- Monitor the Council's return on investments in CCTOs, property and other shareholdings.
- Ensure management, relevant staff and, where appropriate, the Council are kept abreast of latest treasury products, methodologies, and accounting treatments through training and in-house presentations.
- Maintain liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements.
- Minimise counterparty credit risk.
- Adhere to all statutory requirements of a financial nature.
- Provide adequate internal controls to protect the Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, LGFA, credit rating agencies, investors and investment counterparties.~~ and investors in the Council's debt securities.~~
- Manage foreign exchange risk associated with capital expenditure and goods and services on imported items as outlined in section 6.54 of this policy.
- Keep Council abreast of macro-economic trends.

2.4 Policy exclusion

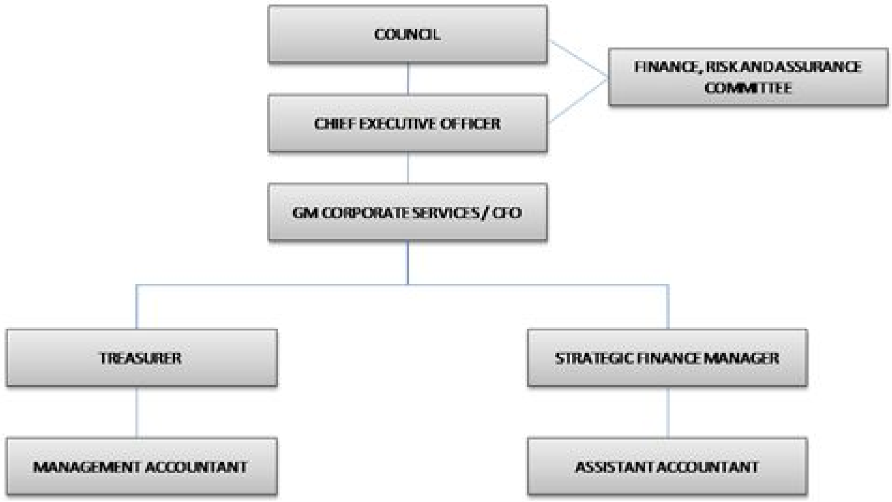
This policy covers WRC Holdings and its subsidiaries, but excludes CentrePort Ltd.

Attachment 1 to Report 18.56

3. Management responsibilities

3.1 Overview of management structure

All of the Council's treasury management activities are undertaken by the Treasury Management Department. The following diagram illustrates those individuals and bodies who have treasury responsibilities. Authority levels, reporting lines and treasury duties and responsibilities are outlined in sections 3.2 – 3.8 of this policy:



3.2 Council

The Council has ultimate responsibility for ensuring that there is an effective policy for the management of its risks. In this respect the Council decides the level and nature of risks that are acceptable.

The Council is responsible for approving this Treasury Risk Management Policy and any changes required from time to time. While the policy can be reviewed and changes recommended by other persons, the authority to make or change policy cannot be delegated.

In this respect, the Council has responsibility for:

- Approving the long-term financial position of the Council through the 10-year Long-Term Plan (LTP) and the Annual Plan.
- Approving new debt/funding via resolution of the Annual Plan.
- Approving the Treasury Risk Management Policy, incorporating the following delegated authorities:
  - borrowing, investing and dealing limits and the respective authority levels delegated to the Chief Executive Officer (CEO), GM Corporate Services/CFO (CFO) and other managers
  - counterparties and credit limits

  - risk management methodologies and benchmarks
  - guidelines for the use of financial instruments.
- Approving budgets and high level performance reporting.
- Delegating authority to the CEO and other officers.
- Reviewing and approving the Treasury Risk Management Policy every three years.

The Council will also ensure that:

- It receives appropriate information from management on risk exposure and financial instrument usage in a form that is understood.
- Issues raised by auditors (both internal and external) in respect of any significant weaknesses in the treasury function are resolved immediately.
- Approval will be gained by the CFO for any transactions falling outside policy guidelines.

3.3 Finance, Risk and Assurance Committee

Finance, Risk and Assurance has the following responsibilities:

- Recommending the Treasury Risk Management Policy (or changes to existing policy) to the Council.
- Receiving recommendations from the CEO and CFO and making submissions to the Council on all treasury matters requiring Council approval.
- Recommending performance measurement criteria for all treasury activity.
- Monitoring six-monthly performance against benchmarks.

Finance, Risk and Assurance will:

- Oversee the implementation of the Council's treasury management strategies and monitor and review the effective management of the treasury function.
- Ensure that the information presented to the Council is timely, accurate and identifies the relevant issues and is represented in a clear and succinct report.
- Discuss treasury matters on a six monthly basis (and informally as required).

3.4 Chief Executive Officer (CEO)

While the Council has final responsibility for the policy governing the management of the Council's risks, it delegates overall responsibility for the day-to-day management of such risks to the CEO. The Council formally delegates to the CEO the following responsibilities:

- Ensuring the Council's policies comply with existing and new legislation.
- Approving the register of cheque and electronic banking signatories.
- Approving new counterparties and counterparty limits as defined within section 6.3 of this policy and recommended by the CFO.
- Approving the opening and closing of bank accounts.

3.5 GM Corporate Services/CFO (CFO)

The CEO formally delegates the following responsibilities to the CFO:

- Management responsibility for borrowing and investment activities.
- Recommending policy changes to Finance, Risk and Assurance for evaluation.
- Ongoing risk assessment of borrowing and investment activity, including procedures and controls.
- Approving new borrowing undertaken in line with Council resolution and approved borrowing strategy.
- Approving re-financing of existing debt.
- Approving treasury transactions in accordance with policy parameters outside of the Treasurer's delegated authority.
- Authorising the use of approved financial market risk management instruments within discretionary authority.
- Recommending authorised signatories and delegated authorities in respect of all treasury dealing and banking activities.
- Recommending changes to credit counterparties to the CEO.
- Proposing new funding requirements falling outside the Annual Plan and Long-Term Plan (LTP) to Finance, Risk and Assurance for consideration and submission to the Council.
- Reviewing and making recommendations on all aspects of the Treasury Risk Management Policy to Finance, Risk and Assurance, including dealing limits, approved instruments, counterparties, working capital policies and general guidelines for the use of financial instruments.
- Conducting a triennial review of the Treasury Risk Management Policy, treasury procedures and all dealing and counterparty limits.
- Receiving advice of breaches of Treasury Risk Management Policy and significant treasury events from the Strategic Finance Manager.
- Managing the long-term financial position of the Council in accordance with the Council's requirements.
- Ensuring that all borrowing and financing covenants to lenders are adhered to.
- Ensuring management procedures and policies are implemented in accordance with this Treasury Risk Management Policy.
- Ensuring all financial instruments are valued and accounted for correctly in accordance with current best practice standards.
- Monitoring and reviewing the performance of the treasury function in terms of achieving the objectives of minimising and stabilising funding costs and maximising investment returns year-to-year.
- Managing the organisations exposure and statutory requirements in relation to the holding, acquiring or disposing of Carbon Credits.

- To sign Debenture Stock and Security Stock certificates in relation to the Council's Debenture Trust Deed, in compliance with sections 112 and 118 of the Local Government Act 2002.

3.6 Treasurer

The Treasurer runs the day-to-day activities of the Council's Treasury Management Department. The CFO formally delegates the following responsibilities to the Treasurer who in turn may delegate these to the Treasury Management Accountant:

- Overseeing and managing relationships with financial institutions including the Local Government Funding Agency (LGFA).
- Approving treasury transactions in accordance with policy parameters within delegated authority.
- Negotiating borrowing facilities.
- Authorising interest rate hedge transactions (swaps, forward rate agreements (FRAs) and options) with bank counterparties to change the fixed : floating mix to re-profile the Council's interest rate risk on either debt or investments.
- Making decisions and authorisations to raise and lower fixed rate (interest rate market price re-set greater than 12 months) percentage of net debt or investment position within interest rate policy risk control limits.
- Designing, analysing, evaluating, testing and implementing risk management strategies to position the Council's net interest rate risk profile to be protected against adverse market movements within the approved policy limits.
- Monitoring credit ratings of approved counterparties.
- Co-ordinating annual reviews with Standard & Poor's credit rating agency.
- Investigating financing alternatives to minimise borrowing costs, margins and interest rates, making recommendations to Finance, Risk and Assurance as appropriate.
- Negotiating bank funding facilities and managing bank and other financial institution relationships.
- Executing treasury transactions in accordance with set limits.
- Entering in to FX transactions to cover foreign currency liabilities.
- Entering into FX hedging transactions in accordance with the section in this policy on Foreign Exchange risk.
- Monitoring treasury exposure on a regular basis, including current and forecast cash position, investment portfolio, interest rate exposures and borrowings.
- Providing written evidence of executed deals on an agreed form immediately to the Strategic Finance Manager.
- Co-ordinating the compilation of cash flow forecasts and cash management.
- Managing the operation of all bank accounts including arranging group offsets, automatic sweeps and other account features.

- Handling all administrative aspects of bank counterparty agreements and documentation such as loan agreements and International Swap Dealer's Association (ISDA) swap documents.
- Preparing treasury reports.
- Monitoring all treasury exposures daily.
- Forecasting future cash requirements.
- Providing regular short-term and long-term cash flow and debt projections to the CFO.
- Completing deal tickets for treasury transactions.
- Updating treasury system/spreadsheets for all new, re-negotiated and maturing transactions.
- Updating credit standing of approved counterparty credit list on a quarterly basis.

3.7 Strategic Finance Manager, (SFM)

The CFO formally delegates the following responsibilities to the SFM, who in turn may delegate these to the Assistant Accountant:

- Checking all treasury deal confirmations against deal documentation and reporting any irregularities immediately to the CFO.
- Reconciling monthly summaries of outstanding financial contracts from banking counterparties to internal records.
- Reviewing and approving borrowing and investment system/spreadsheet reconciliations to the general ledger.
- Accounting for all treasury transactions in accordance with legislation and generally accepted accounting principles and the Council's accounting policy.
- Checking compliance against limits and preparing reports on an exceptions basis.
- Approving all amendments to the Council's records arising from checks to counterparty confirmations.
- Creating batches for borrowing and investment settlements and arranging for approval by authorised signatories.
- Delivering weekly reports to the CFO covering cash/liquidity, investment profile, funding profile and interest rate risk position.

3.8 Delegation of authority and authority limits

Treasury transactions entered into by the Council without the proper authority are difficult to cancel given the legal doctrine of "apparent authority". Insufficient authority for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays). Therefore, the following procedures will apply:

- All delegated authorities and signatories will be reviewed at least every six months to ensure that they are still appropriate and current.

- A comprehensive letter will be sent to all bank counterparties, at least every year, detailing all relevant current delegated authorities of the Council and contracted personnel empowered to bind the Council.
- Whenever a person with delegated authority on any account or facility leaves the Council, all relevant banks and other counterparties will be advised in writing on the same day to ensure that no unauthorised instructions are to be accepted from such persons.

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

Attachment 1 to Report 18.56

Activity	Delegated Authority	Limit
Approving and changing policy	The Council	Unlimited
Borrowing new debt	The Council CEO (delegated by Council) CFO (delegated by Council)	Unlimited (subject to legislative and other regulatory limitations) Subject to Council Resolution and policy
Signing Stock/Debenture Issuance Certificate – As per the Debenture Trust Deed	CEO~~FO (delegated by the CEO)~~	As per the Annual Council Plan to meet lenders requirements
Acquiring and disposing of investments other than financial investments	The Council	Unlimited
Approving charging assets as security over borrowing	The Council	Subject to terms of the Debenture Trust Deed
Overall day-to-day risk management	CEO (delegated by Council) CFO (delegated by Council)	Subject to policy
Re-financing existing debt	CEO (delegated by Council) CFO (delegated by Council)	Subject to policy
Approving transactions outside policy	The Council	Unlimited
Acquiring and disposing of Carbon credits	CFO (delegated by Council)	$5m any one transaction
Adjusting net debt or net investment interest rate risk profile	Treasurer	Per risk control limits
Managing investments and funding maturities in accordance with Council approved facilities	Treasurer	Per risk control limits
Setting maximum daily transaction amount (borrowing, investing, foreign exchange, interest rate risk management and cash management) excluding roll-overs on debt facilities	The Council CEO (delegated by Council) CFO (delegated by Council) Treasurer (delegated by Council)	Unlimited $75 million $50 million $30 million
Authorising lists of signatories	CEO	Unlimited

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Opening/closing bank accounts	CEO/CFO	Unlimited
Reviewing the Treasury Management Policy every 3 years	Finance, Risk and Assurance	N/A
Ensuring compliance with Policy	CFO	N/A
Signing of LGFA new Debt confirmations	Treasurer /CFO	N/A
Signing of derivative confirmations	Treasurer & CFO	N/A

4. Liability Management Policy

The Council's liabilities comprise borrowings and various other liabilities. The Council's Liability Management Policy focuses on borrowings as this is the most significant component and exposes the Council to the most significant risks. Other liabilities are generally non-interest bearing. Cash flows associated with other liabilities are incorporated in cash flow forecasts for liquidity management purposes and determining future borrowing requirements.

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

4.1 New Zealand Local Government Funding Agency (LGFA)

Despite anything earlier in this Policy, the Council may borrow from the LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

(a) contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA;

(b) provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;

(c) commit to contributing additional equity (or subordinated debt) to the LGFA if required;

(d) subscribe for shares and uncalled capital in the LGFA; and

(e) 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.

4.2 Debt ratios and limits

Debt will be managed within limits in the following table, that are consistent with those used by the LGFA.

Ratio	
Net interest / Total revenue	<20%
Net debt /Total Revenue	<250%
Net interest / Annual rates and levies (debt secured under debenture)	<30%
Liquidity (external debt + committed loan facilities + liquid investments to total external debt)	>110%

Revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue.

Revenue excludes non-government capital contributions (e.g. developer contributions and vested assets)

Net debt is defined as total external debt less ~~unencumbered~~ liquid financial deposits/investments.

Liquid investments are financial~~unencumbered~~ assets defined as being:

- Overnight bank cash deposits
- Wholesale/retail bank term deposits no greater than 30 days
- Bank issued RCD's less than 181 days
- Allowable fixed income bonds as per approved investment instruments ~~–~~(applying 85~~0~~% of face value)
-
- Wholesale/ retail bank term deposits linked to pre funding of maturing term debt exposures
- For internal covenant purposes Disaster recovery/Contingency funds shall not be used as liquid investments in the Liquidy calculation as they are not intended to be used for every day liquidity purposes.

Debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

Financial covenants are measured on Council only not consolidated group. Should the LGFA change its methodology then that calculation shall prevail.

Disaster recovery requirements will be met through the liquidity ratio and contingency reserves.

4.3 Security and charges

The Council borrows funds and grants security to its lenders via a Debenture Trust Deed (DTD). The DTD gives the lenders a charge or security over the Council's rates and rates revenue. A DTD was entered into during 2011 as part of the Council's initiative and requirements to borrow funds from the LGFA.

A Trustee has been appointed to act as Trustee under the DTD for the benefit of the lenders, or stock holders.

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From time to time, with prior Council approval, security may be offered by providing a security interest in one or more of the Council's assets other than its rates and rates revenue. Security interest in physical assets will only be granted when:

- there is a direct relationship between a debt and the purchase or construction of the secured assets which it funds (e.g. through a finance lease, or some form of project finance)
- the Council considers a security interest or security in the physical assets to be appropriate

In addition, the Council may grant security interests in physical assets where those security interests are leases or retention of the arrangements which arise under the terms of any lease or sale and purchase agreement.

4.4 Borrowing mechanisms

The Council will borrow through a variety of market mechanisms including but not limited to:

- commercial paper (CP)
- fixed rate bonds and floating rate notes (FRNs)
- direct bank borrowing or loans with private placement investors
- short and long-term capital markets directly
- internal reserve and special funds.

In evaluating strategies for new borrowing (in relation to source, term, size and pricing) the CFO will take into account the following:

- Available terms from banks, capital markets and loan stock issuance
- The Council's overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time
- Prevailing interest rates and margins relative to term for debt issuance, capital markets and bank borrowing
- The market's outlook on future credit margin and interest rate movements
- The Council's outlook on future credit margin and interest rate movements
- Legal documentation and financial covenants, together with credit rating considerations
- Whether retail or wholesale debt issue.

5. Investment Policy and limits

5.1 General policy

The Council is currently a net borrower of funds and will generally apply surplus funds to debt repayment and, wherever possible, internally borrow from reserve funds to meet future capital expenditure. The Council may invest liquid funds externally for the following reasons:

- Strategic purposes consistent with the Council's LTP

- Holding short term liquid investments for general working capital requirements or any other cash management objective
- Holding investments that are necessary to carry out the Council operations consistent with annual plans
- Holding investments for self-insured infrastructural assets and contingency reserves.

The Council recognises that, as a responsible public authority, any investments that it holds should be low risk. It also recognises that lower risk generally means lower returns.

In its financial investment activity, the Council's primary objective when investing is the protection of its investment. Accordingly, only credit-worthy counterparties are acceptable.

5.2 Investment mix

The Council maintains investments in the following assets from time to time:

- Equity investments, including CCOs/CCTOs and other shareholdings
- Property investments incorporating land, buildings
- Financial investments incorporating longer term and liquidity investments.

5.2.1 Equity Investments

The Council's current equity investments are held in WRC Holdings Limited (100%):

WRC Holdings Limited owns the following companies:

- Port Investments Ltd (100%), which owns 76.9% of CentrePort Ltd (CentrePort)
- Pringle House Ltd (100%), Greater Wellington Rail Ltd

The above companies are CCOs or CCTOs.

5.2.2 Council Controlled Organisations (CCOs) and Council Controlled Trading Organisations (CCTOs)

The Council is responsible for the appointment of the board of directors for the Council's CCOs and CCTOs. Any asset additions or disposals of note are approved by directors, unless they are significant, as defined by the companies' constitutions, at which point shareholder approval is required.

The objectives of the Council's CCOs and CCTOs are to:

- Separate the Council's investments and commercial assets from its public good assets.
- Impose a commercial discipline
- Appropriate separation of management and governance.

The Council manages risk associated with CCOs and CCTOs by:

- Appointing suitably qualified external directors
- Receiving regular reports from directors
- Using external advisors when required
- Providing input into the statements of corporate intent and constitutions of the CCOs and CCTOs.

5.2.3 New Zealand Local Government Funding Agency Limited Investment

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:

1. (a) obtain a return on the investment; and

   (b) ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for the Council.

Because of this dual objective, 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.

5.2.4 Other Investments

The Council's other investments are:

- CentrePort
- Forestry investments
- Stadium advance
- Liquid financial investments.
- Contingency funds

CentrePort

The Council, through Port Investments Ltd (PIL), owns 76.9% of CentrePort. CentrePort operates under the Port Companies Act 1988. It is not a CCTO under the Local Government Act 2002.

PIL, along with the other shareholder in CentrePort, is responsible for appointing the Board of Directors who, in turn, are responsible for the operation of the company. Any major transactions, as defined in the company's constitution or the Companies Act 1993, require the approval of the shareholders. PIL, as a shareholder, has input into CentrePort's statement of corporate intent and constitution and receives regular reports and briefings.

The Council manages risk associated with CentrePort by:

- Appointing suitably qualified external directors
- Appointing of the Council's CFO as reporting officer for the Council in respect of CentrePort
- The Council receiving formal briefings and reports twice a year
- The CFO receiving quarterly briefings and monthly reports
- Providing input into CentrePort's Statement of Corporate Intent.

Forestry investments

The Council has investments in forestry which are managed on a commercial basis, but also minimise soil erosion and water sedimentation (for land which is held for water catchment purposes). The Council has sold its cutting rights to its forestry investments for a period of up to 60 years.

Stadium advance

The Council has lent $25 million to the Wellington Regional Stadium Trust. The advance is interest free with limited rights of recourse. The Council will continue to hold the advance until repayment. It receives regular reports from the Stadium Trust on the Trust's performance. The Council and Wellington City Council, as the settlors of the Trust, appoint the trustees to the Stadium Trust.

Liquid financial investments

The Council's primary objective when investing is the protection of its investment capital and the maximisation of its returns. Accordingly, only creditworthy counterparties are acceptable. Creditworthy counterparties and investment restrictions are covered in section 6.3 of this policy. Credit ratings are monitored on a regular basis by the Treasurer.

For the foreseeable future, the Council will be in a net borrowing position and liquid investment funds will be prudently invested as follows:

- Any liquid investments will be restricted to a term that meets future cash flow and capital expenditure projections.
- Interest income from financial investments will be credited to general funds.
- Internal borrowing will be used wherever possible to avoid external borrowing.

The Council may invest in acceptable liquid debt instruments and make interest rate duration positions using investor swaps. This will further meet the Council's objectives of investing in high credit quality and highly liquid assets, yet allow for optimal interest rate decisions.

The Council's external investment interest rate profile will be managed within the parameters outlined in section 6.0 of this policy.

Contingency Funds

The Council currently has monies set aside in liquid funds that may be used when an event occurs such that the funds are required by the business.

From time to time the Council may set aside funds for such contingency purposes, which will be held in a readily available form.

5.2.5 Special Funds and Reserve Funds

Liquid assets will not be required to be held against special funds and reserve funds. Instead the Council will internally utilise or borrow these funds where ever possible.

Interest accrued from these funds will be credited to the particular fund.

5.3 Investments in fossil fuels

The Council has a policy to divest from any direct investment in fossil fuel extraction industries and investigate existing non direct investment with a view to preventing future investment where practical.

6. Risk recognition/identification management

The definition and recognition of interest rate, liquidity, funding, counterparty credit, market, operational and legal risk of the Council, will be as detailed below and will apply to both the Liability Management Policy and Investment Policy.

6.1 Interest rate risk

6.1.1 Risk Recognition

Interest rate risk is the risk that investment returns or funding costs will be materially different from those in annual plans and the LTP.

The primary objective of interest rate risk management is to reduce uncertainty to interest rate movements through fixing of investment returns or funding costs. This will be achieved through the active management of underlying interest rate exposures.

6.1.2 Approved Financial Instruments

Dealing in interest rate products will be limited to financial instruments approved by the Council. Approved interest rate instruments are:

Category	Instrument
Cash management and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long term loan facilities) Uncommitted money market facilities Wholesale Bond and Floating Rate Note (FRN) issues Commercial paper (CP) New Zealand Dollar (NZD) denominated local or offshore private placements Retail bond and FRN issues
Investments	Short-term bank deposits Bank bills Bank registered certificates of deposit ~~Treasury bills~~ Local authority stock or State-owned Enterprise (SOE) bonds and FRNs

	Corporate/bank senior bonds Floating Rate Notes Promissory notes/Commercial paper Redeemable Preference Shares (RPS) LGFA borrower notes
Interest rate risk management	Forward rate agreements (FRAs) on: - Bank bills ~~- Government bonds~~ Interest rate swaps including: - Forward start swaps - Amortising swaps (whereby notional principal amount reduces) - Swap extensions and shortenings Interest rate options on: - Bank bills (purchased caps and one-for-one collars) ~~- Government bonds~~ - Interest rate swaptions (purchased and one-for-one collars only)
Foreign exchange risk management	- Foreign currency deposits - Purchased currency options - Collars (one-for-one) - Forward foreign exchange contracts

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved. Credit exposure on these financial instruments will be restricted by specified counterparty credit limits.

6.1.3 Interest Rate Risk Control Limit

Interest rate exposure

Exposure to interest rate risk is managed and mitigated through the controls below where:

"Debt" is all external debt ((existing and forecast) including WRC Holdings Limited) at the given debt ending period net of any liquid financial assets and investments and excluding Centreport Limited debt.

"Fixed Rate Debt" is all debt or swaps repricing beyond one year that is fixed rate plus all floating rate debt swapped to a fixed rate maturing beyond one year. Any debt or swap maturing within one year is defined as floating.

"Floating Rate Debt" is defined as an interest rate re-pricing within 12 months. This includes FRN's with a maturity date beyond one year that are not swapped to fixed rate. Floating Rate debt may be spread over any maturity out to 12 months.

Attachment 1 to Report 18.56

Fixed rate debt must be within the following repricing bands:

Debt Interest Rate Policy Parameters (calculated on rolling monthly basis)					
Debt Period Ending	**Debt Amount**	**Minimum Fixed**	**Maximum Fixed**	**Actual Fixed**	**Compliant (Y/N)**
Current		50%	95%		
Year 1		45%	95%		
Year 2		40%	90%		
Year 3		35%	85%		
Year 4		30%	80%		
Year 5		25%	75%		
Year 6		15%	70%		
Year 7		0~~5~~%	65%		
Year 8		0%	60%		
Year 9		0%	55%		
Year 10		0%	50%		
Year 11		0%	50%		
Year 12		0%	50%		
Year 13		0%	50%		
Year 14		0%	50%		
Year 15		0%	50%		
Year 16*		0%	50%		

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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.

*Council management has delegated authority to tactically position the interest rate risk portfolio within approved ranges out to a maximum period of 16~~5~~ years, based on anticipated future interest rate movements. The exception to this will be if ~~Council rasies~~ LGFA introduce funding terms exceeding 16 years; in this event, management can position the interest rate portfolio to maturities that match LGFA funding terms~~as fixed rate and this maturity is beyond 165 years~~.

- ~~Forward Rate Agreement, (FRAs) outstanding at any one time must not exceed 75% of the total floating rate debt. FRAs may be closed out before their maturity date by entering an equal and opposite FRA to the same maturity date or, alternatively, by purchasing an option on an FRA for the same equal and opposite amount to the same date.~~
- interest rate options must not be sold outright. However, 1:1 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, one side of the collar cannot be closed out by itself, both must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate "in-the-money".
- purchased borrower swaptions must mature within 36 months.

- interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.
- The forward start period on swap/collar strategies is to be no more than 24 months, unless the forward starting swap/collar starts on the expiry date of an existing fixed interest rate instrument (i.e. either derivative or fixed rate borrowings) and has a notional amount which is no more than that of the existing fixed interest rate instrument.

Risk management

Instruments

Dealing in interest rate products must be limited to financial instruments approved by the Council.

Current approved interest rate instruments are as follows:

Category	Instrument
Cash management and borrowing	• bank overdraft • committed cash advance and bank accepted bill facilities (short term and long term loan facilities) • uncommitted money market facilities • wholesale bond and Floating Rate Note (FRN) • commercial paper (CP) • New Zealand dollar denominated private placements • retail bond and FRN • Bank term deposits linked to pre funding maturing debt.
Interest rate risk management	• forward rate agreements (FRAs) on: - bank bills - ~~government bonds~~ • interest rate swaps including: - forward start swaps - amortising swaps (whereby notional principal amount reduces) - swap extensions and shortenings • interest rate options on: - bank bills (purchased caps and one-for-one collars) - ~~government bonds~~ - interest rate swaptions (purchased and one-for-one collars only)

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved. Credit exposure on these financial instruments is restricted by specified counterparty credit limits.

All unsecured investment securities must be senior in ranking. The following types of investment instruments are expressly excluded;

- Structured debt where issuing entities are not a primary borrower/ issuer
- Subordinated debt (other than Borrower Notes subscribed from the LGFA), junior debt, perpetual notes and debt/equity hybrid notes such as convertibles.

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6.1.4 Liquid Financial Investment Portfolio

The following interest rate re-pricing percentages are calculated on the projected 12-month rolling Financial Investment Portfolio total. This allows for pre-hedging in advance of projected physical receipt of new funds. When cash flow projections are changed, the interest rate re-pricing risk profile may be adjusted to comply with the policy limits.

Interest Rate Re-Pricing Period	Minimum Limit	Maximum Limit
0 to 1 year	40%	100%
1 to 3 years	0%	60%
3 to 5 years	0%	40%
5 to 10 years	0%	20%

To ensure maximum liquidity, any interest rate position beyond five years will be made with acceptable financial instruments such as investor swaps.

The re-pricing risk mix may be changed, within the above limits through selling/purchasing fixed income investments and/or using approved financial instruments, such as swaps.

6.1.5 Special Funds/Reserve Funds

Where such funds are deemed necessary they will be used for internal borrowing purposes. This will negate counterparty credit risk and any interest rate gap risk that occurs when the Council borrows at a higher rate compared to the investment rate achieved by special/reserve funds.

Liquid assets will not be required to be held against special funds or reserve funds unless such funds are required to be held within a trust. For non-trust funds, the Council will manage these funds using internal borrowing facilities.

6.2 Liquidity risk/funding risk

6.2.1 Risk Recognition

Cash flow deficits in various future periods based on long-term financial forecasts are reliant on the maturity structure of loans and facilities. Liquidity risk management focuses on the ability to borrow at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time, in order to achieve pricing (fees and borrowing margins) and maturity terms that are the same or better than existing facilities.

Managing the Council's funding risks is important as changing circumstances can cause an adverse movement in borrowing margins, term availability and general flexibility such as:

- Local Government risk is priced to a higher fee and margin level.
- The Council's own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons.
- A large individual lender to the Council experiences its own financial/exposure difficulties resulting in the Council not being able to manage its debt portfolio as optimally as desired.
- New Zealand's investment community experiences a substantial 'over supply' of the Council's investment assets.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time. Then, if any of the above circumstances occur, the overall borrowing cost is not unnecessarily increased and the desired maturity profile is not compromised.

6.2.2 Liquidity/Funding Risk Control Limits

These control limits will be determined by the following:

- Alternative funding mechanisms, such as leasing, will be evaluated. The evaluation will take into consideration, ownership, redemption value and effective cost of funds.
- Term debt and committed debt facilities together with liquid investments, will be maintained at an amount that is greater than or equal to 110% of existing external debt.
- The maturity profile of total external debt less liquid financial investments in respect to all loans, bonds and committed facilities, will be controlled by the following:

Period	Minimum	Maximum
0 to 3 years	15%	60%
3 to 6 years	15%	60%
6 years plus	0%*	60%

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

- ~~Additionally, a maximum of 33% of total committed loans/bonds/FRN's and debt facilities is permitted to mature within an immediate 12 month period.~~

*When total external debt exceeds $400 million this minimum will increase to 10%.

~~A maturity schedule outside these limits will require specific Council approval.~~

The CFO will have the discretionary authority to re-finance existing debt.

The Council may prefund its forecasted debt requirements up to 1~~2~~8 months in advance ~~(and in some cases up to 18 months)~~ including the re-financing of existing debt maturities. Debt refinancings that have been prefunded, will remain included within the funding maturity profile until their maturity date.

6.2.3 Commercial Paper

Commercial Paper[1] (CP) should not be issued to fund core term debt requirements unless there are bank standby, committed bank or committed undrawn lending facilities that are available to cover any outstanding CP. As a result any undrawn credit lines to cover maturing CP do not count as excess liquidity.

Nevertheless the coverage of CP by back–up facilities is a Credit Rating Agency requirement, and the Council will adhere to the requirements of the rating agencies in the first instance.

The exception to the above is where CP is used for working capital or bridging financing purposes and where certain, know or contracted cashflows are used to repay the CP on maturity.

6.3 Counterparty credit risk

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.

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

Counterparties and limits may only be approved on the basis of long-term credit ratings (Standard & Poor's or Moody's) being A- and above or short-term rating of A2 or above, with the exception of New Zealand Local Authorities.

Limits will be spread amongst a number of counterparties to avoid concentrations of credit exposure.

To avoid undue concentration of exposures, financial instruments will be used with as wide a range of counterparties as possible. Where possible, transaction notional sizes and maturities will also be well spread. The approval process to allow the use of individual financial instruments will take into account the liquidity of the market in which the instrument is traded and repriced.

The following matrix guide will determine limits.

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[1] Commercial Paper is a promissory note, akin to a post-dated cheque. It is colloquially known as one name paper issued by a non-bank borrower, as distinct from bank paper, or a bankers acceptance which has two or more names (parties) who are liable to honour the debt on maturity if the acceptor (banks) fails to.

Issuer / counterparty	**Instruments**	**Minimum credit rating (short-term / long-term)**	**Maximum exposure per counterparty(NZD) % of rates revenue**	**Maximum exposure per counterparty grouping as a % of rates revenue**
New Zealand Government	Treasury bills, NZ government bonds, debt issued by entities explicitly guaranteed by the NZ Government	n/a	unlimited	100%
RBNZ registered banks	Bank deposits, bank bills, bank bonds, interest rate risk management contracts, foreign exchange contracts	A1+ / AA-	60%	100%
		A1+ / A+	40%	
		A1 / A	25%	
		A1 / A-	15%	
Offshore banks	Bank deposits, bank bills, bank bonds, interest rate risk management contracts, foreign exchange contracts	A1 / A	15%	75%
Local Government Funding Agency	Borrower notes	n/a	60%	60%
Local authorities – rated	Local authority bonds, CP	A1+ / AA-	20%	20%
Local authorities - non rated	Local authority bonds, CP	n/a	10%	10%
Other issuers including state owned enterprises, listed and unlisted companies	Commercial paper, corporate bonds	A1+ / AA-	5%	10%
		A1 / A-	5%	5%

- Current counterparty credit ratings will be reviewed and monitored monthly.

- The definition of rates revenue includes water levy.

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

- Financial investments (e.g. deposits, bonds) -100% of the principal value.
- Interest Rate Risk Management* (e.g. swaps, FRAs) –Any positive month-end mark to market value (as provided by the treasury management system) plus: 3% of the notional principal for all interest rate hedging instruments.
- Foreign Exchange instruments* (e.g. Forward Exchange Contracts) –Any positive month-end mark to market value (as provided by the treasury management system) plus 30% of the notional value of the instrument.

**GWRC will not net off marked to market values against counterparties. Only positive marked to market values (from GWRC's perspective) will contribute to the counterparty calculation. Negative marked to market values will always have a value of zero for counterparty calculation purposes.*

Each transaction will be entered into a reporting spreadsheet and a monthly report will be prepared to show assessed counterparty actual exposure versus limits.

The above limits may be amended by Council, especially in the case where the NZ Government credit rating is changed.

Individual counterparty limits will be kept on a register by management and updated on a day-to-day basis. Specific approvals will be made by the CFO. Credit ratings will be reviewed by the Treasurer on an ongoing basis and in the event of material credit downgrades, this will be immediately reported to the CFO and the Council and assessed against exposure limits. Counterparties exceeding limits will be reported to the Council.

6.4 CentrePort Debt and Guaranteeing Debt

The Council, through its wholly owned CCO WRC Holdings Limited, is a 77% owner of the Port Company CentrePort Limited. The Council has guaranteed the debt obligations of CentrePort as it is a strategic regional asset of the ratepayers.

The Council, by providing a guarantee, formally recognises this relationship and as a result means CentrePort can borrow funds at a similar cost to the Council. This is cheaper than borrowing on its own, ultimately resulting in a financial benefit to the rate payers.

From time to time the Council will guarantee these obligations, given that the level of CentrePort's debt varies over time and the lenders to CentrePort may also change.

The Council may lend funds directly to CentrePort when it believes that there is further benefit to be given to the ratepayer.

6.5 Foreign exchange risk

6.5.1 Foreign Exchange Risk Recognition

The Council's policy is to identify and record these risks by their respective types and then to manage each risk under predetermined and separately defined policies and risk control limits.

It is prudent practice to pre-hedge potential adverse foreign exchange rate movements on capital imports from the time the capital expenditure budget is approved by Council. There is a risk that the net NZ dollar cost could increase substantially between the time the expenditure is approved by Council and the actual placement of the purchase order. It is expected that the payment currency and payments schedule are known at the time the purchase order is issued and the contract is signed with the supplier.

The Council has foreign exchange risks on imported items or services (capital and operating expenditure). There is a contingent risk when there is a time lapse between expenditure approval and placement of orders or finalisation of contracts and a further risk when the contract is signed or order is placed.

Full risk: is at the time the expenditure is approved and legal commitments are made.

6.5.2 Foreign Exchange Risk Control Limits

All individual items/services greater than NZ$100,000 must be hedged at all times in accordance with the following risk control limits:

Time – point	Exposure hedged by forward exchange contracts or options	Exposure hedged by purchased foreign exchange options
1. Budget approved by Council – (Medium Probability)		Maximum 50%
2. Specific item approved – (High probability)		Maximum 100%
3. Contract/ order confirmed – (Undoubted Risk)	Minimum 100%	

6.5.3 Use of Foreign Exchange Instruments and Forecasting

Financial instruments, other than those stipulated in section 6.1.2, will require Council approval. Foreign exchange options will not be sold outright. The purchase price paid for an option (premium) will be amortised (spread) over the period of cover and added to the actual average exchange rate achieved.

All significant tenders will allow bidders the opportunity to select desired currencies and where possible, allow for suppliers to transparently link price escalations to clear financial market references.

Project managers will update any assumptions prior to budgets being finalised and, where necessary, discuss with the Treasurer or CFO. The following approach will be used when calculating foreign exchange rates for budgeting purposes:

- In ~~order to~~ determining~~e~~ a suitable foreign exchange ~~spot~~ rate to use ~~for~~ in the calculation of ~~outright forward cover~~ budgets ~~levels~~for procurement purposes, a purchased NZD Put option at the market forward rate to the middle of the budgeted financial year is used. The all-up premium cost in dollar terms of the option expressed in foreign exchange points is subtracted from the market forward rate to provide the appropriate budget rate to be used.
- ~~the two-year daily average rate or spot rate, whichever is the lower rate, will be used. This will allow for some degree of movement in the NZD cross during the budget evaluation process, prior to Council approval. This will take into consideration the annual volatility of the NZD, especially with the~~

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~~USD where the average annual movement over the past 10 years has been NZD 9.7 cents. Forward points, reflecting the market rates at the time, will then be added / subtracted to the budget spot rate to establish an effective budget rate.~~

- ~~Consideration will be given to using options within the hedging strategy, and consequently, option premiums will be built into any scenario testing and breakeven analysis.~~

6.6 Managing operational risk

Operational risk is the risk of loss as a result of human errors including fraud, system failures, or inadequate procedures and controls. Operational risk is very relevant when dealing with financial instruments given that:

- Financial instruments may not be fully understood
- Too much reliance is often placed on the specialised skills of one or two people
- Most treasury instruments are executed over the phone

Operational risk is minimised by this policy.

6.6.1 Dealing Authorities and Limits

Transactions will only be executed by those persons and within limits approved by the Council.

6.6.2 Segregation of Duties

There will be adequate segregation of duties among the core borrowing and investment functions of deal execution, confirmation, settling and accounting/reporting. However, there are a small number of people involved in borrowing and investment activity. Accordingly, strict segregation of duties will not always be achievable.

The risk will be minimised by the following:

- The SFM will report directly to the CFO to control the transactional activities of the Treasurer
- There will be a documented approval process for borrowing and investment activity.

6.6.3 Procedures and controls

- The CFO will have responsibility for establishing appropriate structures, procedures and controls to support borrowing and investment activity.
- All borrowing, investment, cash management and risk management activity will be undertaken in accordance with approved delegations authorised by the Council.
- All treasury products will be recorded and diarised within a treasury system, with appropriate controls and checks over journal entries into the general ledger. Deal capture and reporting will be done immediately following execution and confirmation. Details of procedures, including templates of deal tickets, will be included in a treasury procedures manual separate to this policy. The Council will capture the percentage of deals transacted with banks to determine competitiveness and reconcile the summary.

Procedures and controls will include:

- Regular management reporting
- Regular risk assessment, including review of procedures and controls
- Organisational systems, procedural and reconciliation controls to ensure:
  - All borrowing and investment activity is bona fide and properly authorised
  - Checks are in place to ensure the Council's accounts and records are updated promptly, accurately and completely
  - All outstanding transactions are revalued regularly and independently of the execution function to ensure accurate reporting and accounting of outstanding exposures and hedging activity
  - Cheque/Electronic Banking Signatories will be approved by the CEO. Dual signatures will be required for all cheques and electronic transfers.
- All counterparties will be provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.
- All deals will be recorded on properly formatted deal tickets by the Treasurer and approved, where required, by the CFO. Market quotes for deals (other than cash management transactions) will be perused by the Treasurer before the transaction is executed. Deal summary records for borrowing, investments, interest rate risk management and cash management transactions (on spreadsheets) will be maintained and updated promptly following completion of transaction.
- All inward letter confirmations, including registry confirmations, will be received and checked by the SFM against completed deal tickets and summary spreadsheets records to ensure accuracy.
- Deals, once confirmed, will be filed (deal ticket and attached confirmation) in deal date/number order.
- Any discrepancies arising during deal confirmation checks which require amendment to the Council records will be signed off by the CFO.
- The majority of borrowing and investment payments will be settled by direct debit authority.
- For electronic payments, batches will be set up electronically. These batches will be checked by the SFM to ensure settlement details are correct. Payment details will be authorised by two approved signatories as per Council registers.
- Bank reconciliations will be performed monthly by the SFM. Any unresolved unreconciled items arising during bank statement reconciliation which require amendment to the Council's's records will be signed off by the CFO.
- A monthly reconciliation of the Debt Management system and borrowing and investment spreadsheets to the general ledger will be carried out by the Treasurer and reviewed by the SFM.

6.7 Managing legal risk

Legal and regulatory risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction, usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, the Council may be exposed to such risks.

In the event that the Council is unable to enforce its rights due to deficient or inaccurate documentation, the Council will seek to minimise this risk by:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice for any non-standardised transactions.

6.7.1 Agreements

Financial instruments will only be entered into with banks that have in place an executed International Swap Dealer's Association (ISDA) Master Agreement with the Council. All ISDA Master Agreements for financial instruments will be signed under seal by the Council.

The Council's internal/appointed legal counsel will sign off on all documentation for new loan borrowings, re-financings and investment structures.

Currently, the Council has ISDA agreements with the following banks:

- Bank of New Zealand
- ANZ Banking Group (New Zealand) Ltd
- ~~National Bank of New Zealand Ltd~~
- ASB/CBA Bank
- Westpac
- Kiwibank

6.7.2 Financial Covenants and Other Obligations

The Council will not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.

The Council will comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

6.8 Diesel hedging

Other risks, such as commodity price risk associated with diesel, will be considered for risk management by the Council. Management is aware of the indirect risk to diesel procurement that is embedded in existing transport contracts. To this end the Council has delegated to the CFO the power to enter into any price hedges or options with the following conditions:

- The CFO will report any hedges to the Council on a quarterly basis
- Maximum term of a hedge or option contact once it becomes operational is one year
- Contracts shall only be with a counterparty with a S&P rating of at least A.

6.9 Electricity hedging

Wholesale electricity spot market price risk will be considered for risk management by the Council. Management is aware of the inherent price volatility of the electricity spot market. To this end, the Council has delegated to the CEO the power to enter into price hedges with the following conditions:

- An electricity hedge contract will be in place for the duration of any spot market physical supply agreement.
- The price exposure can be hedged via an over the counter electricity swaps contract, a contract for difference or a futures contract.
- The notional value of the hedge contract will be in New Zealand dollars.
- The hedge contract will be for a maximum duration of no more than three years, and will be signed no earlier than 12 months prior to contract commencement.
- The expiry of any hedge contract will be no more than four years.
- For any given reporting year, the hedge volume will be between 85 percent and 115 percent of the expected actual consumption. The hedge ratio will be monitored and reported annually.
- The credit rating of the hedge counter-party will be at least investment grade from Standard and Poor's at the time of entering into the contract (i.e., a long-term rating of not less than BBB-). In the event of the rating falling below this, the Council would be advised and a recommendation on how to deal with existing hedges and any new hedges contemplated would be made to the Council. If the preferred hedge counter-party does not have an external credit rating with Standard & Poor’s the GM Corporate Services/CFO may review the financial position of the proposed counter-party and provide a recommendation for approval by the Chief Executive.

7. Measuring Treasury performance

In order to determine the success of the Council’s treasury management function, benchmarks and performance measures have been prescribed. Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) will be reported to Finance, Risk and Assurance on a quarterly basis.

7.1 Operational performance

All treasury limits will be complied with, including, but not limited to, counterparty credit limits, dealing limits and exposure limits. All treasury deadlines will be met, including reporting deadlines.

7.2 Management of debt, investments and interest rate risk

The actual funding cost for the Council (taking into consideration costs of entering into interest rate risk management transactions) will be below the budgeted interest cost and investment returns will be above the budgeted interest rate income.

8. Cash management

The Treasurer has the responsibility to carry out the day-to-day cash and short-term debt management activities. The Treasurer will:

- Calculate and maintain comprehensive cash flow projections on a daily (two weeks forward), weekly (four weeks forward), monthly (12 months forward) and annual (five years) basis
- Electronically download all the Council bank account information daily
- Co-ordinate the Council's operating units to determine daily cash inflows and outflows with the objective of managing the cash position within approved parameters
- Undertake short-term borrowing functions as required, minimising overdraft costs
- Ensure efficient cash management, through improvement to accurate forecasting using spreadsheet modelling
- Minimise fees and bank/Government charges by optimising bank account/facility structures
- Monitor the Council's usage of cash advance facilities
- Match future cashflows to smooth over time
- Provide reports to CFO detailing actual cash flows during the month compared with those budgeted
- Maximise the return from available funds by ensuring significant payments are made within the vendor's payment terms, but no earlier than required, unless there is a financial benefit from doing so.

9. Reporting – performance measurement

When budgeting forecast interest costs/returns, the actual physical position of existing loans, investments and ~~swaps/swaptions/FRAs~~interest rate instruments must be incorporated.

9.1 Treasury reporting

The following reports will be produced:

Report Name	Frequency	Prepared by	Recipient
Daily Cash Position	Daily	Treasurer	CFO
Treasury Exceptions Report	Daily	Treasurer	CFO
Risk Exposure position	Monthly	Treasurer	CFO
Risk Management performance	Monthly	Treasurer	CFO
Policy Compliance	Monthly	SFM	CFO
Borrowing limits	Monthly	Treasurer	CFO
Interest rate exposure report	Monthly	Treasurer	CFO
Cost of funds report	Monthly	Treasurer	CFO
Funding facility report	Monthly	Treasurer	CFO
Funding risk report	Monthly	Treasurer	CFO
Cash flow forecast report	Monthly	Treasurer	CFO
Treasury investments	Monthly	Treasurer	CFO
Summary Treasury Report	Monthly Quarterly	Treasurer	CFO Finance, Risk and Assurance / Council
~~Quarterly~~ Bi Annual Treasury Strategy Paper	~~Quarterly~~Bi-annually	Treasurer	CFO CEO / Finance, Risk and Assurance
Limits Report	Daily on exceptions Quarterly	SFM	Treasurer Finance, Risk and Assurance
Debt Maturity Profile	Quarterly	Treasurer	Finance, Risk and Assurance / Council
Statement of Public Debt	Quarterly	Treasurer	Finance, Risk and Assurance / Council
Revaluation of financial instruments	Quarterly	Treasurer	CFO

9.2 Accounting treatment of financial instruments

The Council uses financial ~~market instruments~~ arrangements (“derivatives”) for the primary purpose of reducing its ~~exposure~~ 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.

Under NZ 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 Treasurer is responsible for advising the CFO of any changes to relevant NZ IPSAS 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 six months for risk management purposes.~~The accounting treatment for such financial instruments will follow IFRS accounting standards.~~

~~9.3 Valuation of treasury instruments~~

~~All treasury financial instruments will be revalued at least quarterly for risk management purposes. This includes those instruments that are used only for hedging purposes. Underlying rates to be used to value treasury instruments are as follows:~~

~~Official daily settlement prices for established markets.~~

~~Official daily market rates for short term treasury instruments (e.g., FRA settlement rates calculated by Reuters from price-maker quotations as displayed on the BKBM page).~~

~~Relevant market mid-rates provided by the company's bankers at the end of the business day (5.00pm) for other over-the-counter treasury instruments.~~

~~For markets that are illiquid, or where market prices are not readily available, rates are calculated in accordance with procedures approved by the CFO.~~

10. Policy review

This Treasury Risk Management Policy will be formally reviewed every three years. The CFO has the responsibility to prepare a review report (following the preparation of annual financial statements) that is presented to Finance, Risk and Assurance. The report will include:

- Recommendations on changes, deletions and additions to the policy.
- Overview of the treasury management function in achieving the stated treasury objectives, including performance trends in actual interest cost against budget (multi-year comparisons).
- Summary of breaches of policy and one-off approvals outside policy to highlight areas of policy tension.
- Analysis of bank and lender service provision, share of financial instrument transactions, etc.
- Comments and recommendations from the Council's external auditors on the treasury function, particularly internal controls, accounting treatment and reporting.
- Total net debt servicing costs.

The policy review will be completed and presented to Finance, Risk and Assurance within five months of the financial year-end. Finance, Risk and Assurance will approve any resulting policy changes.

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Te Pane Matua Taiao

Report **18.62**
Date 27 February 2018
File CCAB-22-314

Committee **Finance, Risk and Assurance Committee**
Author **Francis Ryan, Manager, Democratic Services**

Review of Council's rates remission and postponement policies

1. Purpose

To report on the officer review of the Council's rates remission and postponement policies and for the Committee to recommend that Council approves updated rates remission and postponement policies for public consultation.

2. Background

The Local Government Act 2002 (the Act) requires every local authority to adopt a policy on the remission and postponement of rates on Māori freehold land. In addition, a local authority may adopt a rates remission policy and/or a rates postponement policy.

Such policies adopted by a local authority must be reviewed at least once every six years using a consultation process that gives effect to the requirements of section 82 of the Act.

3. Comment

The Council has previously adopted a suite of policies that provide for:

- remission and postponement of rates on Māori freehold land
- rates postponement
- remission and postponement of rates' penalties
- remission of rates in special circumstances.

While these policies require review at least once every six years it is GWRC's practice for officers to review the policies every three years for alignment with legislation and evolving best practice. Any proposed changes to the policies agreed by Council are then consulted on concurrently with the public consultation on the Long Term Plan consultation document.

4. Proposed changes to the policies

The proposed changes to the policies as an outcome of the officer review are of a minor nature:

- The wording of the policies has been clarified to align with the provisions of the Local Government (Rating) Act 2002 that require a local authority to postpone rates when prescribed conditions and criteria are met, while providing for the exercise of discretion with regard to the granting of remissions when conditions and criteria are met.

- Policy wording has been simplified, with duplicate provisions removed.

With regard to the policy on the remission of rates in special circumstances it is proposed that the threshold above which a remission application must be referred to Council for decision is increased from $250 to $500. This would be the first increase to the threshold since this policy was first developed in the early 2000s and is considered to provide a reasonable balance between the operational efficiency of the policy and appropriate governance oversight and decision-making.

The proposed changes to the current policies are set out in **Attachment 1**, with changes shown using tracked changes.

5. Communication

The resolutions made by the Committee in relation to this report go forward to Council for consideration.

6. Consideration of climate change

The matter requiring decision in this report has been considered by officers in accordance with the process set out in the GWRC Climate Change Consideration Guide.

6.1 Mitigation assessment

Mitigation assessments are concerned with the effect of the matter on the climate (i.e. the greenhouse gas emissions generated or removed from the atmosphere as a consequence of the matter) and the actions taken to reduce, neutralise or enhance that effect.

Officers have considered the effect of the matter on the climate. Officers recommend that the matter will have no effect.

Officers note that the matter does not affect the Council's interests in the Emissions Trading Scheme (ETS) and/or the Permanent Forest Sink Initiative (PFSI) Adaptation assessment.

Adaptation assessments relate to the impacts of climate change (e.g. sea level rise or an increase in extreme weather events), and the actions taken to address or avoid those impacts.

Officers have considered the impacts of climate change in relation to the matter. Officers recommend that climate change has no bearing on the matter.

7. The decision-making process and significance

Officers recognise that the matters referenced in this report may have a high degree of importance to affected or interested parties.

The matter requiring decision in this report has been considered by officers against the requirements of Part 6 of the Act. Part 6 sets out the obligations of local authorities in relation to the making of decisions.

7.1 Significance of the decision

Part 6 requires Greater Wellington Regional Council to consider the significance of the decision. The term 'significance' has a statutory definition set out in the Act.

Officers have considered the significance of the matter, taking the Council's significance and engagement policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining consideration of the decision-making process is required in this instance.

8. Engagement

The draft rates remission and postponement policies will proceed to public consultation concurrently with the Long Term Plan consultation document subject to Council approving the proposed changes to the current policies.

9. Recommendations

That the Committee:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*
3. ***Endorses** the proposed changes to the Council's rates remission and postponement policies as set out in section 4 of this report.*
4. ***Recommends** that Council approves the draft rates remission and postponement policies, as set out in Attachment 1, for public consultation.*

Report prepared by:	Report approved by:	Report approved by:
Francis Ryan Manager, Democratic Services	**Luke Troy** General Manager, Strategy	**Dave Humm** General Manager, Corporate Services/CFO

Attachment 1: Proposed changes to the Council's rates remission and postponement policies

Attachment 1 to Report 18.62

Rates Remission and Postponement policies

Remission and postponement of penalties

Objective

To enable Greater Wellington Regional Council to act fairly and reasonably when rates have not been received by the penalty date.

Criteria and conditions

Greater Wellington Regional Council will consider each application on its merit. ~~and~~ R~~r~~emission of penalties may be granted or postponement of penalties ~~may~~ will be granted where it is considered that the application meets the following criteria and conditions.

Criteria

1) Upon receipt of an application from the ratepayer, or if identified by Greater Wellington Regional Council, Greater Wellington Regional Council may remit or will postpone all or part of a penalty where it considers that it is fair and equitable to do so. The following m~~M~~atters ~~that~~ will be taken into consideration by Greater Wellington Regional Council ~~include the following~~:
    a) The ratepayer's payment history
    b) The impact on the ratepayer of extraordinary events
    c) The payment of the full amount of rates due.
    ~~d) The ratepayer entering into an agreement with Greater Wellington Regional Council for the payment of rates~~

Conditions

1) The ratepayer must enter into an agreement with Greater Wellington Regional Council for the payment of postponed penalties.
~~1) Greater Wellington Regional Council reserves the right to impose conditions on the remission or postponement of penalties~~

Decisions

Decisions on the remission or postponement of penalties ~~may be~~are delegated to Greater Wellington Regional Council officers. All delegations ~~will be~~are recorded in the delegations ~~register~~manual.

Rates postponement

Objective

To enable Greater Wellington Regional Council to ~~retain its discretion to~~ postpone the payment of rates.

Criteria and conditions

Greater Wellington Regional Council will consider each application on its merit and postponement ~~may~~ will be granted where it is considered that the application meets the following criteria and conditions.

Criteria

Greater Wellington Regional Council will postpone rates when the following circumstances are met:

a) A territorial authority in the Wellington region has postponed some or all of the territorial authority rates for the rating unit in the current rating year AND/OR
b) The ratepayer is experiencing extreme financial hardship.

Conditions

1) Applications for postponements must be made to Greater Wellington Regional Council in writing and contain supporting information demonstrating compliance with criteria.
2) Approval of rates postponements is for one year only. Applicants must reapply annually for a postponement.
3) The postponement of rates is a last resort and will be considered only after all other avenues to meet rates commitments have been exhausted.
4) Postponed rates will be registered as a statutory land charge on the rating unit title. This means that Greater Wellington Regional Council will have the first call on the proceeds of any revenue from the sale or lease of the rating unit in accordance with section 90 of the Local Government (Rating) Act 2002.
5) A fee may be charged in arrears on rates postponed, in accordance with section 88 of the Local Government (Rating) Act 2002.
6) The applicant may choose to postpone the payment of a lesser amount of rates than the full amount that they would be entitled to postpone under this policy.

Decisions

Decisions on the postponement of rates ~~may be~~are delegated to Greater Wellington Regional Council officers. All delegations ~~will be~~ are recorded in the delegations ~~register~~manual.

Remission and postponement of rates on Māori freehold land

Māori freehold land is defined in the Local Government (Rating) Act 2002 as land whose beneficial ownership has been determined by the Māori Land Court by freehold order. Only land that is subject to such an order may qualify for remission or postponement under this policy.

Objectives

1) To recognise that certain Māori owned land may have particular conditions, features, ownership structures, or other circumstances that make it appropriate to provide for relief from rates.
2) To recognise that Greater Wellington Regional Council and the community benefit through the efficient collection of rates that are properly payable and the removal of rating debt that is considered non-collectable.
3) To meet the requirements of section 102 of the Local Government Act 2002 to have a policy on the remission and postponement of rates on Māori freehold land.

Considerations

In setting a policy on the remission and postponement of rates on Māori freehold land Greater Wellington Regional Council has considered the matters identified in schedule 11 of the Local Government Act 2002.

Criteria and conditions

Greater Wellington Regional Council will consider each application on its merit. ~~and remission~~Remission of rates may be granted or postponement of rates ~~may~~ will be granted where it is considered that the application meets the following criteria and conditions.

Criteria

1) Greater Wellington Regional Council will give a remission or postponement of up to 100% of all rates for the year for which it is applied for based on the extent to which the remission or postponement of rates will:
    a. Support the use of the land by owners for traditional purposes
    b. Support the relationship of Māori and their culture and traditions with their ancestral lands
    c. Avoid further alienation of Māori freehold land
    d. Facilitate any wish of the owners to develop the land for economic use
    e. Recognise and take account of the presence of waahi tapu that may affect the use of the land for other purposes
    f. Recognise and take account of the importance of the land in providing economic and infrastructure support for marae and associated papakainga housing (whether on the land or elsewhere)
    g. Recognise and take account of the importance of the land for community goals relating to:

- The preservation of the natural character of the coastal environment
- The protection of outstanding natural features
- The protection of significant indigenous vegetation and significant habitats of indigenous fauna

h. Recognise the level of community services provided to the land and its occupiers
i. Recognise matters related to the physical accessibility of the land
j. Provide for an efficient collection of rates and the removal of rating debt.

Conditions

1) Application for a remission or postponement under this policy must be made in writing and should be made prior to the commencement of the rating year. Applications made after the commencement of the rating year may be accepted at the discretion of Greater Wellington Regional Council. A separate application must be made for each rating year.
2) Owners or trustees making applications should include the following information in their applications:
   a. Details of the rating unit or units involved
   b. Documentation that shows that the land qualifies as land whose beneficial ownership has been determined by a freehold order issued by the Māori Land Court
   c. Supporting information to demonstrate that the remission or postponement will help achieve the criteria set out in the above section.
3) Greater Wellington Regional Council may of its own volition investigate and grant remission or postponement of all or part of the rates (including penalties for unpaid rates) on any Māori freehold land in the region.
4) Relief, and the extent thereof, is at the sole discretion of Greater Wellington Regional Council and may be cancelled and reduced at any time.
5) The applicant may choose to remit or postpone the payment of a lesser amount of rates than the full amount owing.

Decisions

Decisions on the remission and postponement of rates (including penalties for unpaid rates) on Māori freehold land ~~may be~~are delegated to Greater Wellington Regional Council officers. All delegations ~~will be~~are recorded in the delegations ~~register~~manual.

Remission of rates in special circumstances

Objective

To enable Greater Wellington Regional Council to act fairly and reasonably to remit regional rates in special circumstances.

Criteria and conditions

Greater Wellington Regional Council will consider each application on its merit and remission may be granted where it is considered that the application meets the following criteria and conditions.

Criteria

1) Greater Wellington Regional Council may remit all or part of the rates assessed in relation to a particular rating unit in special or unforeseen circumstances where it considers it just and equitable to do so.

Conditions

1) Each request for a remission of rates in special circumstances shall be considered on its merits and any decision on such a request shall be deemed to not set a precedent for any future decision under this policy.
2) A remission under this policy will last for one rating year only. Applicants must reapply annually for a remission.
3) No application under this policy will be backdated beyond the current rating year. ~~An application for remission under this policy must be made within the rating/financial year for which remission is sought~~
4) An application for remission under this policy:
    a. Must be made within the rating year for which remission is sought, and
    b. Made in writing to Greater Wellington Regional Council, and
    c. Contain supporting information.
5) The Council may of its own volition investigate and grant remission of rates that satisfy the requirements of any direction it receives from the Government or other agency to remit rates. In such circumstances rates will generally be remitted to the extent Greater Wellington Regional Council receives payment from the Government or other agency.
6) Under this policy "special circumstances" excludes remissions sought for rating units with conservation and/or heritage values, including land subject to a QEII covenant.

~~7) The applicant may choose to remit the payment of a lesser amount of rates than the full amount that they would be entitled to remit under this policy~~

Decisions

Decisions on remission of rates in special circumstances will be made by Council where the amount requested is over $~~250~~500.

Decisions on the remission of rates in special circumstances where the amount requested is $~~250~~ 500 or less ~~may be~~are delegated to Greater Wellington Regional Council officers. All delegations ~~will be~~are recorded in the delegations ~~register~~manual.

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Te Pane Matua Taiao

Report	**18.41**
Date	6 March 2018
File	CCAB-22-301
Committee	**Finance Risk and Assurance Committee**
Author	**Jenni Horton – Systems Accountant/ Mike Timmer - Treasurer**

Business assurance – Project ArCee

1. Purpose

To provide the Committee with an update to the business assurance programme activities currently in progress and seek endorsement and comment on approach from the committee.

2. Background

In March 2017 we provided the Committee with a framework on developing a business assurance function for Council. This was developed in conjunction with PricewaterhouseCoopers (PwC), our partners in this process.

The first item to be delivered in the programme is the Project ArCee (Accounting Risk, Customer Experience & Expectation) review. This review fits within the Business Process and Controls component of the PwC engagement. The review was completed by an internal GWRC team working alongside key staff in Finance and HumanResources/Payroll to document our key financial processes. The documentation focused on key process steps, assessed control points and identified potential risks.

PwC oversight included validation of process documentation, advice on appropriate format of documentation, completion of an assessment of processes and review of the GWRC prepared output as fit for purpose. PwC has issued a summarised report, providing prioritised key recommendations (**Attachment 1**). We have developed a detailed plan to deliver the high risk areas within the next six months (**Attachment 2**).

3. Comment

We have worked together with PwC on prioritising areas of focus to further improve our controls and processes. The area of highest priority is our finance Procure to Pay process where three key areas have been identified as a relatively higher risk with immediate potential to improve our processes:

1. Purchase orders are recorded and approved completely, accurately and in a timely manner.

2. Credit Card transactions are recorded completely, accurately and in a timely manner and appropriately approved.
3. Segregation of duties is in place and access is restricted to authorised personnel.

Items 1 and 2 above involve training and communication to GWRC officers to build a stronger awareness in our requestors, approvers and delegated budget holders of the responsibility that they hold in the procurement process; to ensure our policies are enforced and supported as part of their duty as managers and officers of GWRC.

Item 3 Segregation of Duties is critical in the protection of GWRC officers from fraudulent activity and as such is the first activity due for completion. This activity is currently in progress with the team reviewing and redesigning assignment of permissions in our SAP system. The changes are due to be rolled out this month. Additionally, we are completing a review within Finance of the duties held within various roles to ensure teams have the correct allocation of tasks to allow appropriate separation of duties.

Further lower risk items are being analysed and planned for to ensure we embed efficiencies into our financial processes. The following statement is the Mission Statement for the ArCee Process Improvement implementation team:

- To implement all high priority recommendations of the PwC Audit Risk Control and Customer Experience Report by 30 June 2018.

- To test all proposed improvements against our Optimus Unit 4 Business World solution for alignment to the future process outcomes.

- To ensure all proposed improvements meet our project objectives:
  - Improving our systems integrity
  - Lifting our financial management capability
  - Providing sound stewardship in accounting processes to GWRC
  - Deliver exceptional customer service.

The project has established the momentum to embed a continuous improvement framework into the culture of the finance team. This will flow through into the eventual replacement of our financial systems allowing us to use technology to replace manual steps and deliver automation to improve our customers' experience.

We seek the views of this Committee in terms of our proposed plan.

4. Communication

There is no communication required.

5. Consideration of climate change

The matter requiring decision in this report has been considered by officers in accordance with the process set out in the GWRC Climate Change Consideration Guide.

5.1 Mitigation assessment

Mitigation assessments are concerned with the effect of the matter on the climate (i.e. the greenhouse gas emissions generated or removed from the atmosphere as a consequence of the matter) and the actions taken to reduce, neutralise or enhance that effect.

Officers have considered the effect of the matter on the climate. Officers recommend that the matter will have no effect.

Officers note that the matter does not affect the Council's interests in the Emissions Trading Scheme (ETS) and/or the Permanent Forest Sink Initiative (PFSI) Adaptation assessment.

5.2 Adaptation assessment

Adaptation assessments relate to the impacts of climate change (e.g. sea level rise or an increase in extreme weather events), and the actions taken to address or avoid those impacts.

Officers have considered the impacts of climate change in relation to the matter. Officers recommend that climate change has no bearing on the matter.

6. The decision-making process and significance

Officers recognise that the matters referenced in this report may have a high degree of importance to affected or interested parties.

The matter requiring decision in this report has been considered by officers against the requirements of Part 6 of the Act. Part 6 sets out the obligations of local authorities in relation to the making of decisions.

6.1 Significance of the decision

Part 6 requires Greater Wellington Regional Council to consider the significance of the decision. The term 'significance' has a statutory definition set out in the Act.

Officers have considered the significance of the matter, taking the Council's significance and engagement policy and decision-making guidelines into account. Officers recommend that the matter be considered to have low significance.

Officers do not consider that a formal record outlining consideration of the decision-making process is required in this instance.

7. Engagement

Engagement on this matter is unnecessary.

8. Recommendation

That the Committee:

1. ***Receives** the report.*

2. ***Notes** the content of the report.*
3. ***Endorses** the proposed plan set out in section 3 of this report.*

Report prepared by:	Report prepared by:	Report approved by:
Jenni Horton System Accountant	**Mike Timmer** Treasurer	**Dave Humm** General Manager, Corporate Services / CFO

Attachment 1 – Project ArCee Business Assurance Summarised Report 30.01.18.pdf
Attachment 2 – Project ArCee – High Priority P2P High Level Plan.pdf

www.pwc.co.nz

Attachment 1 to Report 18.41

Project ArCee

Business Assurance - Current state business process design review

Greater Wellington Regional Council

December 2017

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Te Pane Matua Taiao

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In reading this report, we request you to note the following:

Users of this report
This report is intended solely for the use of the Audit Committee and management of Greater Wellington Regional Council.

The sponsor for this review was Mike Timmer, (Treasurer).

Private and confidential
This report is provided solely for the Greater Wellington Regional Council for the purpose for which the services are provided. Unless required by law you shall not provide this report to any third party, publish it on a website or refer to us or the services without our prior written consent. In no event, regardless of whether consent has been provided, shall we assume any responsibility to any third party to whom our report is disclosed or otherwise made available. No copy, extract or quote from our report may be made available to any other person without our prior written consent to the form and content of the disclosure.

Draft report
This report is in draft form and as such the findings contained are subject to amendment or withdrawal. Our definitive findings will be those contained within the final report.

Conclusions
We have performed our engagement in accordance with relevant ethical requirements of the Code of Ethics issued by the New Zealand Institute of Chartered Accountants, and appropriate quality control standards. Our engagement does not constitute a review or audit in terms of standards issued by the New Zealand Institute of Chartered Accountants.

Accordingly, this engagement is not intended to result in either the expression of an audit opinion nor the fulfilling of any statutory audit or other requirements.

In accordance with our Letter of Engagement dated 13 April 2017 we have completed our Project ArCee Business Assurance - Current state business process design review

Executive Summary

Context

Greater Wellington Regional Council (the "Council") has embarked on a programme of work to replace its legacy SAP based core financial management system. Project ArCee was established to analyse and document existing business processes and controls to feed into Project Optimus which is focused on the design of future state business processes, including the replacement of the core financial management system.

Why was this assessment completed?

The Council relies on the accuracy of its core financial management processes for almost all decisions. From financial information that influences the long term plan through to approval of an invoice for payment. It is critical that the Council can have trust and confidence in these processes.

There is an acknowledged need within Council that core financial management processes and controls need improvement ahead of a new financial management system (FMIS) implemented project that is currently underway.

However, a new FMIS is not a silver bullet and can't be expected to address all risk that currently exists. Additionally, the new FMIS potentially won't be implemented for 18 months and the 'status-quo' may not be acceptable for the transition period.

As such this assessment was completed to help Council to understand:

1. *Current state processes and controls*
2. *Risks that exist within current state processes*
3. *The root cause of those risks (e.g. system functionality, lack of training/understanding, cultural)*
4. *Consideration of what 'Quick Wins' could be taken for immediate impact and to embed new behaviours prior to new FMIS being implemented*
5. *Consideration of how current state processes should affect the new FMIS design and whether documentation prepared by Council is fit for purpose to properly influence the design on the new system.*

There were a total of

172

controls identified by the Project team, of which

115

were effectively designed.

124

controls were manual in nature, while

48

were automated (leveraged SAP functionality)

Executive Summary (cont.)

What did we look at?

In order to understand the areas we have outlined above, we focussed on:

- The framework and approach adopted by GWRC to document, assess and improve financial business processes
- The documentation (for example process maps and supporting narratives) developed for 'as-is' current state processes for Order-to-Cash, Accounts Payable, Payroll, Fixed Asset and General Ledger (the "financial processes").
- The assessment of current state processes considering risks (and mitigating internal controls) impacting on the completeness, accuracy, validity, and confidentiality of transactions and information maintained.

How did we perform our assessment?

We worked alongside the ArCee project team as they completed their documentation. We completed an initial review of documentation that was prepared through a pilot for purchase-to-pay and provided feedback to be consumed within the documentation of remaining financial processes. This included provide example flowcharts, risk and control libraries and being a sounding board for the project team to share views / issues as documentation was completed.

At the basis of our assessment were the following elements which we think define good practice

What does good look like?

__1.__ Critical requirements and controls have been captured within Greater Wellington policy statements that all staff are familiar with

__2.__ Business processes give effective to these policy expectations and controls

__3.__ Appropriate controls are embedded within these business processes to ensure the completeness, accuracy, validity, timeliness and confidentiality of transactions and information retained

__4.__ Where possible the FMIS system enforces these controls, for example through delegations of authority, segregation of duties, reconciliations and exception reporting

__5.__ Sufficient checking is performed to ensure that what is expected (policies / controls) is done to mitigate the risk of error and fraud.

On the following pages we have outlined our key findings against these expectations

Executive Summary (cont.)

What we have found?

In summary, the ArCee project team have done a commendable job of documenting current state business processes.

After initial review of documentation prepared during the project, we noted that it did not describe the financial processes in sufficient detail to understand the specific tasks performed, who performed these, when and how they were performed with transparency as to the control points that mitigate the risks within each of these processes. At this point, we provided the project team with example flowcharts and risk/control libraries to leverage as they completed their documentation. We also acted as sounding board to the project team as documentation was updated to ensure it was fit for purpose (considered the expected risks and was of appropriate detail to understand end-to-end processes and controls)

It was apparent through our review that the project team had identified a number of risks and areas for improvements. We have validated these against our expectation for completeness.

We have outlined four distinct themes that these observations fall into across the following pages.

Feedback regarding documentation practices has been incorporated into current state documentation

As part of our initial review of documentation prepared by the ArCee project team we noted and communicated the need to alter the approach taken in preparing the documentation to ensure that it provided sufficient detail of end-to-end processes, risks and controls. We provided example flowcharts along with risk and control libraries to assist the project team.

There was a progressive improvement in the documentation prepared by the ArCee project team and the final process maps along with risk and control matrices were in-line with our expectation to enable an assessment of the risk which exists within 'current state' and also the quick wins and considerations for Optimus

Impact: *The project team has a clear understanding of the current state processes, controls and risks which can influence the design of the new FMIS*

There is a high reliance on manual processes and workarounds

The core financial processes within Council have a high level of reliance on manual tasks and workarounds due to a lack of system functionality, or system functionality not being leveraged. This is symptomatic of a low level of investment over a number of years within the FMIS (as it was due for replacement/upgrade) to enable new functionality that supports the Councils needs.

For example, (1) invoices raised for services provided are manually calculated within Excel based on timesheet data exported from the FMIS which is in turn uploaded back into the FMIS to record the invoice (2) foreign currency payments are manually translated into NZD and loaded rather than using FX rates within the system (3) calculation of an employees final pay is performed manually and loaded into the FMIS.

Impact: *The likelihood of errors being made and not detected is inherently higher within a manual process.*

Executive Summary (cont.)

Segregation of duties is not consistently enforced

Segregation of duties is a key control within all financial processes to ensure the validity and accuracy of transactions processed. We noted a number of instances where segregation of duties was not properly enforced within the FMIS through access rights and manual processes that did not incorporate an independent review.

There is a high degree of autonomy granted through FMIS access rights to senior members of the finance team, and while this access may sometimes be needed for troubleshooting or if other team members are unavailable, we do not believe that this provides sufficient rationale to have elevated access rights in place indefinitely. Conflicting privileges (e.g. post & approve) should be segregated between team members.

For example it is noted that (1) Customer master data changes do not require secondary review or approval (2) some members of finance can setup vendors, post/approve invoices and authorise payments (3) manual journals can be posted and approved by the same person within the system

Impact: *A lack of segregation of duties increases the risk of transactions being processed inaccurately or incompletely. Additionally, segregation of duties is critical to prevent inappropriate (e.g. fraudulent) transactions from being processed.*

Documentation of policies and procedures should be enhanced to ensure there is clear understanding of responsibilities and accountabilities across Council

Policies and procedures across the Council do not appear to be well understood, are inconsistently applied and do not aligned to current state system functionality

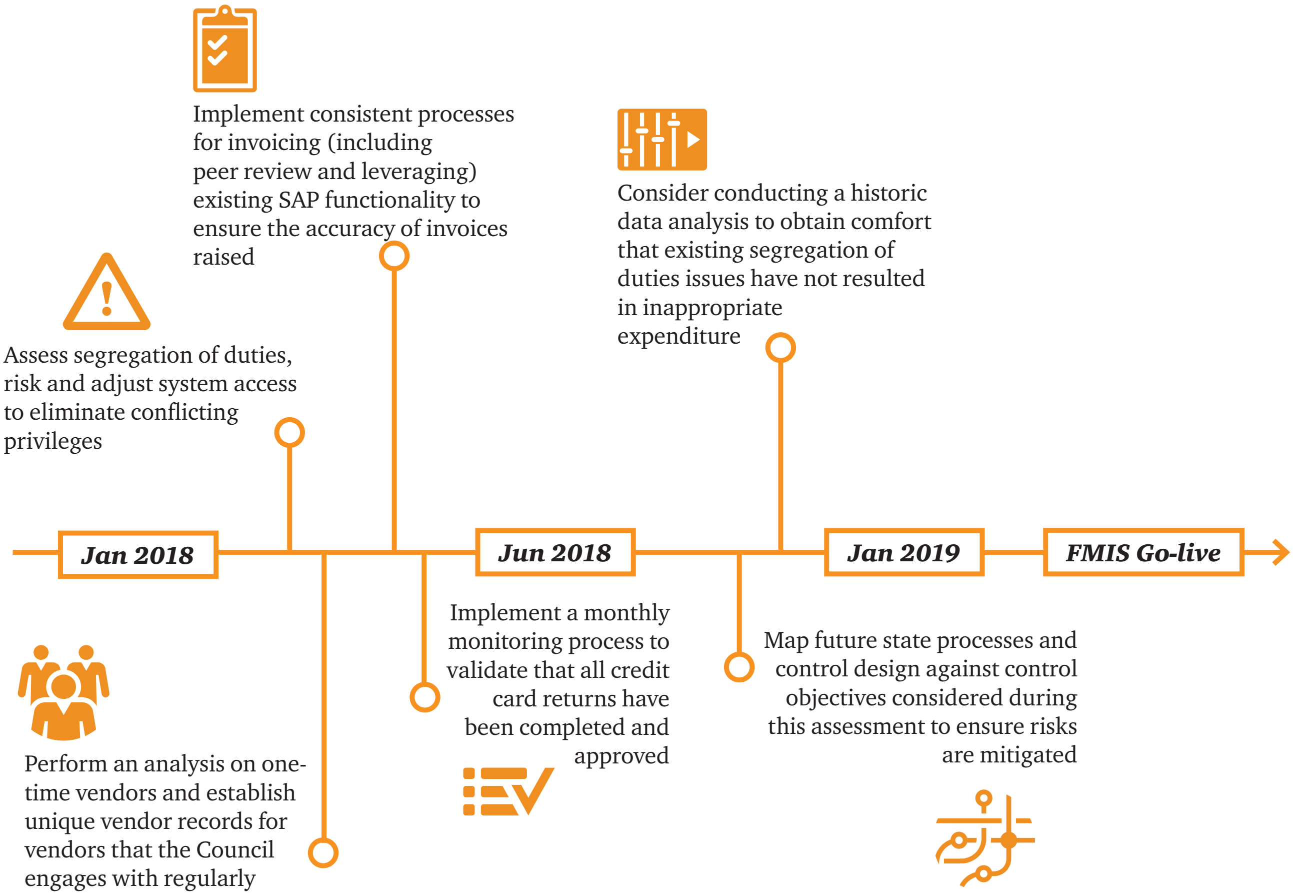
The ArCee project efforts in documenting current state processes and controls across the financial cycles has been positive and provides the expected level of detail into current state.

With this as the foundation, it would be pragmatic for Council to continue the documentation of policies and procedures relating to financial process as Project Optimus advances. Design decisions made for the new system should reflect the Councils underlying policies for financial management and should be encapsulated within procedural documentation that clearly articulates responsibilities and accountabilities between teams within Council. This also provides the basis for which training of staff can be completed.

Impact: *The design of the lifecycle for transactions across all financial processes within the new system will be consistent with Council expectations (as documented within policies) and day-to-day procedures will clearly understood and supported by the new FMIS.*

Where to from here?

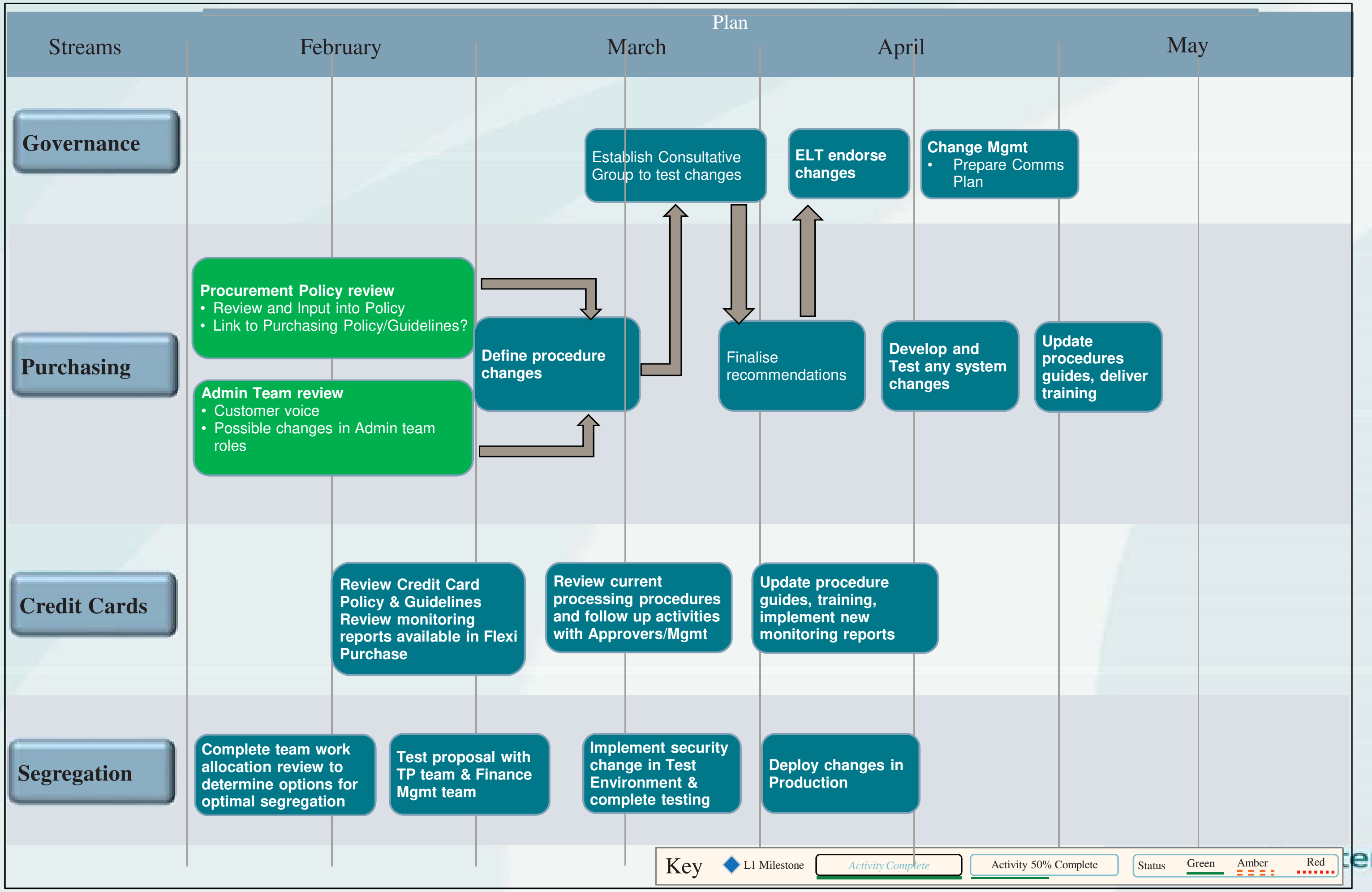
The diagram below outlines the key next steps for the project team to consider.



The following pages outline our observations in further detail along with other 'Quick Wins' and considerations for Optimus.

Management comments:

P2P - Plan


Plan
Streams
February
March
April
May
Governance
Establish Consultative Group to test changes
ELT endorse changes
Change Mgmt
• Prepare Comms Plan
Purchasing
Procurement Policy review
• Review and Input into Policy
• Link to Purchasing Policy/Guidelines?
Admin Team review
• Customer voice
• Possible changes in Admin team roles
Define procedure changes
Finalise recommendations
Develop and Test any system changes
Update procedures guides, deliver training
Credit Cards
Review Credit Card Policy & Guidelines Review monitoring reports available in Flexi Purchase
Review current processing procedures and follow up activities with Approvers/Mgmt
Update procedure guides, training, implement new monitoring reports
Segregation
Complete team work allocation review to determine options for optimal segregation
Test proposal with TP team & Finance Mgmt team
Implement security change in Test Environment & complete testing
Deploy changes in Production
Key
L1 Milestone
Activity Complete
Activity 50% Complete
Status
Green
Amber
Red

Report	**18.61**
Date	26 February 2018
File	CCAB-22-312
Committee	**Finance, Risk and Assurance Committee**
Author	**David Querido, Manager Health & Safety**

Health and safety update

1. Purpose

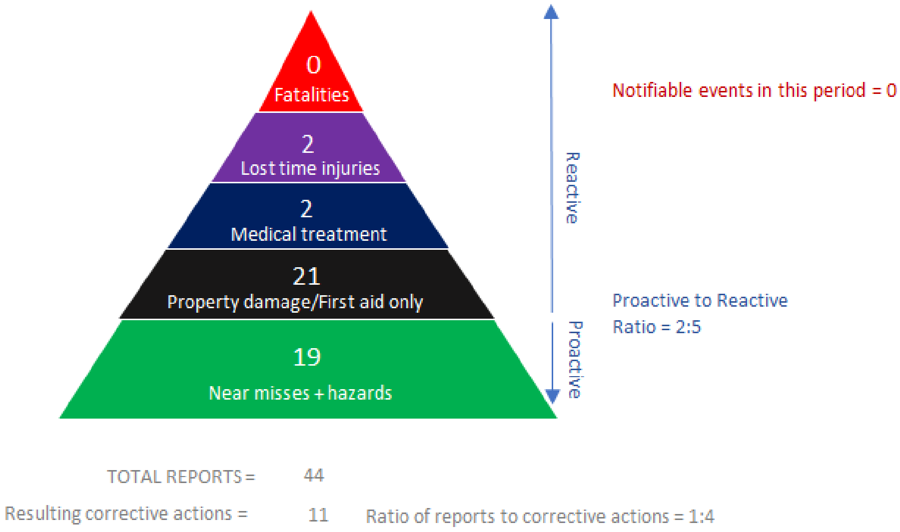
To inform the Finance, Risk and Assurance Committee on the health and safety performance of the organisation and activity associated with our critical risk areas.

2. Background

The full Greater Wellington Regional Council (GWRC) Organisational Performance Report contains an overview of the organisation's health and safety management against key metrics during the second quarter. This report contains some of the recent activity and performance since the previous report to the Finance, Risk and Assurance Committee, as well as an update on other key initiatives and activities undertaken by the Health and Safety Team relating to the organisations critical health and safety risk.

3. Understanding our health and safety risks

During the period from December to late-February, a total of 49 health and safety related events were recorded in KESAW (Keeping Employees Safe at Work). 44 of these directly related to activities of our staff and a further five related to reported events involving our response to events triggered by members of the public (e.g. Members of the public camping or using the parks for recreational activities). The following diagram is a breakdown of the 44 events that directly involved staff, by outcome.



The following table shows the 49 events against the risk classification, as recorded by the staff member reporting them.

Risk classification	**Number of events**	**% of total events**
Extreme	1	2%
High	5	10%
Medium	22	45%
Low	21	43%
Total	49	

Further analysis shows that across all 49 events recorded in KESAW, 40 of these related to one or more of the organisational critical risk categories. These are detailed in the table below.

		Risk classification					
		Extreme	**High**	**Medium**	**Low**	**Total**	**% of Events**
Risk category	**Animals/People**	0	2	0	2	2	2%
	Contractors/Other 3rd Parties	0	2	1	1	6	8%
	Hazardous substances	0	0	0	1	1	1%
	Lone/remote working	0	1	0	0	1	1%
	Physical works	0	2	5	6	13	17%
	Transportation	1	5	5	9	21	27%
	Work related health	0	0	0	0	0	0%
	Environment/Water Work	0	0	8	3	11	14%

4. Health and safety critical risk initiatives.

The following section provides a brief update on initiatives and activities associated with several of GWRC's identified critical risk areas over the period since the previous report, or planned for the near future.

4.1 Transportation

4.1.1 Trailer Use Training

Following the completion of the trailer use training for the 120 staff identified in the target group and the feedback received from them, work is continuing on finalising the content for The trailer use "SOP" and "Quick guide." Work is now underway to create an organisational wide register of all GWRC trailers, including capturing information about their designed purpose and features. It is planned to fit all trailers with a specific standardised GWRC specification information plate to help ensure staff are using trailers within their designed capability and purpose.

4.1.2 Review of on-road driver training

A range of information has been collated following an initial review of trainers for both off and on road driving. This has involved staff trialling and giving feedback on various Online learning options, attending comparative classroom theory sessions as well as practical on road assessments. Similarly, a review was completed of a 4WD training provider, who we have used for quad and LUV training, to understand if their more coaching based training style and practical theory delivery may better relate to the tasks performed by and environment our staff work in.

The Health and Safety Team will be making recommendations in the near future as to who and how best to deliver driver training, both on and off road, to GWRC staff.

4.2 Physical Works

4.2.1 Water Safety Workshop

At the start of February 2018, 25 field staff coming from Environmental Science, Flood Protection and Biosecurity participated in a Water Safety Workshop on the Otaki River in the Otaki Gorge run for GWRC by Captivate Adventures. The purpose of this workshop was to provide safe, but challenging practical refresher training for the risk assessment, critical controls and emergency procedures and equipment use relating to the safe work in and around water.




There was very positive feedback received from staff participating on the day, with most of them completing the reflective feedback questionnaire that was sent out to them in the days following the workshop. This has given the H&S Team a great foundation to progress work on bringing adequate and consistent controls to this critical risk across the organisation.

4.3 Lone and/or Remote Work

An initial workshop involving staff representative from across the organisation was run at the end of October, reviewing the organisation's management of the risks associated with lone and/or remote working. The workshop:

- Established the various contexts that lone and/or remote working work across the organisation's diverse activities

- Confirmed the systems, practices and tools currently in use at GWRC, including staff's thoughts on their strengths and weaknesses

- Gathered feedback from staff who have trialled various new emerging technology and applications and how this may be of use to GWRC

- Established recommendations from staff on a draft road map for future activities to improve the methods and consistency of how this risk is managed across the organisation – in particularly was looking at ways that communication capability, in and from the field, can be improved for GWRC staff.

5. Communication

There is no communication required.

6. Consideration of Climate Change

The matters addressed in this report have been considered by officers in accordance with the process set out in the GWRC Climate Change Consideration Guide.

6.1 Mitigation assessment

Mitigation assessments are concerned with the effect of the matter on the climate (i.e. the greenhouse gas emissions generated or removed from the atmosphere as a consequence of the matter) and the actions taken to reduce, neutralise or enhance that effect.

Officers have considered the effect of the matters on the climate. Officers consider that the matters will have no effect.

Officers note that the matter does not affect the Council's interests in the Emissions Trading Scheme (ETS) and/or the Permanent Forest Sink Initiative (PFSI).

6.2 Adaptation assessment

Adaptation assessments relate to the impacts of climate change (e.g. sea level rise or an increase in extreme weather events), and the actions taken to address or avoid those impacts.

Officers have considered the impacts of climate change in relation to the matters. Officers recommend that climate change has no bearing on the matters.

7. The decision-making process and significance

No decision is being sought in this report.

8. Engagement

Engagement on this matter is unnecessary.

9. Recommendations

That the Committee:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*

Report prepared by:	Report approved by:
David Querido Manager, Health & Safety	**Lucy Matheson** General Manager, People and Customer

greater WELLINGTON
REGIONAL COUNCIL
Te Pane Matua Taiao

Report	**18.57**
Date	27 February 2018
File	CCAB-22-308
Committee	**Finance, Risk and Assurance Committee**
Author	**Mike Timmer, Treasurer**

Summary risk report

1. Purpose

To update the Committee on changes to the risk register over the December quarter. To provide a presentation to the Committee on the Environment Management Group's risk management as part of the on-going reporting by each group within GWRC.

2. Background

Each quarter, the risks at group level are considered and reported to the Chief Executive.

This process involves adding new risks, archiving old risks if they are no longer relevant, reviewing the controls (risk mitigation/modifying management strategies) and checking that the scoring of the risk reflects its current state.

Each group's risks are reviewed by the Chief Executive, in conjunction with the General Managers and the General Manager Corporate Services/CFO, at the quarterly review meetings.

3. Comment on risk changes during the quarter

One risk was archived from the register and four new risks were added to the register during the December quarter.

The risk archived was:

1) Failure of trolley asset causes serious injury or cancellation of multiple services

   This risk has been archived as it has been superseded by the added risk of Overhead wire network removal.

The following risks added were:

1) Overhead wire network removal

   The risk relates to the removal which could cause injury to contractors or the public, cancellation or disruption to the road traffic including our bus services and the project itself in relation to keeping within budgeted guidelines.

2) Delay in the starting date of project Optimus might see a material increase in cost, which might necessitate re opening the purchase process involving other vendors at increased cost.

   The project was placed on hold due to other competing activities within Council. This has meant the existing offer from the vendor will lapse which could see a higher price when the contract is renegotiated, which might lead to a re-opening the purchase process at further cost.

3) Masterton administration building has a low resilience to Earthquake, with alternative accommodation in limited supply at short notice.

   The Masterton administration building has a low resilience to Earthquake meaning it could not with stand a moderate earthquake leading to closure. While the building is above the NBS code part of it ranges from 35%-45%. There is limited ability to relocate at short notice.

4) Heightened residual financial risk from a significant earthquake impacting the Wellington metropolitan rail network infrastructure (WMRNI).

   KiwiRail has updated its probable maximum loss (PML) calculations in relation to a seismic event on the WMRNI given better information as a result of information gathered from the Kaikoura earthquakes.

   This has seen gross insurance premiums (which we share with KiwiRail) increase significantly coupled with an increase in the level of deductible which Council must bear. The level of a perceived loss (over our level of insurance cover) has increased due to assumed increase PML estimates which Council continues to be exposed to.

Change in Risk Ranking:

There was change in scoring of two risks:

1) Reduction of bus service levels with transition to a new network, fleet and contracts.

   The organisational ranking changed from 25 in September to 8 in December 2017. This resulted from rescoring the ***Likelihood*** *which Transport has moved from* ***unlikely*** *to* ***likely*** *and are seeing this transition as more risky than previously assessed.*

2) A major disaster impacts on the capacity and capability of emergency management to meet its statutory obligations.

The organisational ranking changed from 35 in September to 22 at the end of December 2017. The inherent and residual risk level are scored high risk now, as currently there are less than the required number of trained GWRC staff available to man all the functional desks in the Emergency Coordination Centre. A major recruitment drive is under way and this was recently focus of the Leaders Forum on how to solve the problem with initiatives under way to resolve.

4. Environment Group presentation

Officers from the Environment Group will attend the meeting and provide insight into the topical and emerging risks for them.

5. Definition of report heading

A brief description of the Council's risk report columns (for **Attachment 1** and **Attachment 2**) and what they mean is as follows:

Overall ranking: by residual risk score: Residual risk is the risk that remains after controls have been applied and is discussed further below. A lower number means it has a higher residual risk relative to others. Thus the first listed risk is presently the 21st highest/most important risk to the organisation.

Risk ID: This is a unique system number assigned to a risk.

Risk Category: This is a category/(ies) of risk that the risk belongs to. Each category has a risk appetite which measures Council's propensity to accept risk. Health & safety to staff and contractors, Legislative and regulatory and Environment damage are areas where we have a low appetite to risk.

Description: Brief description of the risk.

Inherent Risk level: The risk is assessed/scored and placed into a classification category (Very High, High, Medium, or Low) before any controls are in place or put it another way, without them working.

Controls: These are processes which mitigate/modify a risk. They reduce the likelihood of occurrence of a risk or reduce the consequences when it occurs or both.

Residual Risk level: This is the risk classification category after the controls have been put in place and are working as expected.

Risk Owner/Business Unit: The person/group responsible for the risk. There is also a person assigned to each control which is not normally the risk owner.

Comment/Details: This provides a discussion around the risk.

6. Communication

There is no communication required.

7. Consideration of climate change

The matters addressed in this report have been considered by officers in accordance with the process set out in the GWRC Climate Change Consideration Guide.

7.1 Mitigation assessment

Mitigation assessments are concerned with the effect of the matter on the climate (i.e. the greenhouse gas emissions generated or removed from the atmosphere as a consequence of the matter) and the actions taken to reduce, neutralise or enhance that effect.

Officers have considered the effect of the matters on the climate. Officers consider that the matters will have no effect.

Officers note that the matter does not affect the Council's interests in the Emissions Trading Scheme (ETS) and/or the Permanent Forest Sink Initiative (PFSI).

7.2 Adaptation assessment

Adaptation assessments relate to the impacts of climate change (e.g. sea level rise or an increase in extreme weather events), and the actions taken to address or avoid those impacts.

Officers have considered the impacts of climate change in relation to the matters. Officers recommend that climate change has no bearing on the matters.

8. The decision-making process and significance

No decision is being sought in this report.

9. Engagement

Engagement on this matter is unnecessary.

10. Recommendations

That the Committee:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*

Report prepared by:	Report approved by:
Mike Timmer	**Dave Humm**
Treasurer	GM Corporate Services/CFO

Attachment 1: Changes to risks the register in December Quarter 2017
Attachment 2: Top ten risks

Attachment 1 – Changes to Risk register in December 2017 quarter

Risks archived during the quarter

QUARTERLY RISK REPORT 31 DECEMBER 2017

Overall ranking	Risk Id	Risk Category(s)	Description	Inherent risk level	Controls	Residual risk level	Risk owner	Status Change since last quarterly review, including any risk treatments being considered
28	113	• Health and safety of staff and contractors and volunteers • Political	Failure of trolley asset causes serious injury or cancellation of multiple services	High Risk	GWRC ensures that WCCL maintains and inspects the network Maintain strong relationships with WCCL, including regular meetings and reporting on assets	Medium Risk	Matthew Lear	Replaced by new risk 143

New Risks added during the quarter

QUARTERLY RISK REPORT 31 DECEMBER 2017

Overall ranking	Risk Id	Risk category(s)	Description	Inherent risk level	Controls	Residual risk level	Risk owner	Status Change since last quarterly review, including any risk treatments being considered
17	143	• Financial • Political	Overhead wire network removal	High Risk	GW holds a governance role in this project. Funding contract with WCCL which means we have regular updates and reporting from the project team. This includes health and safety, financial reports and operational progress Officers will also hold meetings on site so officers can visually check the work which is progressing. Officers have open and honest relationship with WCCL.	Medium Risk	Matthew Lear	In the quarter GW has: • Maintained strong relationships with WCCL, the network owners, including regular meetings & health and safety reporting • Continued to monitor monitor operational activities across the trolley bus overhead network (now focussed on overhead wire removal) to ensure that safety, quality standards and reliability of information are maintained by the network owners.
43	145	• Financial • Political	Delay in the starting date of project Optimus might see a material increase in cost, which might necessitate re opening the purchase process involving other vendors at increased cost.	Low Risk	Maintaining regular vendor contact prior to project starting	Low Risk	Mark Ford	The project was placed on hold due to other competing activities with in Council. This has meant the existing offer from the vendor will lapse which could see a higher price when the contract is renegotiated, which might lead to a re-opening of the purchase process at further cost.
39	146	• Services are severely curtailed • Political	The Masterton administration building has a low resilience to Earthquake, with alternative accommodation in limited supply at short notice.	Medium Risk	Insurance is in place Disaster Recovery Plan Negotiations are underay to lease an alternative building which includes fitting it out. This should be completed by September. The NBS code of the alternative accommodation is in the vicinity of 70% improving the reliance to EQ.	Medium Risk	Dave Humm	Negotiations are underway to lease an alternative building which includes fitting it out. This should be completed by September 2018. The NBS code of the alternative accomodation is in the vicinity of 70%, improving the resiliance to EQ.
20	147	• Financial • Political	Heightened residual financial risk from a significant earthquake impacting the Wellington metropolitan rail network infrastructure (WMRNI).	High Risk	Insurance is in place Self Insurance - risk carried	High Risk	Wayne Hastie	KiwiRail insured to the old PML given the substantial increase in premium. They are working with their Board on other options as the cost of increasing insurance to the new PML estimate is problematic in terms of cost.

Change In risk scoring during the quarter

The below risks have been re-rated during the December quarter.

QUARTERLY RISK REPORT 31 DECEMBER 2017								
Overall ranking	Risk Id	Risk Category(s)	Description	Inherent risk level	Controls	Residual risk level	Risk owner	Status Change since last quarterly review, including any risk treatments being considered
8	123	• Services are severely curtailed • Financial • Political	Reduction of bus service levels with transition to a new network, fleet and contracts	High Risk	Appropriate programme management in place - projects identified - responsibility allocated - regular monitoring - escalation - staggered transition - contingency planning	Medium Risk	Andrew Cooper	In the quarter GW has: • Monitored progress with bus operators with regular transition meetings • Facilitated forums for PT operator CEO • Facilitated meetings between bus driver unions and bus operators • Reviewed this risk - no change in status
22	28	• Political • Services are severely curtailed • Health of Safety of staff and volunteers	A major disaster impacts on the capacity and capability of emergency management to meet its statutory obligations	High Risk	Wellington Region Civil Defence Emergency Group Plan together with specific disaster plans Memo of understanding with other Councils/WREMO to mobilise more staff resource and utilise other premises Practice emergency simulations Business Plan review	High Risk	Rian van Schalkwyk	• Emergency Coordination Centre (ECC) has not enough GW volunteer staff to man all the funcional desks in case of an emergency. • Senior GW management has embarked on a major Recruitment campagne. It is expected that by June 2018 enoyugh GW staff will be vaialable and trained in their roles.

Risk 123 was ranked 25 previously, no change to the risk levels

Risk 28 was ranked 35 previously. Inherent and residual risk levels used to be "Medium Risk"

Attachment 2 – Top Ten risks

QUARTERLY RISK REPORT 31 DECEMBER 2017

Overall ranking by residual score	Risk Id	Risk category(s)	Description	Inherent risk level before Controls	Controls	Residual risk level after Controls	Risk owner	Residual score	Status Change since last quarterly review plus risk treatments being considered
1	115	• Services are severely curtailed • Loss, failure or damage to assets • Financial • Political	Failure of KiwiRail network assets or network operations causes damage to GWRL assets or cancellation of multiple services	High Risk	GW ensures that KiwiRail has a robust emergency response plan that: - provides for efficient bus replacements - provides for effective customer communications in the event of a failure - includes a separate set of operational parameters relating to earthquake magnitudes and readings from network based ground acceleration sensors GW ensures that KiwiRail has a robust network management plan that: - focuses funded renewal activities on critical components of the network - provides for infrastructure maintenance, monitoring and inspections Maintain strong relationships with network owner and the rail operator, including regular meetings and reporting against a clear set of performance targets GW partners an application to the crown (via MoT) for additional funding for 'catch up renewals' for network infrastructure GW participates in Metro Operating Model review led by MoT & Treasury $98.5m received for traction poles	High Risk	Angus Gabara	665	In the quarter GW has: • Maintained strong relationships with operators, maintainers and network owners including regular meetings & performance reporting • Continued to closely monitor operational activities across the rail system to ensure that safety, quality standards and reliability of information are maintained by the operators, maintainers and network owners • Worked with KiwiRail to improve Network Asset Management Plan • Provided support to obtain additional deferred renewal funding from MoT to continue face renewal of the overhead traction system on the Hutt Line • Reviewed this risk - no change in status
2	51	• Services are severely curtailed • Political	Currently contracted bus services fail to meet acceptable levels of service reliability and/or quality targets due to reasons within the control of the bus operator	High Risk	Enforceable Contracts with suppliers Department Business Continuity Plans Disaster Recovery Plan Maintain strong relationships with bus operators including regular meetings and reporting on performance Ensure bus operators have an operational plan for managing minimum service levels in the event of prolonged industrial action Ensure bus operators have maintenance programmes that ensure ongoing assessment of compliance, as well as suitable preventative maintenance programmes Ensure that contingency plans are considered at the first sign of pending insolvency Ensure bus operators have appropriate health and safety procedures and reporting Move to performance based contracts that promote compliance with performance targets	Medium Risk	Matthew Lear	630	In the quarter GW has: • Used Real Time Information (RTI) to monitor performance • Maintained strong relationships with operators, including regular and specific meetings & performance reporting. • Reviewed this risk - no change in status

Overall ranking by residual score	Risk Id	Risk category(s)	Description	Inherent risk level before Controls	Controls	Residual risk level after Controls	Risk owner	Residual score	Status Change since last quarterly review plus risk treatments being considered
3	77	• Health and safety of staff and contractors & volunteers • Environmental damage • Legislative and regulatory • Political	Contaminated site(s) either known or unknown that results in harm to environment and/or health	Very High Risk	Resourcing - additional admin resource has been provided to ensure that the database is updated regularly. Also the reports provided to the public have been reviewed and reformatted to be more user friendly. Additional technical expertise has also been allocated to review the data provided by the TA's.	Medium Risk	Lucy Baker	630	We manage our contaminated land through the Selected Land Use Register (SLUR) database; we have an allocated resource for this. We also manage contaminated land through Rule 55 of the proposed Natural Resource Plan. One of MfE's top ten contaminated sites is Miramar gasworks. A desk top investigation is complete for this site that advises further investigations to take place. We have had further meetings with the project time comprised of Wellington City Council, Regional public health and MfE. A communication plan has been developed, and further testing around the perimeter of the site began in early January - with results due end of February. All the business owners of the site have been informed, and they have been asked to send in any monitoring information that they hold. The outcome of the investigation around the site will dictate how much further investigation may be required. It is likely we will apply to MfE's remediation fund to help with costs if further investigation is warranted. There
4	114	• Projects	Delivery of the Regional Public Transport Plan (RPTP) put at risk due to delay or cancellation of one or more interrelated projects	Very High Risk	Co-ordinated project management Strong programme management Appropriate programme resources identified & engaged as required Appropriate external assistance Appropriate project governance Maintain strong relationships with WCC & NZTA Monthly major project reporting to ELT, providing additional level of review as to status, progress and risk profile	Medium Risk	Wayne Hastie	595	In the quarter GW has: • Continued to utilise the Public Transport Transformation Programme to manage the key large Public Transport Projects, establishing clear accountabilities, structures and reporting arrangements across GWRC, NZTA, WCC and other parties • Reviewed this risk - no change in status
5	107	• Services are severely curtailed • Political	Contracted rail services fail to meet acceptable levels of service, reliability and/or quality targets	High Risk	GW ensures that the rail operator has an emergency response plan that: - provides for efficient bus replacements - provides for effective customer communications in the event of a service disruption Maintain strong relationships with the rail operator, including regular meetings and reporting against a clear set of performance targets, including health and safety New performance based operating and maintenance contract	Medium Risk	Angus Gabara	595	In the quarter GW has: • Maintained strong relationships with operators, including regular meetings & performance reporting • Continued reviewing timetable performance using data available from the Rail Performance Monitoring System • Reviewed this risk - no change in status

Overall ranking by residual score	Risk Id	Risk category(s)	Description	Inherent risk level before Controls	Controls	Residual risk level after Controls	Risk owner	Residual score	Status Change since last quarterly review plus risk treatments being considered
6	63	• Financial • Political	Unnecessary costs or delays incurred as a result of poor Public Transport procurement	Medium Risk	Ensure documented processes conform to Office of Auditor General's Guidelines and NZ Transport Agency requirements Engage an independent Probity Auditor for all major contracts Internal peer review Ensure all procurement processes have access to staff with an appropriate level of training Seek appropriate legal advice as required Engagement of legal and procurement staff Overview by NZTA Projects managed by a separate programme management group with appropriate levels of skills and training	Medium Risk	Wayne Hastie	560	In the quarter GW has: • Utilised the Public Transport Transformation Programme to provide ongoing governance and support for the PTOM projects • Continued to engage with the industry and NZTA on the Public Transport Operating Model (PTOM) which will change the way we contract for bus and rail services. • Worked with external risk advisers in developing best practice PTOM contracts • Reviewed this risk - no change in status
7	141	• Legislative and Regulatory • Political	Breach of privacy	High Risk	Enforceable Contracts with suppliers Statutory Compliance Training Privacy Policy	Medium Risk	Francis Ryan	525	• Risk has been reviewed - no change in status
8	123	• Services are severely curtailed • Financial • Political	Reduction of bus service levels with transition to a new network, fleet and contracts	High Risk	Appropriate programme management in place - projects identified - responsibility allocated - regular monitoring - escalation - staggered transition - contingency planning	Medium Risk	Andrew Cooper	490	In the quarter GW has: • Monitored progress with bus operators with regular transition meetings • Facilitated forums for PT operator CEO • Facilitated meetings between bus driver unions and bus operators • Reviewed this risk - no change in status
9	103	• Health and safety of staff, contractors and volunteers • Political	Fatality or permanent disability to CM staff arising from use of a quad bike in a manner that doesn't comply with organisational Health and Safety	Very High Risk	Department Hazard Registers Working Alone Procedures & Equipment Departmental Plans - Maintenance Schedules Health & Safety Plan Standard Operating Procedures	Medium Risk	Wayne O'Donnell	468	• Risk has been reviewed - no change in status • The number of quad bikes has been reduced and were replaced with All Terrain Vehicles (ATV)
10	136	• Services are severely curtailed	Inability to adequately respond to another significant seismic event damaging Shed 39 and potentially the Masterton Office given high probability of another event	Medium Risk	Insurance is in place Department Business Continuity Plans Disaster Recovery Plan	Medium Risk	Dave Humm	456	The November 2016 earthquakes in Kaikoura have significantly raised the chances of another magnitude 7 event that could impact shed 39 again. Alternative accommodation in Wellington is in high demand, it might be difficult to relocate again. Longer term plans in terms of accommodation are being considered, including the additional space at Walter street. Work is underway to secure an alternative site in Masterton.

Report	**2018.47**
Date	23 February 2018
File	CCAB-22-302
Committee	**Finance, Risk and Assurance Committee**
Author	**Mark Ford, Manager, Strategic Finance**

Summary of financial statements until 31 January 2018

1. Purpose

For the Finance, Risk and Assurance Committee to receive the summary performance report for the seven months to 31 January 2018 and also an updated full year forecast to 30 June 2018.

2. Background

This report provides a review of the financial performance of GWRC activities (**Attachment 1**).

Overall, GWRC is in a favourable financial position against budget for the year-to-date position and currently marginally over budget for the full year forecast.

2.1 Full year forecast

The full year forecast of the year shows an operating deficit that is currently **$1.4m unfavourable to budget**. This is driven by additional costs for alternate water source and the water quality projects, KiwiRail network insurance, Ganz Mavag train disposal, and Ava bridge demolition costs offset by timing on trolley bus decommissioning costs and higher rail fare revenue due to patronage growth.

Capital expenditure is forecast to be **$5.0m favourable to budget** due to the interim ticketing solution moving from capex to opex, lower heavy train maintenance, Maitangi train retrofit, off-set by timing on RiverLink property acquisitions and additional Waterloo water quality related expenditure.

2.2 Year to 31 January 2018

The year to date operating position is **$2.7m favourable to budget** due to the timing of activity across all groups, primarily Public Transport off-set by additional water supply costs.

Capital expenditure is **$14.6m favourable to budget** primarily due to timing on Public Transport related projects and Riverlink property acquisition timing, offset by additional costs for the Waterloo water quality project and timing on other flood protection projects.

3. Communication

There is no communication required.

4. Consideration of climate change

The matters addressed in this report have been considered by officers in accordance with the process set out in the GWRC Climate Change Consideration Guide.

4.1 Mitigation assessment

Mitigation assessments are concerned with the effect of the matter on the climate (i.e. the greenhouse gas emissions generated or removed from the atmosphere as a consequence of the matter) and the actions taken to reduce, neutralise or enhance that effect.

Officers have considered the effect of the matters on the climate. Officers consider that the matters will have no effect.

Officers note that the matter does not affect the Council's interests in the Emissions Trading Scheme (ETS) and/or the Permanent Forest Sink Initiative (PFSI).

4.2 Adaptation assessment

Adaptation assessments relate to the impacts of climate change (e.g. sea level rise or an increase in extreme weather events), and the actions taken to address or avoid those impacts.

Officers have considered the impacts of climate change in relation to the matters. Officers recommend that climate change has no bearing on the matters.

5. The decision-making process and significance

No decision is being sought in this report.

6. Engagement

Engagement on this matter is unnecessary.

7. Recommendations

That the Committee:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*

Report prepared by:	Report approved by:
Mark Ford	**Dave Humm**
Manager, Strategic Finance	General Manager Corporate Services / CFO

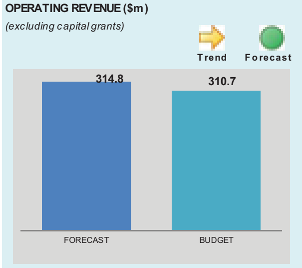
Attachment 1: Financial Summary

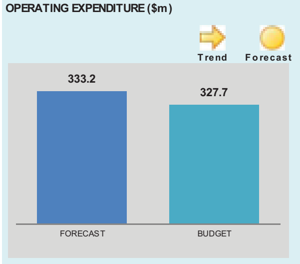
Financial Summary - Full Year Forecast - 31 January 2018

OPERATING SURPLUS

-$18.4m

$1.4m Unfavourable

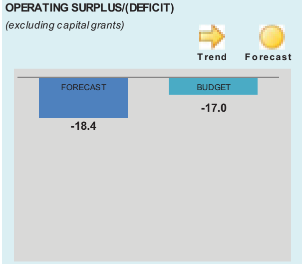


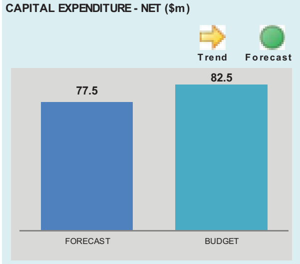


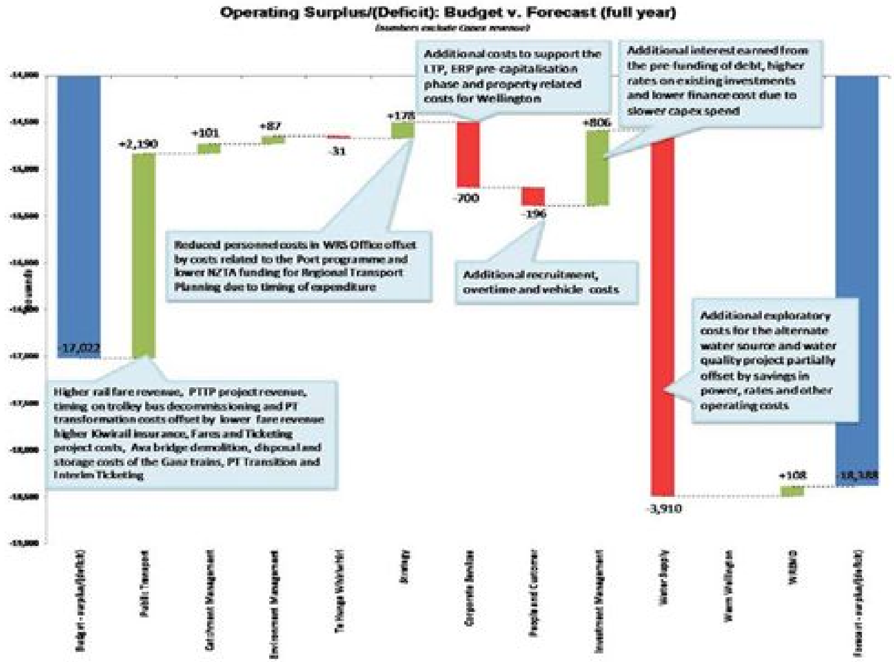
CAPITAL EXPENDITURE - NET

$77.5m

$5.0m Favourable







Council Summary

Forecast operating deficit (before capital grants) is $1.4m unfavourable to budget. This variance primarily relates to additional costs for alternate water source and water quality project, public transport transition, additional Kiwirail network insurance, expensing of Ava Bridge demolition, offset by lower costs for trolley bus decommissioning due to timing, higher fare revenue due to patronage growth and additional interest earned from the pre-funding of debt and higher interest on deposits.

FY Forecast by Business Group

Operating Revenue $4.1m favourable

Public Transport is forecast to be $2.3 m favourable to budget which mainly reflects higher reflects higher rail fare revenue driven by higher patronage ($1.3m) and PTTP project revenue ($1.4m), offset by lower NZTA grants ($0.4m) due to lower claimable costs and higher revenue.

Catchment is forecast to be $0.1m unfavourable to budget, primarily reflecting lower rent revenue due to timing of RiverLink property acquisitions.

Environment is forecast to be aligned with budget reflecting additional revenue from RONS consenting ($0.2m) offset by reduced revenue from Crown Irrigation Investments ($0.2m) for Water Wairarapa.

Strategy is forecast to be $0.7m favourable to budget which reflects additional stakeholder contributions to support Regional Infrastructure Resilience Business case ($0.8m), funding received from ACC for road safety initiatives ($0.1m) partially offset by lower NZTA funding for Regional Transport Planning due to timing of expenditure ($0.2m).

Investment Management is forecast to be $1.0m favourable to budget which reflects additional interest earned from the pre-funding of debt and higher interest on deposits due to banks paying higher rates to attract funds.

Operating Expenditure $5.4m unfavourable

Public Transport is forecast to be $0.1m unfavourable to budget reflecting disposal and storage costs of the Ganz trains ($0.5m), Kiwirail network insurance ($1.5m) as a result of reallocation of risks to the Wellington network, Fares and Ticketing project ($2.3m) due to change of the nature from capex to opex, expensing of Ava Bridge demolition ($0.8m) offset by lower costs for trolley bus decommissioning ($3.4m) due to timing, and other PT transformation costs (including bus fleet premium/ticketing) ($1.6m).

Catchment is forecast to be $0.2m favourable to budget reflecting lower finance costs due to the timing of RiverLink property acquisitions ($0.2m) and lower riparian contractor costs due to slower uptake from farmers ($0.3m) offset by additional property management and maintenance costs ($0.2m) and personnel costs ($0.1m).

Environment is forecast to be $0.1m favourable to budget due to lower Water Wairarapa costs ($0.1m) and Natural Resources Plan costs due to timing of hearings ($0.2m) partially offset by additional RONS consenting costs ($0.2m).

Strategy is forecast to be $0.5m unfavourable to budget which reflects additional expenditures to support Regional Infrastructure Resilience Business case ($0.8m), additional cost for road safety cycle course which is funded by ACC ($0.1m) and costs related to the Port programme ($0.3m) offset by a reduction of personnel costs in WRS Office ($0.6m).

Corporate Services is forecast to be $0.6m unfavourable to budget due to additional long term planning resource, ERP pre-capitalisation phase costs, and additional resource required in preparation for the new Public Transport bus operating contracts ($0.4m) and an increase in earthquake related property related costs for the Wellington office ($0.2m)

Investment Management is forecast to be $0.1m unfavourable to budget reflecting additional funding cost of prefunding debt partially offset by lower interest costs due to slower capex spend by business.

Water Supply is forecast to be $4.0m unfavourable to budget reflecting the additional exploratory costs for the alternate water source project ($3.0m) water quality project ($1.7m), depreciation ($0.3m) and finance costs ($0.2m). This is partially offset by savings in power, rates and other operating costs ($1.3m).

People and Customer is forecast to be $0.1m unfavourable to budget reflecting the additional recruitment and pool vehicle costs.

Capital Expenditure $5.0m favourable

Public Transport is $7.5m favourable to budget reflecting change of funding for interim and GWRC ticketing solution from Capex to Opex ($3.7m), timing on bus infrastructure ($0.7m), Matangi trains retrofit ($2.6m) and lower maintenance ($1.7m), offset by higher spending on station renewals and upgrades ($0.8m) and PT Transformation ($0.3m)

Catchment is forecast to be $2.8m unfavourable to budget due to timing of commercial property purchases for the RiverLink project ($4.0m), partially offset by reduced Lower Wairarapa Valley Development stopbank improvements ($0.8m) due to landowner negotiation delays, and a ($0.4m) reduction in Pinehaven implementation expenditure due to programme revision by Wellington Water.

Water Supply is forecast to be $2.2m unfavourable to budget due additional water quality spending ($5.6m), partially offset by alternate water supply ($2.7m) due to the timing of drilling the monitoring bore, timing in cathodic protection, and reactive renewals ($0.7m).

Corporate Services is forecast to be $2.3m favourable to budget reflecting delays in the planned timing of Project Optimus to next financial year.

Financial Summary - Year to Date - 31 January 2018

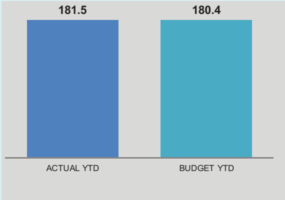
OPERATING SURPLUS

-$5.1m

$2.7m Favourable YTD

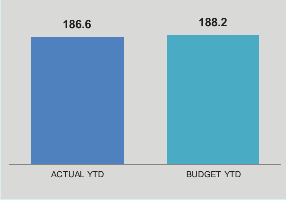
OPERATING REVENUE ($m)
(excluding capital grants)

Trend YTD



OPERATING EXPENDITURE ($m)

Trend YTD



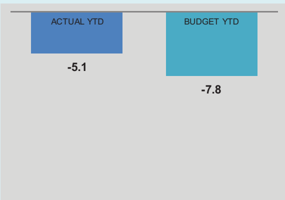
CAPITAL EXPENDITURE - NET

$27.4m

$14.6m Favourable YTD

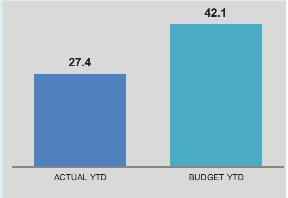
OPERATING SURPLUS /(DEFICIT)
(excluding capital grants)

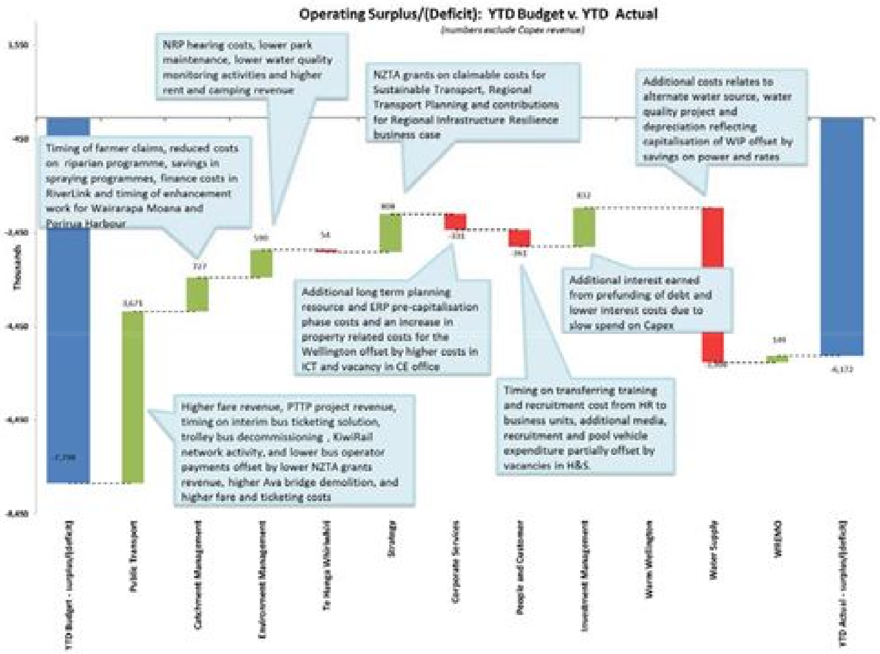
Trend YTD



CAPITAL EXPENDITURE - NET ($m)

Trend YTD





Council Summary

Year to date operating deficit (before capital grants) is $2.7m favourable to budget. The variance is primarily related to reflecting timing on interim Bus Ticketing solution, Trolley bus decommissioning, KiwiRail network activity, higher fare revenue and National Ticketing revenue partially offset by lower NZTA grants, expensing of Ava Bridge demolition costs additional Fare and Ticketing project and costs for alternate water source and water quality project.

YTD Business Group Commentary:

Operating Revenue $1.1m favourable

Public Transport is $0.4m unfavourable to budget reflecting lower NZTA grants ($3.4m) from lower claimable costs offset by higher fare revenue ($0.5m), PTTP project revenue ($2.5m).

Catchment is $0.1m unfavourable to budget due to reduced seedling sales for Akura ($0.1m), lower farm consultation activity for Land Management ($0.1m) offset by the additional revenue from DOC for Matthew Lagoon spraying and AsureQuality for Mycoplasma bovis response ($0.1m).

Environment is $0.2m unfavourable to budget reflecting timing of RONS project ($0.1m) reduced revenue from Crown Irrigation Investments ($0.2m) for Water Wairarapa partially offset by higher rent and camping revenue for Parks ($0.1m).

Strategy is $0.8m favourable to budget which reflects timing of NZTA grants on claimable costs for Sustainable Transport and Regional Transport Planning ($0.1m) and contributions for Regional Infrastructure Resilience Business case ($0.7m).

Investment Management is $0.7m favourable to budget which reflects additional interest earned from the prefunding of debt ($0.4m) and higher interest on deposits ($0.2m) due to bank paying higher rates to attract funds offset by interest cost due to higher reserve balance ($0.1m).

Operating Expenditure $1.6m favourable

Public Transport is $4.0m favourable to budget reflecting timing on interim Bus Ticketing solution ($1.6m), trolley bus decommissioning ($1.8m), PT Transition ($0.2m), KiwiRail network activity ($1.4m), lower rail operator payments ($0.3m), bus operator payments mainly due to diesel inflation fluctuations ($0.7m) offset by expensing of Ava bridge demolition costs which was previously treated as capex ($0.8m) and higher fare and ticketing project costs ($1.6m) due to the change of its nature from capex to opex.

Catchment is $0.8m favourable to budget reflecting the timing of farmer claims for the hill country erosion programme ($0.2m), reduced costs on riparian programme ($0.2m), savings in finance costs ($0.3m) in RiverLink and delays for spraying programmes due to weather and timing of enhancement work for Wairarapa Moana and Porirua Harbour ($0.2m).

Environment is $0.8m favourable to budget reflecting timing of NRP hearing costs ($0.1m), lower park maintenance costs ($0.2m) due to unfavourable weather, lower water quality monitoring activities ($0.4m) and lower expenditure in Water Wairarapa due to reframing the annual programme ($0.1m).

Strategy is inline with the budget however this includes additional costs for Regional Infrastructure Resilience business case ($0.7m), offset by vacancies and timing of spend in relation to the LTP and annual report.

Corporate Services is forecast to be $0.2m unfavourable to budget due to additional LTP resource, ERP pre-capitalisation phase costs ($0.4m) and an increase in property related costs for the Wellington ($0.1m) offset by lower costs in ICT ($0.1m) and a vacancy in the CE office ($0.2m).

People and Customer is $0.3m unfavourable to budget due to timing on transferring training and recruitment cost from HR to business units ($0.2m), additional media, recruitment and pool vehicle expenditure ($0.1m) partially offset by vacancies in H&S.

Investment Management is forecast to be $0.2m favourable to budget reflecting lower interest costs from slower capex spend ($0.4m), partially offset by additional interest cost for prefunding of debt ($0.2m).

Water Supply is $3.4m unfavourable to budget reflecting additional costs relating to alternate water source, water quality project ($3.3) and depreciation ($0.4m) from capitalisation of WIP offset by savings on power and rates ($0.3m).

Capital Expenditure $14.6 m favourable

Public Transport is $17.3 m favourable to budget reflecting timing in spending on bus shelter and signage ($0.7m), station renewals and upgrades ($3.4m), park and rides ($0.6m), change in funding of bus network infrastructure and PT transition project ($5.5m) and interim and GWRC ticketing solution ($3.7) from capex to opex as well as lower heavy maintenance and rolling stock ($3.1m).

Catchment is $0.7m unfavourable to budget due to improved property acquisition progress for RiverLink ($3.3m) offset by timing delays with Pinehaven implementation ($0.4m), resource consent hearings ($0.3m), LWVD stop bank upgrades ($0.2m), Waiohine FMP ($0.2m), Te Kauru implementation ($0.3m) and vehicle and plant acquisitions ($0.3m).

Water Supply is $4.9m unfavourable to budget due to additional costs on for Waterloo water treatment expenditure and alternate water supply.

Corporate Services is forecast to be $1.0m favourable to budget reflecting delays in the planned timing of Project Optimus.

Council Financial Summary ('000s)

Statement of Revenue and Expense by Business Group - Full Year

	FULL YEAR			FULL YEAR			FULL YEAR		
	Operational Revenue			Operational Expenditure			Operational Surplus / (Deficit)		
$000	Forecast	Budget	Variance	Forecast	Budget	Variance	Forecast	Budget	Variance
Group									
Public Transport	188,235	185,973	2,262	187,915	187,843	72	319	(1,870)	2,190
Catchment Management	37,984	38,051	67	30,962	31,130	168	7,022	6,921	101
Environment Management	29,894	29,857	37	29,076	29,126	51	818	731	87
Te Hunga Whiriwhiri	1,052	1,034	18	1,074	1,026	49	(22)	9	31
Strategy	12,340	11,626	715	13,440	12,904	536	(1,100)	(1,278)	178
Corporate Services	10,202	10,272	70	18,640	18,010	630	(8,438)	(7,738)	700
People and Customer	2,365	2,415	50	10,148	10,002	146	(7,783)	(7,587)	196
Investment Management	(6,280)	(7,307)	1,027	(3,395)	(3,617)	221	(2,884)	(3,691)	806
Water Supply	32,270	32,170	100	38,907	34,897	4,010	(6,637)	(2,727)	3,910
Warm Wellington	3,183	3,183	0	3,180	3,180	0	3	3	0
WREMO	3,545	3,452	93	3,230	3,245	15	314	207	108
TOTAL	**314,790**	**310,725**	**4,065**	**333,178**	**327,747**	**5,431**	**(18,388)**	**(17,022)**	**1,366**

Statement of Revenue and Expense by Business Group -Year to Date

	YEAR TO DATE			YEAR TO DATE			YEAR TO DATE		
	Operational Revenue			Operational Expenditure			Operational Surplus / (Deficit)		
$000	Actual YTD	Budget YTD	Variance	Actual YTD	Budget YTD	Variance	Actual YTD	Budget YTD	Variance
Group									
Public Transport	106,388	106,744	356	103,285	107,312	4,027	3,103	(568)	3,671
Catchment Management	22,450	22,540	90	17,331	18,147	817	5,119	4,392	727
Environment Management	17,424	17,626	202	15,986	16,779	793	1,438	847	590
Te Hunga Whiriwhiri	618	603	15	627	559	68	(9)	45	54
Strategy	7,550	6,741	809	7,389	7,389	1	161	(648)	808
Corporate Services	5,885	5,992	107	10,481	10,258	223	(4,596)	(4,266)	331
People and Customer	1,381	1,409	28	6,117	5,783	334	(4,736)	(4,374)	362
Investment Management	(3,535)	(4,205)	670	(2,278)	(2,116)	162	(1,257)	(2,089)	832
Water Supply	18,860	18,766	94	23,792	20,392	3,400	(4,933)	(1,626)	3,306
Warm Wellington	2,002	1,857	146	2,002	1,856	146	(0)	0	0
WREMO	2,498	2,372	126	1,861	1,883	22	637	489	149
TOTAL	**181,520**	**180,444**	**1,076**	**186,593**	**188,241**	**1,648**	**(5,073)**	**(7,798)**	**2,725**

Net Capital Expenditure by Business Group

	YEAR TO DATE			FULL YEAR		
$000	**Actual YTD**	**Budget YTD**	**Variance**	**Forecast**	**Total Budget**	**Variance**
Group						
Public Transport (incl investment)	3,220	20,604	17,385	29,828	37,350	7,522
Catchment Management	8,758	9,471	714	24,464	21,652	2,812
Environment Management	2,011	2,542	530	4,839	5,119	280
Strategy	81	129	48	284	634	350
Corporate Services	453	1,417	964	1,703	4,003	2,300
People and Customer	104	195	91	197	197	0
Investment Management	570	380	190	1,110	660	450
Water Supply	12,250	7,341	4,910	15,121	12,918	2,203
TOTAL	**27,446**	**42,079**	**14,632**	**77,546**	**82,532**	**4,986**

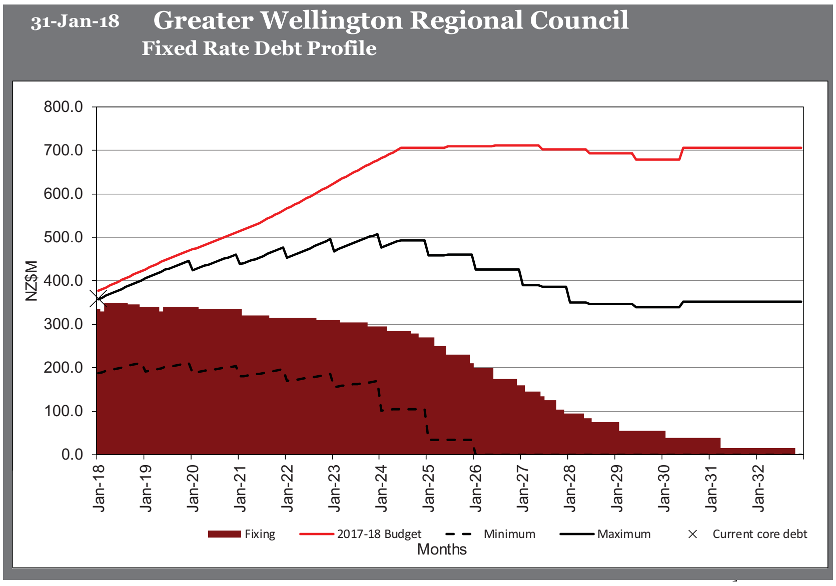
Statement of Revenue and Expense

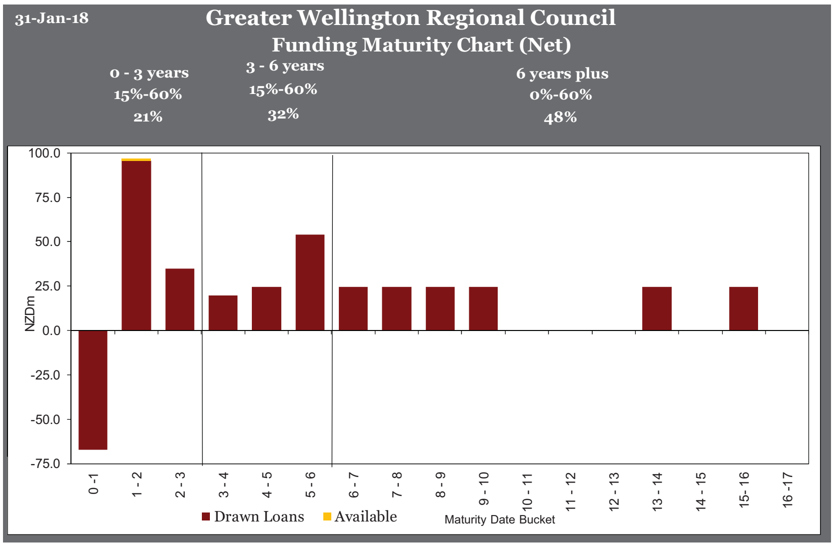
	YEAR TO DATE			FULL YEAR		
$000	**Actual YTD**	**Budget YTD**	**Variance**	**Forecast**	**Total Budget**	**Variance**
OPERATING REVENUE						
Rates	70,809	70,443	367	120,780	120,780	0
Subsidies & Grants	38,015	41,650	3,635	71,967	72,647	681
Other Revenue	69,952	66,519	3,433	117,816	114,255	3,561
Finance Revenue	2,744	1,832	912	4,228	3,043	1,185
TOTAL REVENUE	**181,520**	**180,444**	**1,076**	**314,790**	**310,725**	**4,065**
OPERATING EXPENDITURE						
Personnel	26,660	26,890	231	46,444	46,244	199
Material & Contractor/Consultant	41,890	40,583	1,307	77,558	69,603	7,955
Depreciation & Amortisation	10,774	10,438	336	18,200	17,894	306
Grants & Subsidy	84,673	88,579	3,906	153,265	156,669	3,404
Finance Cost	11,304	11,323	19	19,540	19,686	146
Other Expense	11,293	10,428	865	18,171	17,651	520
TOTAL EXPENDITURE	**186,593**	**188,241**	**1,648**	**333,178**	**327,747**	**5,431**
OPERATING SURPLUS/(DEFICIT)	**(5,073)**	**(7,797)**	**2,724**	**(18,388)**	**(17,022)**	**1,366**
Subsidies & Grants - Capex	**6,017**	**12,432**	**6,416**	**23,845**	**23,905**	**60**
Fair Value Movement	**0**	**0**	**0**	**9,250**	**9,250**	**0**
SURPLUS/(DEFICIT)	**944**	**4,635**	**3,692**	**14,707**	**16,133**	**1,426**

Compliance with Treasury Risk Management Policy

Total Council Limit Compliance Analysis		Compliant Yes	No	actual %
Debt Interest Rate Policy Parameters				
Current	50% - 95%	✓		85%
year 1	45% - 95%	✓		80%
year 2	40% - 90%	✓		72%
year 3	35% - 85%	✓		65%
year 4	30% - 80%	✓		56%
year 5	25% - 75%	✓		50%
year 6	15% - 70%	✓		43%
year 7	5% - 65%	✓		38%
year 8	0% - 60%	✓		28%
year 9	0% - 55%	✓		23%
year 10	0% - 50%	✓		14%
year 11	0% - 45%	✓		11%
year 12	0% - 40%	✓		8%
year 13	0% - 35%	✓		6%
year 14	0% - 30%	✓		2%
year 15	0% - 25%	✓		0%
The maturity of total external debt less liquid financial investments to fall within the following timebands				
0 - 3 years	15% - 60%	✓		21%
3 - 5 years	15% - 60%	✓		32%
> 5 years	10% - 60%	✓		48%

		Compliant Yes	No	actual %
Countreparty credit exposure with New Zealand registerd banks which have a credit rating of at least A-, long term, and A2 short term		✓		
Other counterparty exposure within policy limits		✓		
Maximum counterparty exposure with a NZ registered bank is within $86 million limit		✓		
The repricing of liquid financial investments are to occur within the following timebands				
0 -1 year	40% - 100%	✓		95%
1 - 3 years	0% - 60%	✓		0%
3 - 5 years	0% - 40%	✓		5%
5 -10 years	0% - 20%	✓		0%
Core Council External Borrowing Limits - Ratios				
Net interest / Total Revenue < 20%		✓		5.0%
Net Debt / Total Revenue < 250%		✓		80.9%
Net interest / Annual rates and levies < 30%		✓		9.9%
Liquidity > 110%		✓		111%





Report	**2018.37**
Date	1 March 2018
File	CCAB-22-300

Committee Finance, Risk and Assurance Committee
Author Dave Humm, General Manager Corporate Services/Chief Financial Officer
Lucy Matheson, General Manager, People and Customer

General Managers' report to the Finance, Risk and Assurance Committee on 6 March 2018

1. Purpose

To inform the Committee of Greater Wellington Regional Council (GWRC) activities relating to the Committee's areas of responsibility.

2. Key matters

- The key focus for both the Corporate Services and People & Customer Groups remains preparing our functions for the transition to the new bus Public Transport Operating Model (PTOM.) Delivery schedules remain challenging, but on track.
- To reduce delivery risk on PTOM transition, the detailed design phase of Project Optimus - the project to replace our aging Finance, Risk, and Asset Management System, will commence later in 2018.
- As anticipated, the review of our finance processes has identified a number of opportunities to further improve our control environment. A project is in progress to address the identified areas.
- A high level of focus remains on the successful delivery of the Long Term Plan (LTP) budgets and the review and proposed changes to the Revenue and Financing Policy. The process for both are both running as planned.

3. Corporate Services

3.1 Finance

3.1.1 Finance summary

Key finance requirements for the PTOM transition have been scoped and a transition lead has been appointed to deliver a programme of work for a successful transition.

The Finance and Strategy teams have been working closely together in the LTP process, with the draft budget completed in December.

The process to review the Revenue and Financing Policy continued and a draft policy has been prepared for proposal, together with the LTP. The Councillor working group, which was established to work with Officers to refine policy options for discussions at full Council workshops, has functioned well.

The project to replace our finance, HR and asset management system (Project Optimus) is progressing well, but with the detailed design phase deferred to manage organisational capacity while the Council prepares for the transition to the new bus operating model. It has been identified that increased budget is likely to be required to provide more resource to back-fill staff and increase IT support.

The final audit of the Annual Financial Statements was completed with no significant issues identified. It has been a challenging process due to the complexity caused by the November 2016 earthquake's impact on CentrePort.

3.2 ICT

3.2.1 ICT Summary

Preparations for the transition of systems into production for the new bus operating model is the top priority for the ICT team. Requirements for system transition and handover are being worked through to identify areas of change to current processes, IT systems support contract changes and technical project deliverables required for operational systems support.

A number of other improvement projects, including the initial phase of rolling out video conferencing software across the organisation, has been completed. Focus continues on further improving the resilience of our ICT infrastructure and service levels to the organisation.

3.3 Treasury

3.3.1 Investment Management

A number of financing transactions were entered into during the quarter with WRC Holdings Ltd taking advantage of very favourable floating rate borrowing conditions.

$50 million of maturing LGFA debt was repaid, with it replaced in advance with new long dated LGFA debt.

GWRC has placed $40 million of long dated hedging starting in and around 2021 and 2022 and achieved pleasing maturity dates of 2030 and 2032 at an interest cost of around 3.90%. This increases our hedging out in the future in line with advice from our Treasury advisors PwC.

3.3.2 WRC Holdings

Annual accounts for WRC Holdings Ltd completed after earthquake impacted receipt of CentrePort's accounts. No significant audit issues were noted with WRCH accounts.

A Letter of expectations for CentrePort for the coming year was completed, with focus on adopting a collaborative approach on key strategic port initiatives.

3.3.3 Insurance

Material Damage Business Interruption, (MDBI) interim review of our 2 year contract resulted in a premium increase in the vicinity of $600,000, which has been funded in the Long Term Plan.

3.3.4 Risk Management

A separate report on this is included in the agenda.

GWRC's exposure to the Wellington metropolitan rail network has recently been reassessed by KiwiRail as a consequence of the updated seismic information obtained from the Kaikoura earthquakes.

KiwiRail has insured to the new low level probable maximum loss (PML) assessment, being the same as the previous high PML assessment. This was because the gross premium had moved from $4 million to $10 million as a result of the Kaikoura earthquakes. Their Board are currently assessing this.

Our exposure has increased significantly and can be summarised as $8.6 million being 43% of the $20 million excess, and 43% of the loss above the low PML assessment of $350 million. NB the high PML assessment is $781 million for a Wellington based event. So it could be as high as ($781-$350)*43% = $185 million.

Additionally, we are awaiting a PML report from The Treasury on our Flood Protection assets and our underground water assets as part of their due diligence to understand their exposure. Once this is complete we will compare to our own and ascertain if further insurance cover or funding needs to be set aside to meet a catastrophic event. We are also seeking clarification on the Government's 60% support for underground assets as to whether the indemnity value or full replacement and reinstatement is covered, following the settlement process for the Christchurch earthquakes.

3.3.5 Business Assurance (internal audit)

The project to review all finance processes from a customer and controls perspective ('Project Arcee') has made good progress with all key financial processes reviewed. Implementation of the project recommendations will be completed by 30 June 2018.

3.4 Legal, Procurement, and Asset Management

Legal and procurement support continues to be provided across the business, with a focus on PTOM bus transition related requirements, working with the Corporate Services Transition Lead.

The updating of the Procurement Policy is almost complete, and is due to go to the Executive Leadership Team for approval this quarter. Implementation of the policy will align well with the roll-out of the finance process changes recommended through 'Project Arcee'.

Asset management support has been focussed on preparation of the Infrastructure Strategy for the Long Term Plan.

3.5 Programme Management Office (PMO)

"Lessons learned" has been a key focus for the last six months for recently closed projects. A centralised database with all lessons learned has been established with easy access to all project managers to utilise at project initiation and planning stage. This is closely tied in with risk identification and mitigation through the lifecycle of the project.

The PMO continues to work proactively with senior business and project managers with the use the project management tools and processes customised for GWRC in the Project Management Policy and Framework.

A 'Project Health Check' process introduced last is being used on a case-by-case basis with projects that have escalated risks and issues with the aim to return them to a positive 'even keel' status by working alongside and supporting project managers and business owners.

4. People and Customer

4.1 Health and Safety

A summary of health and safety initiatives is detailed in a separate report to this Committee (refer report 18.61)

4.2 Customer Engagement

4.2.1 Listening to our customers and learning about what they want/need

Work is underway to support the transition to an 'outside-in' approach for GWRC, i.e. to improve our understanding of the customer's needs and use this insight to drive our planning and delivery.

There are a number of key initiatives in development to support this transition:

1. *Net Promoter Score Snapshot:* a bi-monthly online survey that will measure the level of understanding and advocacy for the Metlink brand as well as to identify ways to improve the timeliness and relevance of our communications. This will commence

2. *Reputation Tracker:* this is currently being scoped and aims to provide a baseline measure of GWRC's reputation and the associated drivers of favourability.

3. *GW (not Metlink) Segmentation:* discussions are underway with our external partner, Eleven, to understand their expertise and proposed approach.

4. *Current State – Insight*: work will commence shortly to understand all the sources of insight that are relevant to driving more effective Customer Engagement and how these can be harnessed more effectively.

4.2.2 Reputation enhancement via growing relevance

Reputation Framework

This framework aims to proactively manage reputational risk and opportunity in both the short and medium-term across GWRC. The framework design has been endorsed by the Executive Leadership Team and is currently being socialised and operationalised across the different business units.

The key next step will focus on the creation of a Reputation Governance Board which will bring together key stakeholders across the organisation for strategic reputational decision-making. This work is a vital step in creating a collective GW responsibility for enhancing the perceived relevance and value across our broader customer base.

GWRC Brand

Customer Engagement has a number of key initiatives underway to enhance GWRC's reputation, improve awareness and relevance and grow perceived value of GWRC. The core advocacy programme, 'Our Region', is now well underway and in its second phase with the focus on Parks.

The proposed refresh of the GWRC brand identity, approved by the Executive Leadership Team and the Councillors. The rollout of the new visual identity will take place by the end of this financial year. Furthermore, consultation with staff on the other elements of the GWRC brand will commence in late March.

5. Communication

No external communication is required as an outcome of this report.

6. The decision-making process and significance

No decision is being sought in this report.

7. Engagement

Engagement on this matter is unnecessary.

8. Recommendations

That the Committee:

1. ***Receives** the report.*
2. ***Notes** the content of the report.*

Report prepared and approved by:	Report prepared and approved by:
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