

Minutes of the Audit, Finance and Risk Committee held at Environment Canterbury, 200 Tuam Street, Christchurch on Thursday, 8 December 2022 at 1.30pm.

Present

Committee Chair Councillor Grant Edge, Deputy Committee Chair Councillor John Sunckell, Councillor Tutehounuku Korako, Independent Member Graham Naylor and Councillors Ian Mackenzie and Vicky Southworth.

Ex-Officio: Chair Peter Scott.

1. Mihi/Karakia Timatanga - Opening

Cr Tutehounuku Korako opened the meeting with a Mihi. The Karakia was provided earlier in the day.

Committee Chair Cr Grant Edge welcomed everyone to the meeting.

2. Apologies

Apologies for absence were received from Cr Genevieve Robinson and Independent Member Graeme McGlinn.

3. Conflicts of Interest

There were no conflicts of interest reported.

4. Public Forum, Deputations, and Petitions

There were no requests for public forum, deputations, and petitions.

5. Extraordinary and Urgent Business

There was no extraordinary or urgent business.

6. Notices of Motion

There were no notices of motion.

7. Minutes

Refer pages 11-15 of the agenda.

7.1. Confirmed Minutes - Audit, Finance and Risk Committee - 15 September 2022

Refer pages 12-15 of the agenda.

The minutes were confirmed on 7 October 2022 and were presented to the Council meeting of 17 November 2022.

Resolved AFRC/2022/100

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Notes the confirmed minutes from the Audit, Finance and Risk Committee meeting held on 15 September 2022.

Cr John Sunckell/Cr Vicky Southworth

CARRIED

8. Report Items

Refer pages 16-87 of the agenda.

8.1. Audit, Finance and Risk Committee Resolutions Status Report - December 2022

Refer pages 16-19 of the agenda.

Staff provided visibility on the status of resolutions made by Audit, Finance and Risk Committee.

Resolved AFRC/2022/101

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Notes the status of previous resolutions provided in the Status of Audit, Finance and Risk Committee Resolutions report December 2022.

Cr Vicky Southworth/Graham Naylor

CARRIED

8.2. 3+9 Reporting + Monthly Reporting (October 2022)

Refer pages 20-36 of the agenda.

Staff provided this report on the portfolio performance and financial results for the period ended 31 October 2022.

Resolved AFRC/2022/102

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Receives the Portfolio Health and Financial Health report for the period ending 31 October 2022.
2. Notes details of the 3+9 Forecast for the year to 30 June 2023.

Graham Naylor/Cr Vicky Southworth
CARRIED

8.3. Portfolio Performance Q1 / 2022-23

Refer pages 37-44 of the agenda.

Staff provided an update on the delivery of the Annual Plan | Mahere ā Tau 2022/23, specifically an overview of progress towards achieving Levels of Service in quarter one, 1 July - 30 September 2022.

Resolved AFRC/2022/103

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Notes the status of the Levels of Service for quarter one of 2022/23.

Cr Tutehounuku Korako/Cr John Sunckell.
CARRIED

8.4. Key Projects Reporting - October 2022

Refer pages 45-51 of the agenda.

Staff provided the Committee with an overview of the status of the key projects, as identified by the previous Council and the Executive Leadership Team.

Resolved AFRC/2022/104

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Receives the Key Projects Report for the period ending 31 October 2022.

Cr Vicky Southworth/Graham Naylor

CARRIED

Chair Peter Scott joined the meeting at 1.50pm during discussion on item 8.5.

8.5. Bancorp Treasury Report to 30 September 2022

Refer pages 52-66 of the agenda.

Staff presented the Bancorp Treasury Report on Environment Canterbury to 30 September 2022. This reports on financial investments, borrowings, and market comparisons. Miles O'Conner from Bancorp provided a presentation (Attachment 1).

Staff recommendation.

That the Audit, Finance and Risk Committee:

1. Receives the report from Bancorp Treasury Services to 30 September 2022.

Amended recommendation moved by Cr Tutehounuku Korako, seconded by Graham Naylor.

That the Audit, Finance and Risk Committee:

1. Receives the report from Bancorp Treasury Services to 30 September 2022.
2. Notes that Environment Canterbury is policy compliant.

Resolved AFRC/2022/105

Substantive motion:

That the Audit, Finance and Risk Committee:

1. Receives the report from Bancorp Treasury Services to 30 September 2022.
2. Notes that Environment Canterbury is policy compliant.

Cr John Sunckell/Cr Vicky Southworth

CARRIED

8.6. External Audit Update (Audit NZ)

Refer pages 67-69 of the agenda.

The Committee received an update from Yvonne Yang, Associate Audit Director at Audit New Zealand.

Resolved AFRC/2022/106

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Receives the update from Audit New Zealand.

Cr John Sunckell/Cr Vicky Southworth

CARRIED

8.7. Internal Audit Charter

Refer pages 70-85 of the agenda.

Staff provided the Committee with the Internal Audit Charter, which defines internal audit purpose, authority, responsibility and its position within the Council.

It was noted on page 72 of the agenda, page 1 of the Internal Audit Charter that the second bullet point should read 'Chartered Accountants Australia and New Zealand'.

Resolved AFRC/2022/107

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Approves the Internal Audit Charter.

Cr Vicky Southworth/Graham Naylor

CARRIED

8.8. Procurement Policy

Refer pages 76-85 of the agenda.

Staff provided the Committee with the final version of Environment Canterbury's Procurement Policy, as approved by the Chief Executive on 31 October 2022.

The Committee noted that further development or consideration of the content for guidelines be discussed with operational staff and to consider the wording related to engagement/significance and Māori participation.

Resolved AFRC/2022/108

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Notes the final version of the procurement policy.
2. Notes that the final procurement policy was developed in collaboration with staff, Executive Leadership Team, and following a workshop with the Council in September 2022.

Cr Tutehounuku Korako/Cr Vicky Southworth
CARRIED

8.9. Forward Workplan 2022/23

Refer pages 86-87 of the agenda.

Staff provided the Committee with the forward work plan as agreed by the previous Committee on 23 June 2022.

Resolved AFRC/2022/109

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Notes the agreed forward work plan for the Committee.

Cr John Sunckell/Cr Tutehounuku Korako
CARRIED

9. Resolution to go into Public Excluded

Resolved AFRC/2022/110

That Lucy de Latour, Partner, Wynn Williams, Yvonne Yang, Associate Audit Director and Debbie Bradfield from Audit New Zealand and John Gamba, Manager, Risk, Assurance and Security, be permitted to remain at this meeting after the public has been excluded and that Brian Elliott, Chief Financial Officer be permitted to remain for items 9.1 to 9.3 and Lisa van der Plas, Health, Safety and Wellbeing Manager for item 9.2.4 because they have knowledge relevant to the matters under consideration.

AND

That at 2.43pm the resolution to exclude the public set out on pages 88 to 90 of the agenda be adopted.

Cr John Sunckell/Cr Vicky Southworth
CARRIED

The public were re-admitted to the meeting at 3.44pm.

10. Next Meeting

The next meeting will be notified via the Council meeting on Wednesday 14 December 2022.

11. Mihi/Karakia Whakamutunga - Closing

A karakia was provided by Cr Tutehounuku Korako.

Meeting concluded at 3.47pm.

CONFIRMED 1 FEBRUARY 2023

Chair, Councillor Grant Edge
Environment Canterbury



Treasury Presentation

8 December 2022

STRICTLY PRIVATE AND CONFIDENTIAL



BANCORP
BANCORP TREASURY SERVICES LIMITED

Recent market developments

2

- Shock and Orr continues..... especially with upward revision to Official Cash Rate track
- RBNZ appear to be happy to create a recession to reduce aggregate demand
- RBNZ is now seen as an outlier, given other major central banks are indicating a slowing in the pace of rate hikes stating that they want to see how the accumulative impacts of previous rate increases will impact their respective economies and inflation outlook.
- But RBNZ have little control of longer-term rates, which given the shape of the curve will create opportunities for forward start swaps.
- Longer term yield curve has been pushed lower by the following:-
 - Slowing US economy and strong suggestions that the pace of further tightening should slow, and then we may see the long-awaited pivot
 - Continuing global uncertainty should continue to favour bonds, the latest example being China Covid unrest



US and NZ 10 year bond rates

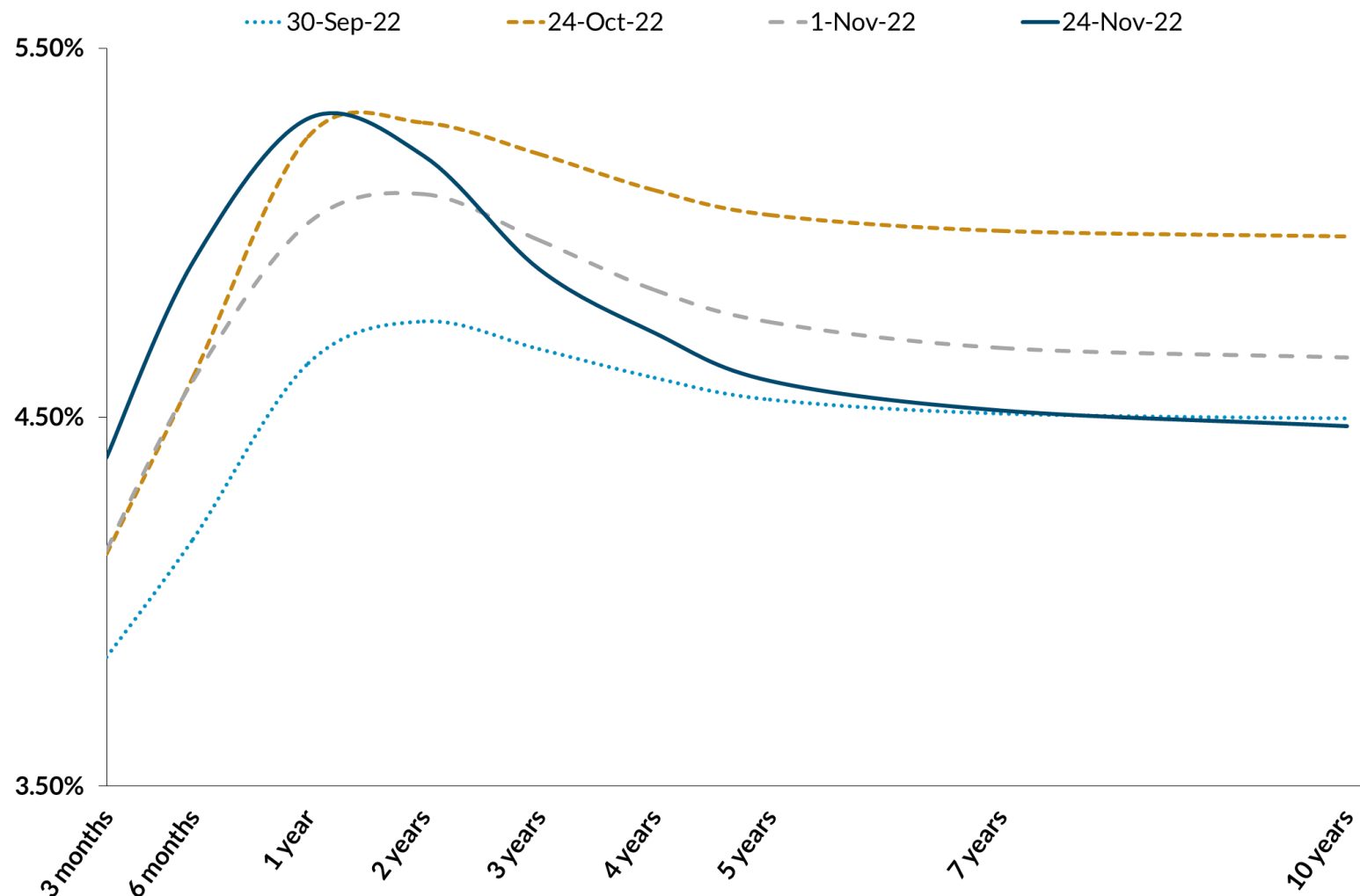
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Swap rates largely unaffected

Following the RBNZ's 75 bp hike, short dated swaps returned to recent highs but long dated swaps are at their lowest in nearly 2 months

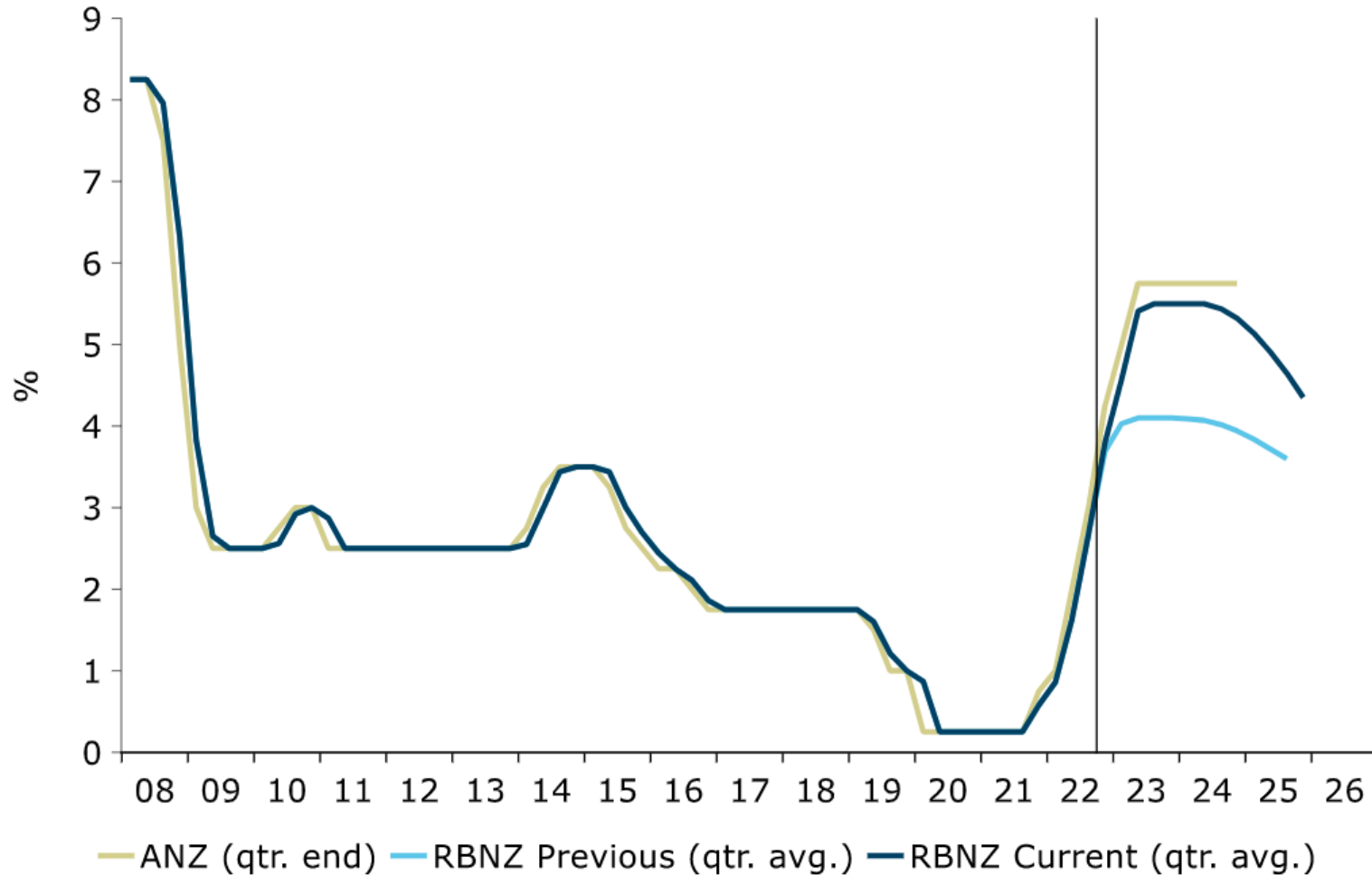
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OCR forecasts revised higher (hike until it breaks)

5

RBNZ's update OCR track now showing it at 5.50% while ANZ are forecasting a 5.75% cash rate

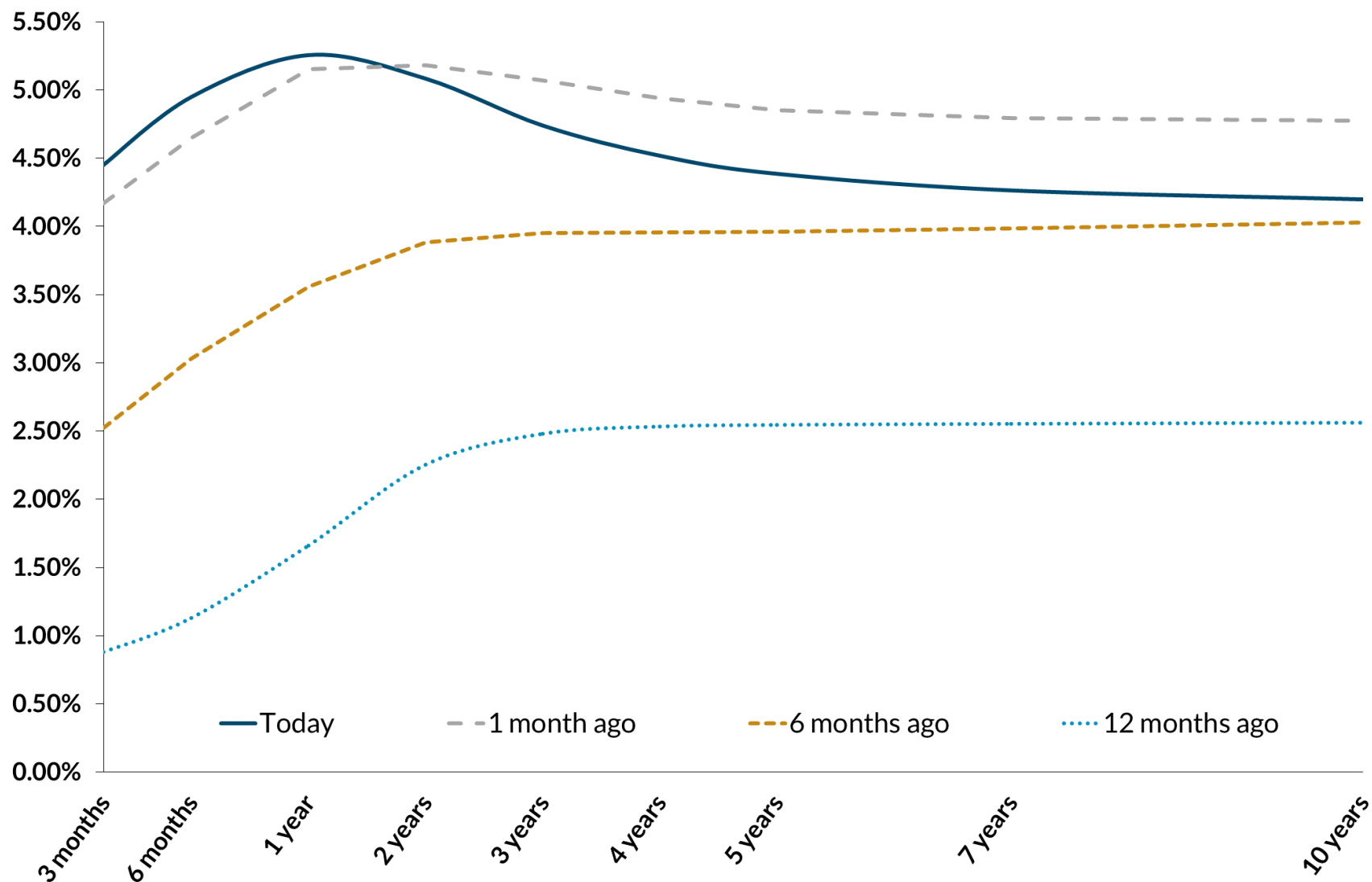


Source: RBNZ, Macrobond, ANZ Research



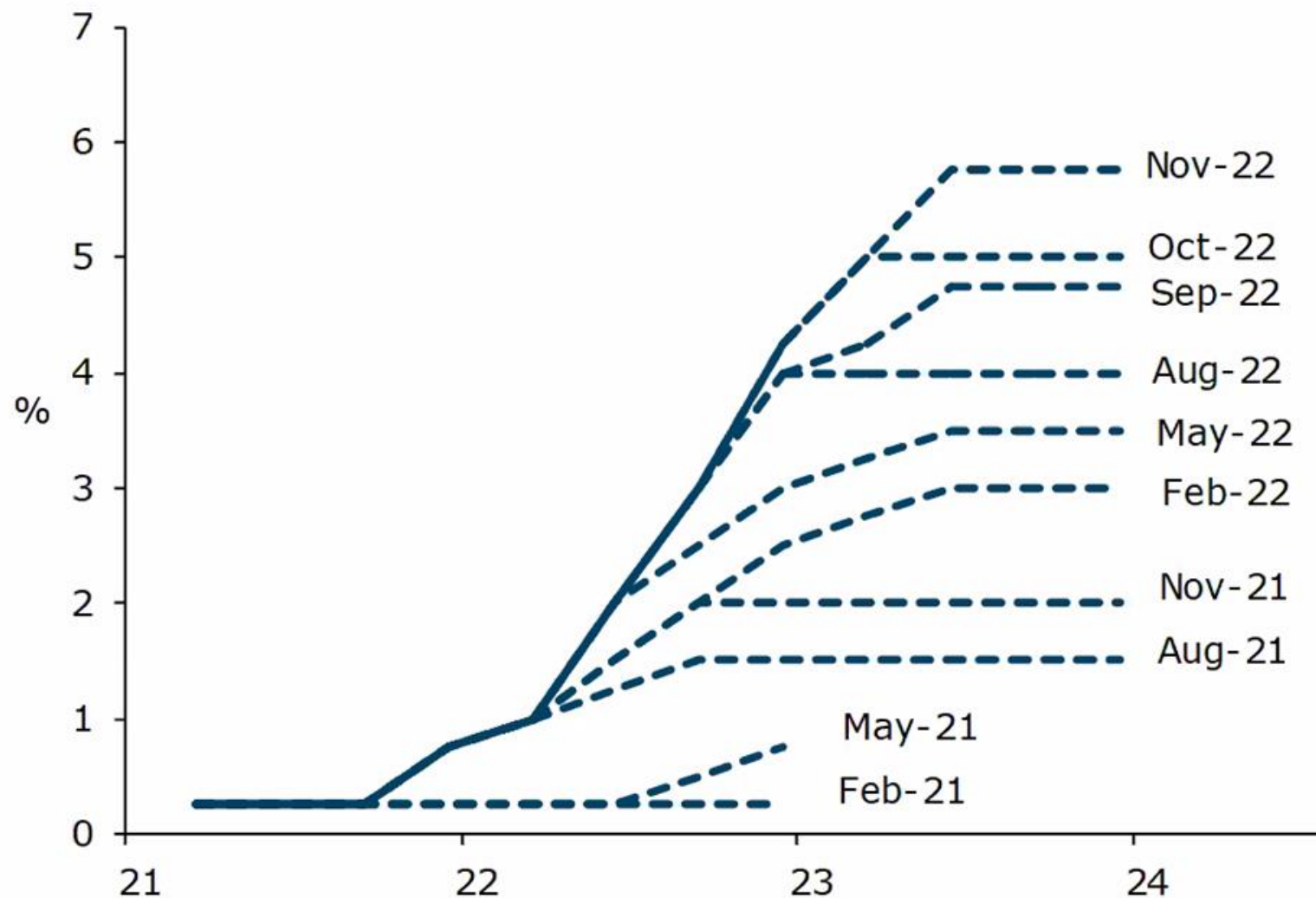
NZD yield Curve over the last 12 months

6



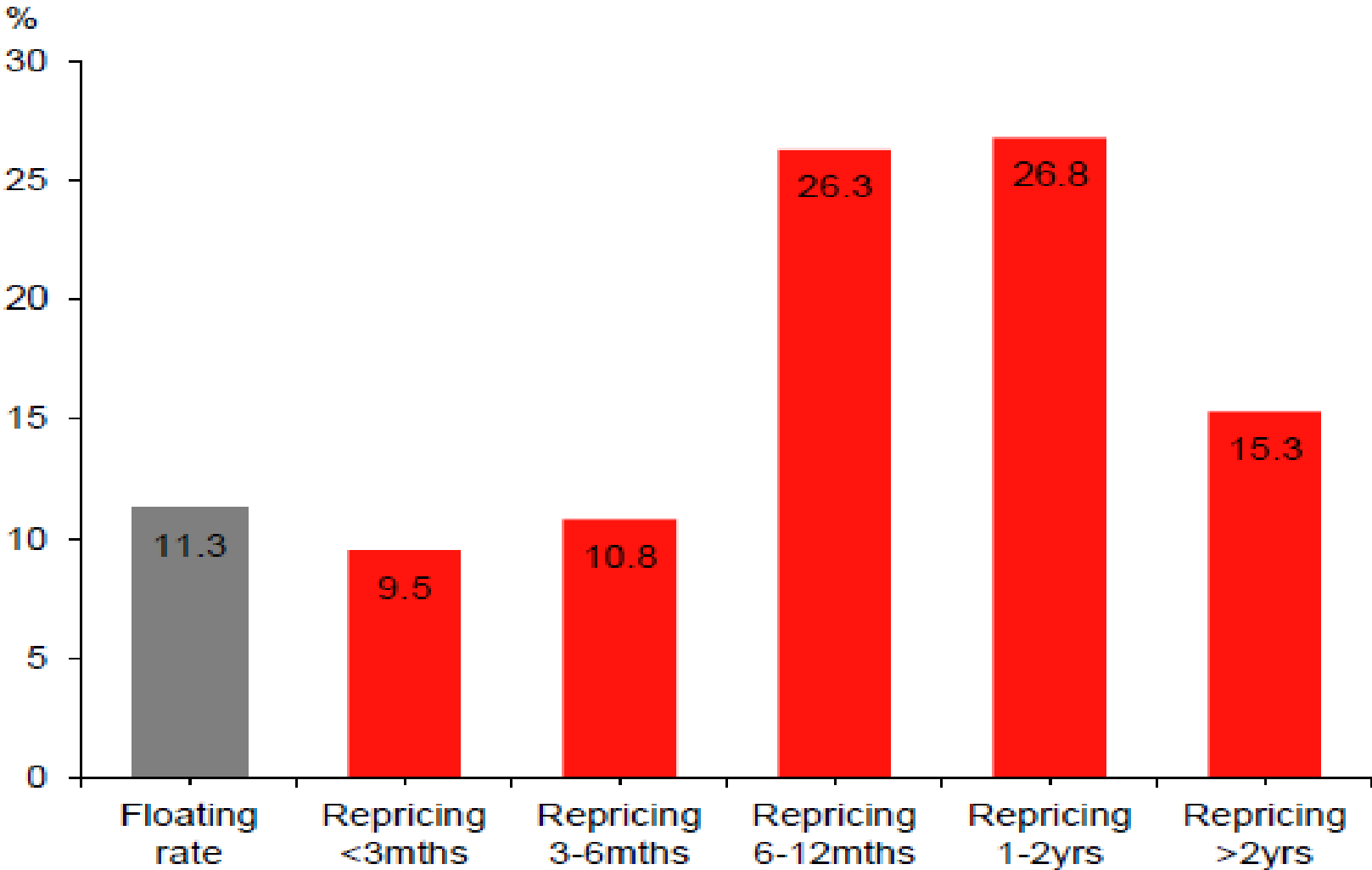
ANZ Bank OCR forecasts since 2021

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Housing loan expiry schedule

NZ - Housing Loan Expiry Schedule



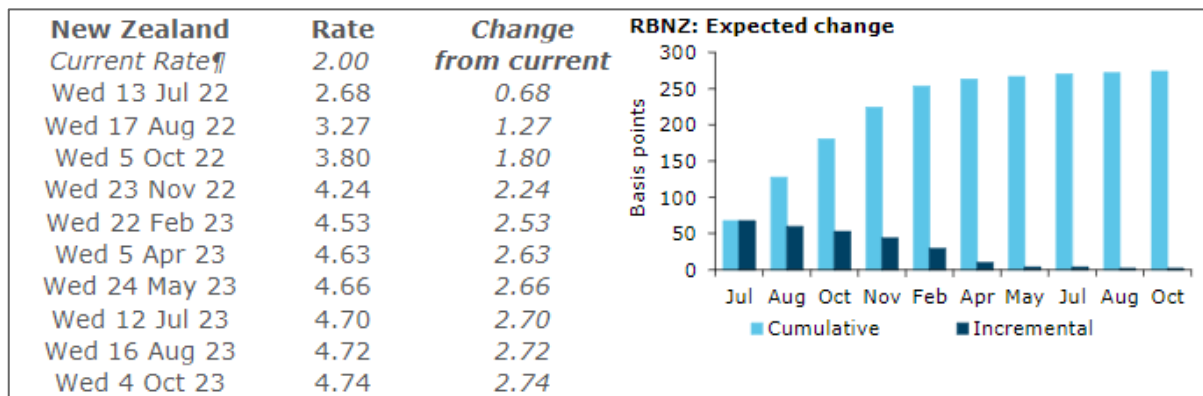
OCR, 90 day and 7 year swap rates



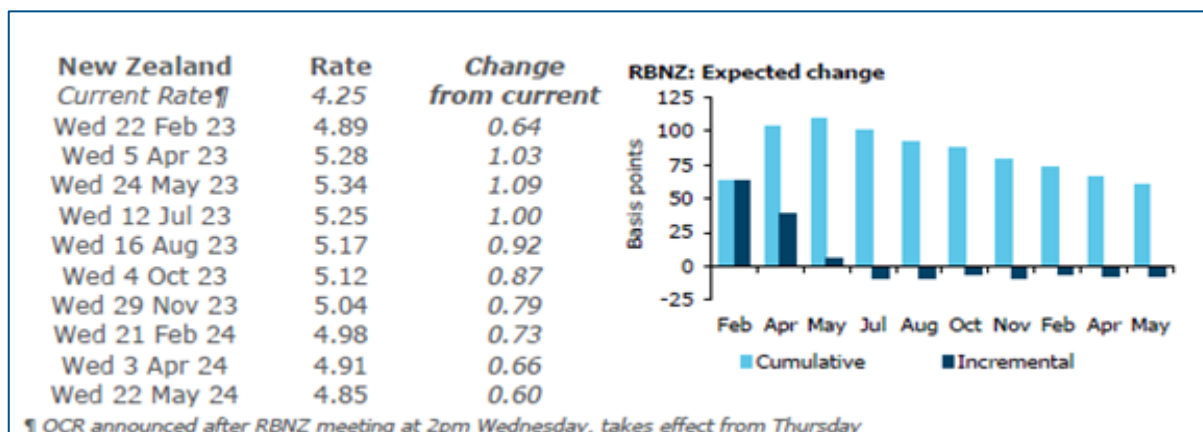
OCR pricing 15 June vs current

10

15 June



7 December 2022



Forward Swaps Grid

New Zealand Forward Starting Swap Rates - Borrower

	Maturity (years)									
	1	2	3	4	5	6	7	8	9	10
Spot	5.17%	4.99%	4.69%	4.50%	4.39%	4.32%	4.28%	4.26%	4.24%	4.23%
3 months	5.36%	4.99%	4.67%	4.48%	4.38%	4.32%	4.28%	4.25%	4.24%	4.23%
6 months	5.24%	4.82%	4.54%	4.39%	4.30%	4.25%	4.22%	4.21%	4.20%	4.20%
1 year	4.82%	4.45%	4.28%	4.18%	4.14%	4.12%	4.11%	4.11%	4.11%	4.12%
2 years	4.07%	3.99%	3.96%	3.96%	3.97%	3.98%	3.99%	4.01%	4.03%	4.05%
3 years	3.90%	3.89%	3.92%	3.94%	3.96%	3.98%	4.00%	4.02%	4.05%	4.08%
4 years	3.89%	3.93%	3.95%	3.97%	3.99%	4.02%	4.04%	4.07%	4.10%	4.13%
5 years	3.97%	3.99%	4.00%	4.02%	4.05%	4.07%	4.10%	4.13%	4.16%	4.18%
6 years	4.00%	4.02%	4.04%	4.07%	4.09%	4.13%	4.16%	4.19%	4.21%	4.22%
7 years	4.04%	4.06%	4.09%	4.12%	4.15%	4.19%	4.22%	4.24%	4.25%	4.25%
8 years	4.09%	4.12%	4.15%	4.18%	4.22%	4.26%	4.28%	4.28%	4.28%	4.28%
9 years	4.15%	4.18%	4.22%	4.26%	4.30%	4.31%	4.32%	4.31%	4.31%	4.31%
10 years	4.22%	4.26%	4.30%	4.34%	4.35%	4.35%	4.34%	4.33%	4.33%	4.34%

Last updated 5-Dec-22

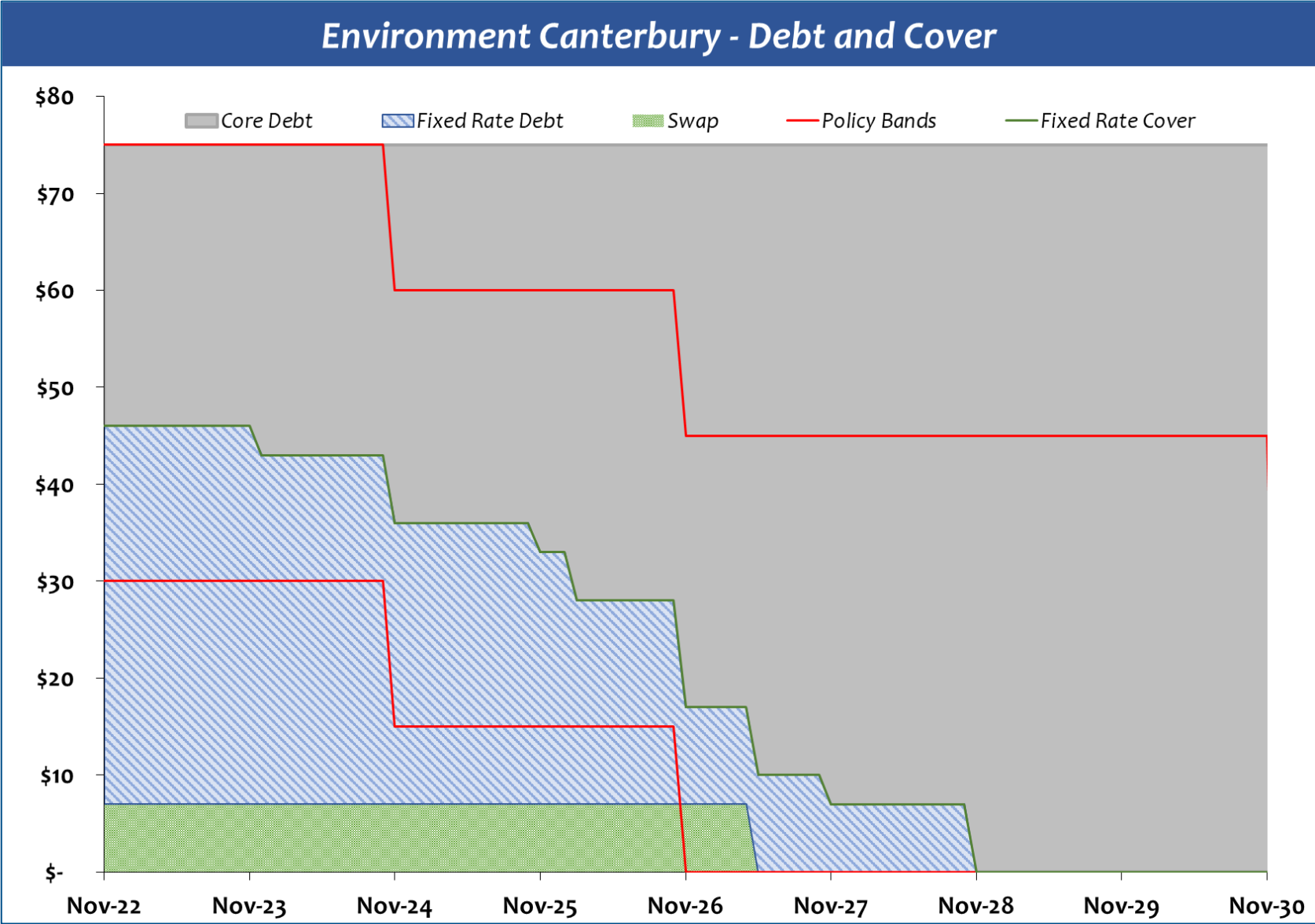
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Rates				Margins		
Short Term loans	BKBM Base rate	Borrowing yield Rated councils	Borrowing yield Unrated councils	Short term margins	30 to 181 days	182 to 364 days
1 month	4.320%	4.470%	4.520%	Rated councils	15 bps over BKBM	20 bps over BKBM
2 month	4.385%	4.535%	4.585%	Unrated councils	20 bps over BKBM	25 bps over BKBM
3 month	4.450%	4.600%	4.650%			
4 month	4.617%	4.767%	4.817%			
5 month	4.783%	4.933%	4.983%			
6 month	4.950%	5.150%	5.200%			
1 year	5.280%	5.480%	5.530%			

Long term borrowing						
The global bond market rally gained further momentum over the week as markets feel there is too much monetary policy tightening priced in and global economies will become increasingly subdued in Q1 2023. NZ bonds have followed with front end yields (2025s) down 19 bps and the back end (2037s) down 13 bps over the week. LGFA borrowing spreads unchanged to 1 bps wider (2031s out to 2037s) as investor interest to buy wanes following the large fall in yields e.g. the 2037 yield has fallen 90 bps since its peak in late October.						
Fixed rate long term	Base yield	Borrowing yield AA+/AA rated councils	Borrowing yield AA- rated councils	Borrowing yield A+ rated councils	Borrowing yield Unrated guarantors	Borrowing yield Non-guarantors
Apr-24	5.29%	5.49%	5.54%	5.59%	5.69%	5.79%
Apr-25	5.05%	5.25%	5.30%	5.35%	5.45%	5.55%
Apr-26	4.88%	5.08%	5.13%	5.18%	5.28%	5.38%
Apr-27	4.74%	4.94%	4.99%	5.04%	5.14%	5.24%
May-28	4.70%	4.90%	4.95%	5.00%	5.10%	5.20%
Apr-29	4.74%	4.94%	4.99%	5.04%	5.14%	5.24%
May-31	4.72%	4.92%	4.97%	5.02%	5.12%	5.22%
Apr-33	4.75%	4.95%	5.00%	5.05%	5.15%	5.25%
May-35	4.91%	5.11%	5.16%	5.21%	5.31%	5.41%
Apr-37	5.06%	5.26%	5.31%	5.36%	5.46%	5.56%

Floating rate long term	Base margin	Borrowing margin AA+/AA rated councils	Borrowing margin AA- rated councils	Borrowing margin A+ rated councils	Borrowing margin Unrated guarantors	Borrowing margin Non-guarantors
Apr-24	14 bps	34 bps	39 bps	44 bps	54 bps	64 bps
Apr-25	17 bps	37 bps	42 bps	47 bps	57 bps	67 bps
Apr-26	24 bps	44 bps	49 bps	54 bps	64 bps	74 bps
Apr-27	30 bps	50 bps	55 bps	60 bps	70 bps	80 bps
May-28	34 bps	54 bps	59 bps	64 bps	74 bps	84 bps
Apr-29	40 bps	60 bps	65 bps	70 bps	80 bps	90 bps
May-31	44 bps	64 bps	69 bps	74 bps	84 bps	94 bps
Apr-33	52 bps	72 bps	77 bps	82 bps	92 bps	102 bps
May-35	62 bps	82 bps	87 bps	92 bps	102 bps	112 bps
Apr-37	66 bps	86 bps	91 bps	96 bps	106 bps	116 bps

Environment Canterbury - debt and cover



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