

# **Minutes of the Audit, Finance and Risk Committee, held at Environment Canterbury, Council Chamber, 200 Tuam Street, Christchurch on Thursday 16 March 2023 at 1.01pm.**

## **Present**

Committee Chair Councillor Grant Edge, Deputy Committee Chair Councillor John Sunckell and Chair Peter Scott, and Councillors Tutehounuku Korako, Ian Mackenzie, Genevieve Robinson and Vicky Southworth.

### **1. Mihi/Karakia Timatanga - Opening**

Cr Mackenzie opened the meeting with a Karakia and Cr Korako provided a Mihi.

Committee Chair Cr Grant Edge welcomed everyone to the meeting.

### **2. Apologies**

Apologies for absence was received from Independent Members Graeme McGlinn and Graham Naylor.

### **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 11-16 of the agenda.

### **7.1. Unconfirmed Minutes - Audit, Finance and Risk Committee - 1 February 2023**

Refer pages 12-16 of the agenda.

#### **Resolved AFRC/2023/013**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Confirms the minutes from the Audit, Finance and Risk Committee meeting held on 1 February 2023.

Cr Sunckell/Cr Southworth  
CARRIED

## **8. Report Items**

Refer pages 17-113 of the agenda.

### **8.1. Audit, Finance and Risk Committee Resolutions Status Report - March 2023**

Refer pages 17-20 of the agenda.

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

#### **Resolved AFRC/2023/014**

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 March 2023.

Cr Robinson/Cr Southworth  
CARRIED

## 8.2. Bancorp Treasury Report to 31 December 2022

Refer pages 21-35 of the agenda.

Staff provided the Committee with the Bancorp Treasury Report on Environment Canterbury to 31 December 2022 and provided a presentation (see attached).

### **Resolved AFRC/2023/015**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Receives the report from Bancorp Treasury Services to 31 December 2022.

Cr Korako/Cr Sunckell

CARRIED

## 8.3. Audit New Zealand - Management Report - Year Ending 30 June 2022

Refer pages 36-66 of the agenda.

Staff provided the Committee with the Report to Council from Audit New Zealand on the audit for the year ended 30 June 2022.

### **Resolved AFRC/2023/016**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Receives the Audit New Zealand Report to Council on the Annual Report for year ended 30 June 2022.
2. Notes the recommendations and management responses which will be monitored as part of the Committee's outstanding actions.

Cr Sunckell/Cr Southworth

CARRIED

The Committee noted that there is information coming to the Committee members the near future.

## 8.4. Internal Audit Plan

Refer pages 67-71 of the agenda.

Staff provided the Committee with the proposed update to the internal Audit Programme.

### **Resolved AFRC/2023/017**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Approves the internal audit programme.
2. Agrees on the approach for the review of external audit, S17(a) reviews, and the review of flow of information between Council and Officers.

Cr Mackenzie/Cr Sunckell  
CARRIED

## 8.5. Insurance Update

Refer pages 72-75 of the agenda.

Staff provided the Committee with information regarding the insurance policies that Environment Canterbury currently hold, their renewal dates, and the key risks currently remaining uninsured.

### **Resolved AFRC/2023/018**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Notes the Council insurances held and the key uninsured risks.

Cr Sunckell/Cr Robinson  
CARRIED

## 8.6. Policy Status Update

Refer pages 76-79 of the agenda.

Staff provided the Committee with a status updated in relations to corporate and council policies.

### **Resolved AFRC/2023/019**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Notes the status of corporate and council policies.

Cr Sunckell/Cr Southworth  
CARRIED

## 8.7. Monthly Financials (January 2023)

Refer pages 80-88 of the agenda.

Staff provided the Committee with the portfolio financial performance and financial results for the period ended 31 January 2023.

### **Resolved AFRC/2023/020**

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 January 2023.
2. Notes details of the 6+6 Forecast for the year to 30 June 2023.

Cr Edge/Cr Southworth  
CARRIED

## 8.8. Key Projects Report to 31 January 2023

Refer pages 89-94 of the agenda.

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

### **Resolved AFRC/2023/021**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Notes the Key Projects Report for the period ending 31 January 2023.

Cr Edge/Cr Southworth  
CARRIED

## 8.9. Audit, Finance and Risk Committee Forward Work Plan 2023

Refer pages 95-96 of the agenda.

Staff provided the Committee with the proposed rolling 12-month forward work plan.

### **Resolved AFRC/2023/022**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Approves the Audit, Finance and Risk Committee's rolling 12-month forward work plan.

Cr Sunckell/Cr Robinson  
CARRIED

## **8.10. Audit, Finance and Risk Committee Terms of Reference**

Refer pages 97-101 of the agenda.

Staff provided the Committee with the changes to the draft Terms of Reference for review.

### **Resolved AFRC/2023/023**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Receives and approves the changes to the draft Audit, Finance and Risk Committee Terms of Reference.
2. Recommends the changes to the draft Audit Finance and Risk Committee Terms of Reference are presented to the Council for approval.

Cr Edge/Cr Sunckell  
CARRIED

## **8.11. Notification of Items Released from Public Excluded**

Refer pages 102-113 of the agenda.

Staff provided the Committee with a notification that a previous public excluded agenda item had now been release and was publicly available.

### **Resolved AFRC/2023/024**

Staff recommendations adopted without change.

That the Audit, Finance and Risk Committee:

1. Receives the report as notification that the Public Transport Investment Audit report presented at the Audit, Finance and Risk Committee meeting on 18 February 2021, has been approved for release to the public, excluding Appendix B.

Cr Robinson/Cr Sunckell  
CARRIED

## **9. Resolution to go into Public Excluded**

**Resolved AFRC/2023/025**

That Lisa van der Plas, Health, Safety and Wellbeing Manager, Parth Patel - Technology Risk Partner PwC NZ, and Robyn Campbell - Cyber Consulting Partner PwC NZ be permitted to remain at this meeting after the public have been excluded for item 9.2.2, and that Stefan Theron, Senior Advisor - Audit Assurance, and Robyn Fitchett, General Counsel, be permitted to remain after the public have been excluded for all items of the public excluded agenda as they have knowledge that is relevant to those items and will assist the Committee.

AND

That at 2.48pm the resolution to exclude the public set out on pages 114 to 115 of the agenda be adopted.

Cr Korako/Cr Sunckell  
CARRIED

## **10. Next Meeting**

The next meeting will be held on Wednesday, 26 April 2023 at 1.00pm.

## **11. Mihi / Karakia Whakamutunga - Closing**

A karakia was provided by Cr Mackenzie.

Meeting concluded at 3.59pm.

CONFIRMED 26 APRIL 2023

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Chair, Councillor Grant Edge  
Environment Canterbury



# Treasury Presentation

**16 March 2023**

STRICTLY PRIVATE AND CONFIDENTIAL



**BANCORP**

BANCORP TREASURY SERVICES LIMITED

## NZD/USD



## Key information

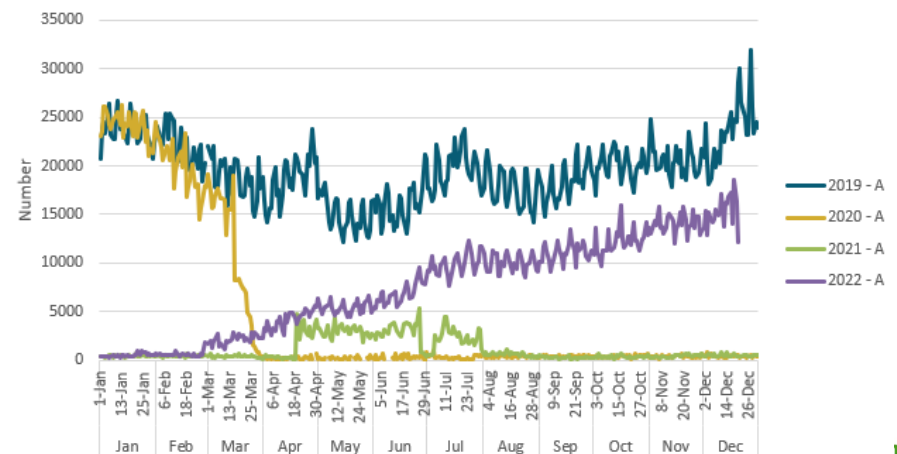
- The Reserve Bank of New Zealand ("RBNZ") increased the Official Cash Rate ("OCR") to 4.75% (4.25%) on 22 February.
- GDP increased 2.0% (1.9%) in the September quarter and was up 6.4% (0.3%) over the September year.
- CPI up 1.4% (2.2%) in the December quarter, up 7.2% (7.2%) for the year.
- Net migration net gain of 15,800 in the December year.
- Unemployment rate 3.4% (3.3%) in the December quarter.
- Retail sales down -0.6% (up 0.4%) in the December quarter.
- REINZ House Price Index down -1.3% (-1.4%) in January, down 13.9% (-13.7%) over the year.
- Global Dairy Trade Price Index down -1.5% (WMP up -2.0%) at the 21 February auction.

## Comment

- The Government expects the cost of Cyclone Gabrielle to be in the \$13 billion region, while Treasury estimated a 0.4% boost to inflation.
- Despite recent inflation and employment data being slightly softer than RBNZ forecasts, the RBNZ hiked the cash rate by 50bps in February - the 10<sup>th</sup> consecutive hike.
- Market pricing reflects a further 0.50%-0.75% of OCR hikes by mid-2023, while the RBNZ's OCR track has the OCR peaking at 5.50% by the end of this year. A mild recession is also forecast for 2023.
- The Government has loosened migration settings to lift population and economic growth at the same time as taking wage pressure off employers. A rapid recovery in visitor arrivals is also underway.
- The Treasury forecasts a shallow recession but for government finances to hold up reasonably well as strong tax revenue continues to support expected higher government spending.

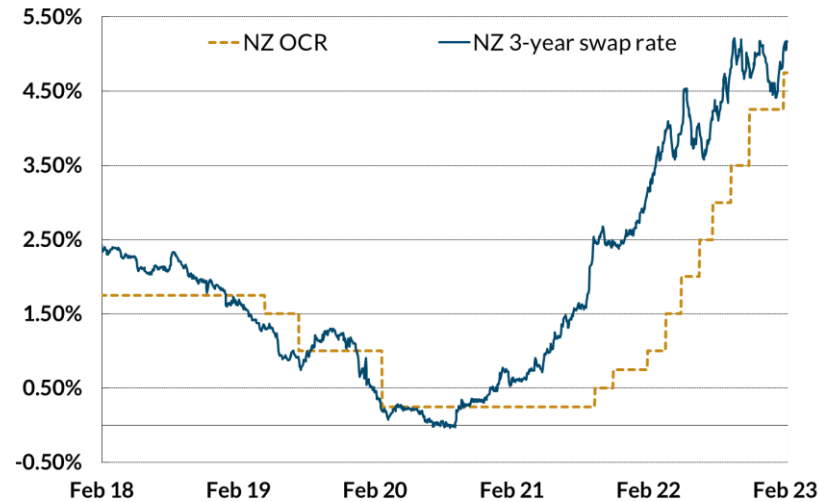
## Arrivals to NZ

Arrivals to New Zealand, by day of border crossing, January 2019-December 2022



# New Zealand - Interest Rates

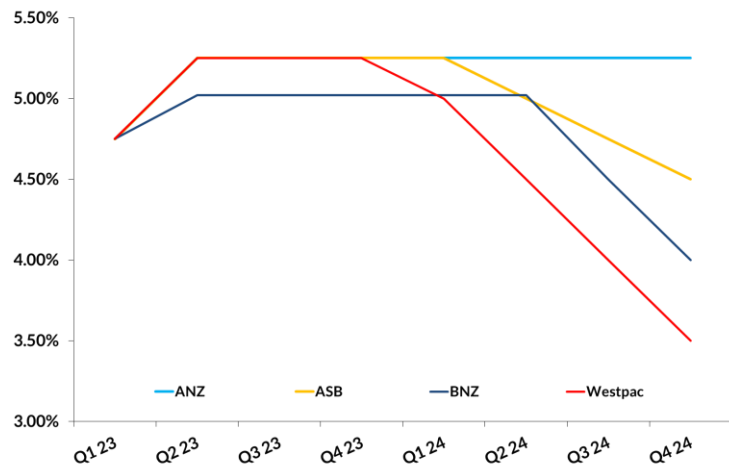
## NZ 3 Year Swap and OCR



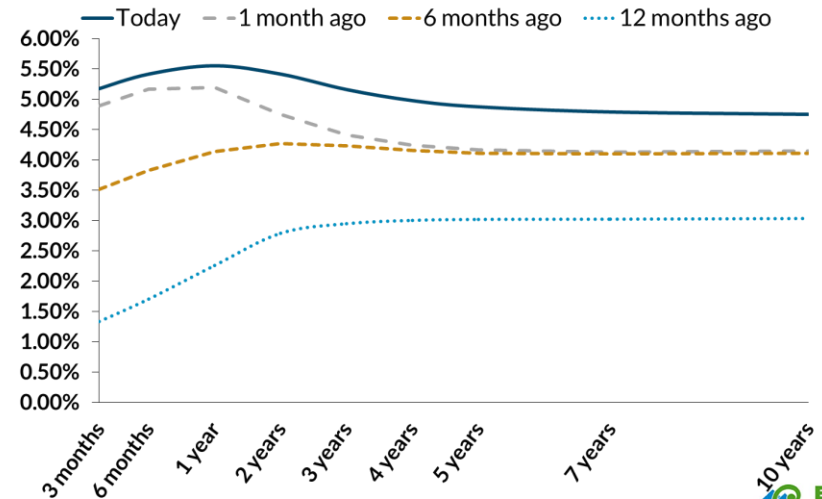
## Comment

- The RBNZ lifted the OCR by 0.50% in February. Market pricing reflects a further 0.50%-0.75% of OCR hikes by mid-2023.
- Around 34% of mortgages are set to reprice in the next 6 months.
- NZ swap rates have been volatile, taking direction from US moves. After peaking above 5.00% in October, the 5-year swap rate eased to 4.00% in early February before lifting back to 4.90%.
- The latest *Survey of Expectations* showed a welcome decline to 3.30% (from 3.62%) for inflation expectations 2-years out.
- The rise in bank corporate funding margins seen through the second half of 2022 has stabilised, with some early signs that bank wholesale funding costs are easing. We are yet to see this flow through to corporate credit spreads.
- The RBNZ's 'Funding for Lending Programme' ended in December, with NZ banks accessing around \$19 billion of cheap 3-year funding through the scheme.

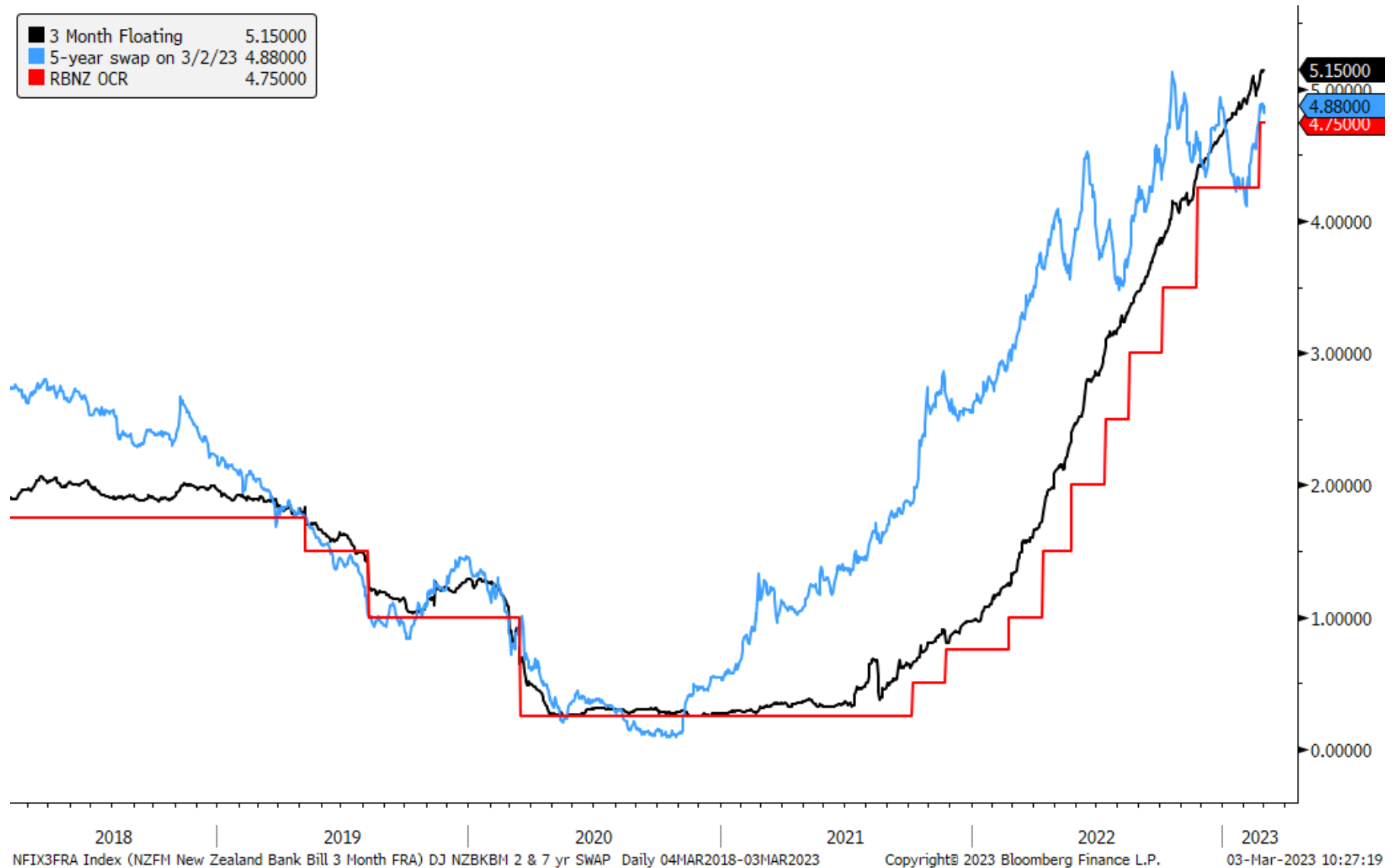
## NZ OCR Forecasts



## NZ Yield Curves



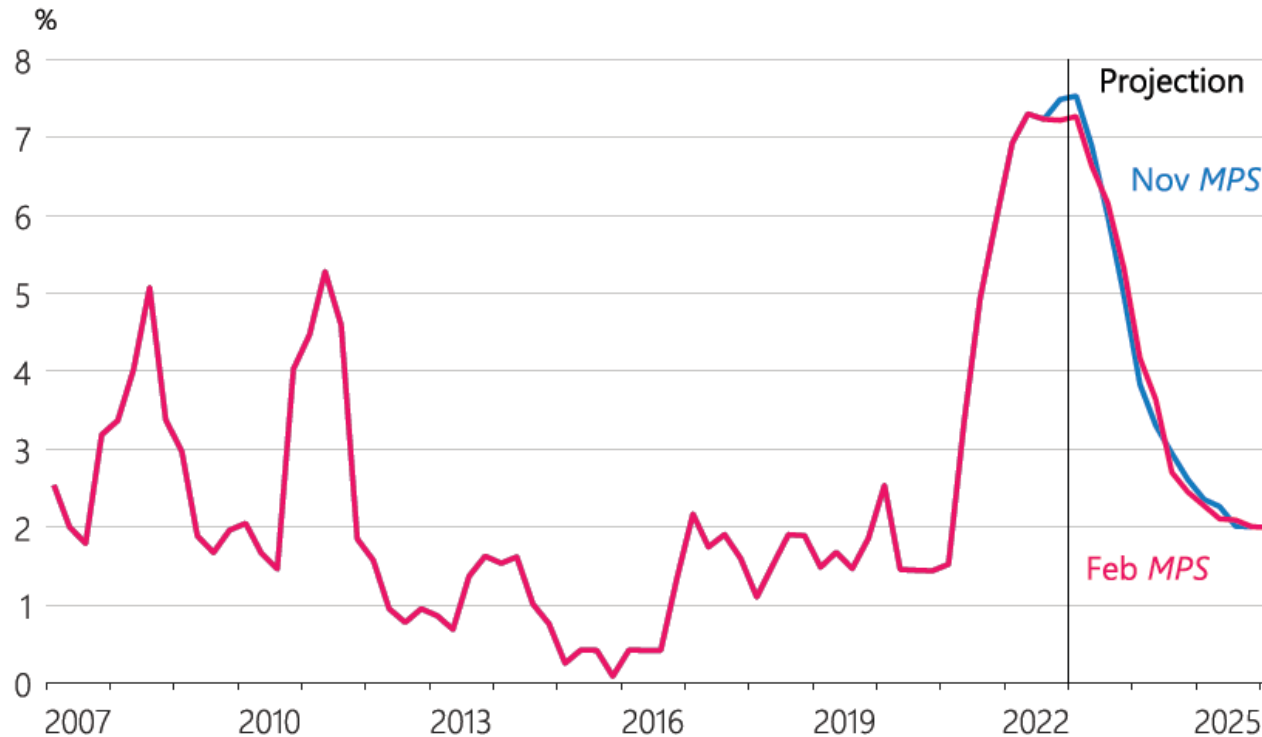
# OCR, 90 day and 5 year swap rates (going back 5 years)



# Declining inflation in 2023, return to target in 2024

## CPI inflation

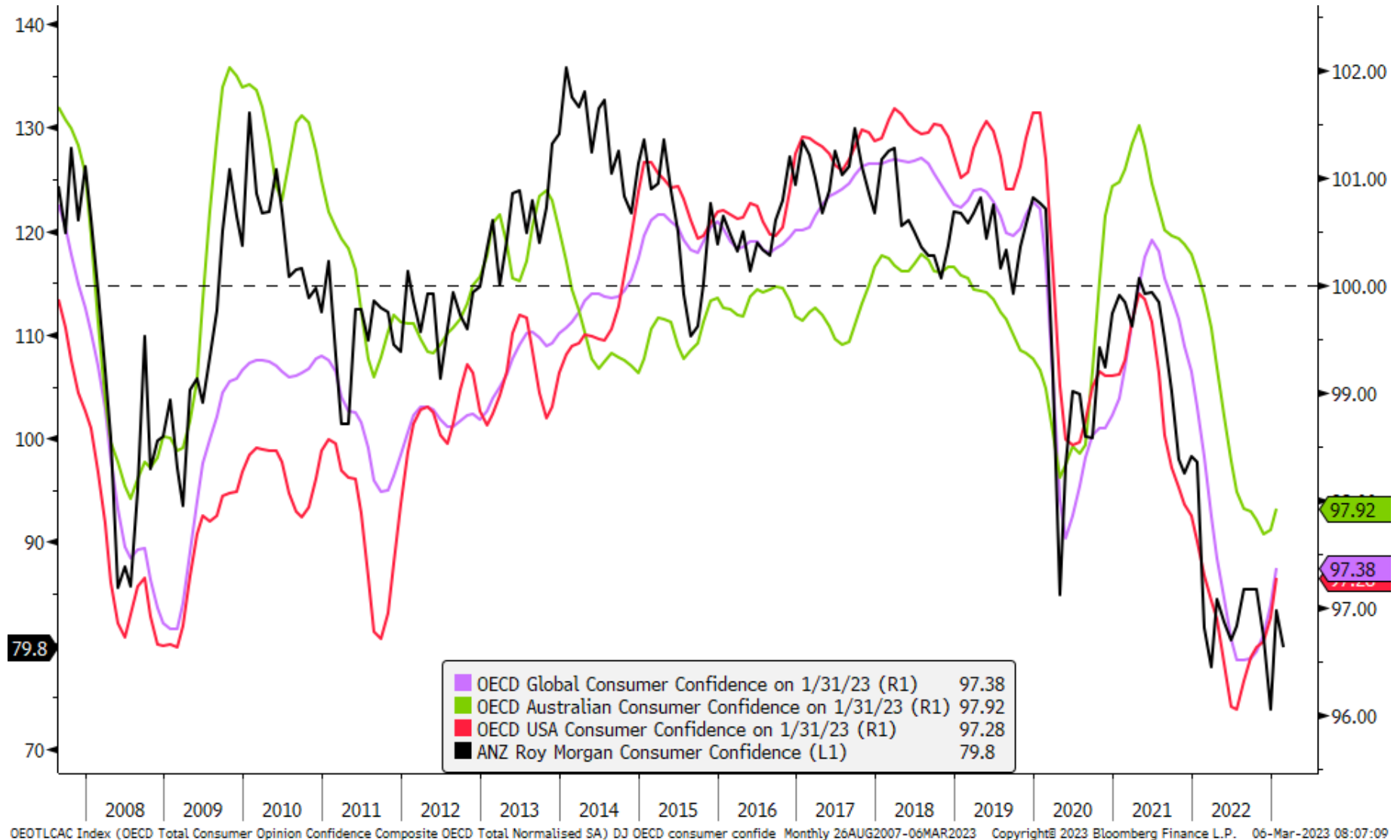
(annual)



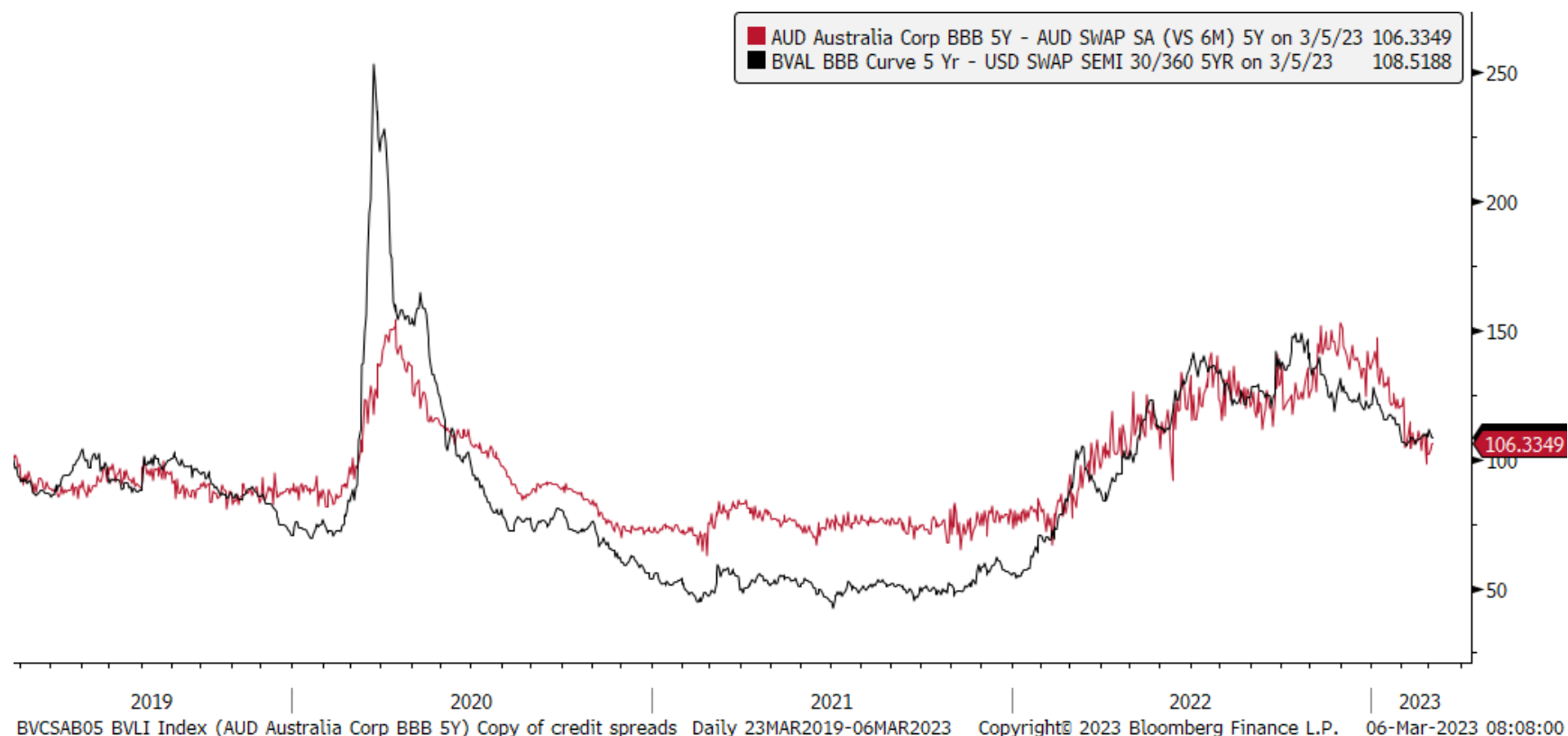
Source: Stats NZ, RBNZ estimates.

- “With both non-tradables and tradables inflation expected to decline over the medium term, annual CPI inflation is assumed to return to within the 1 to 3 percent target band in the second half of 2024, and to 2 percent by the end of 2025” (RBNZ – Feb Monetary Policy Statement)
- Inflation expectations have shifted lower

# Consumer confidence turning off lows



# Corporate credit spreads lift off pandemic lows



- After lifting from pandemic lows through much of last year, bank issuance spreads have tightened in early 2023.
  - ANZ 5yr at 95bps over swap (vs BNZ's 5yr at 105bps over swap in June 2022).
  - Bank issuance in the Australian market is also resetting to pre-Covid pricing – ANZ priced a 3yr bond at 92bps over in October vs a similar NAB deal at 47bps over swap in February. 5yr pricing is around 125bps vs 72bps in February.

# OCR and Fed Funds rate projections

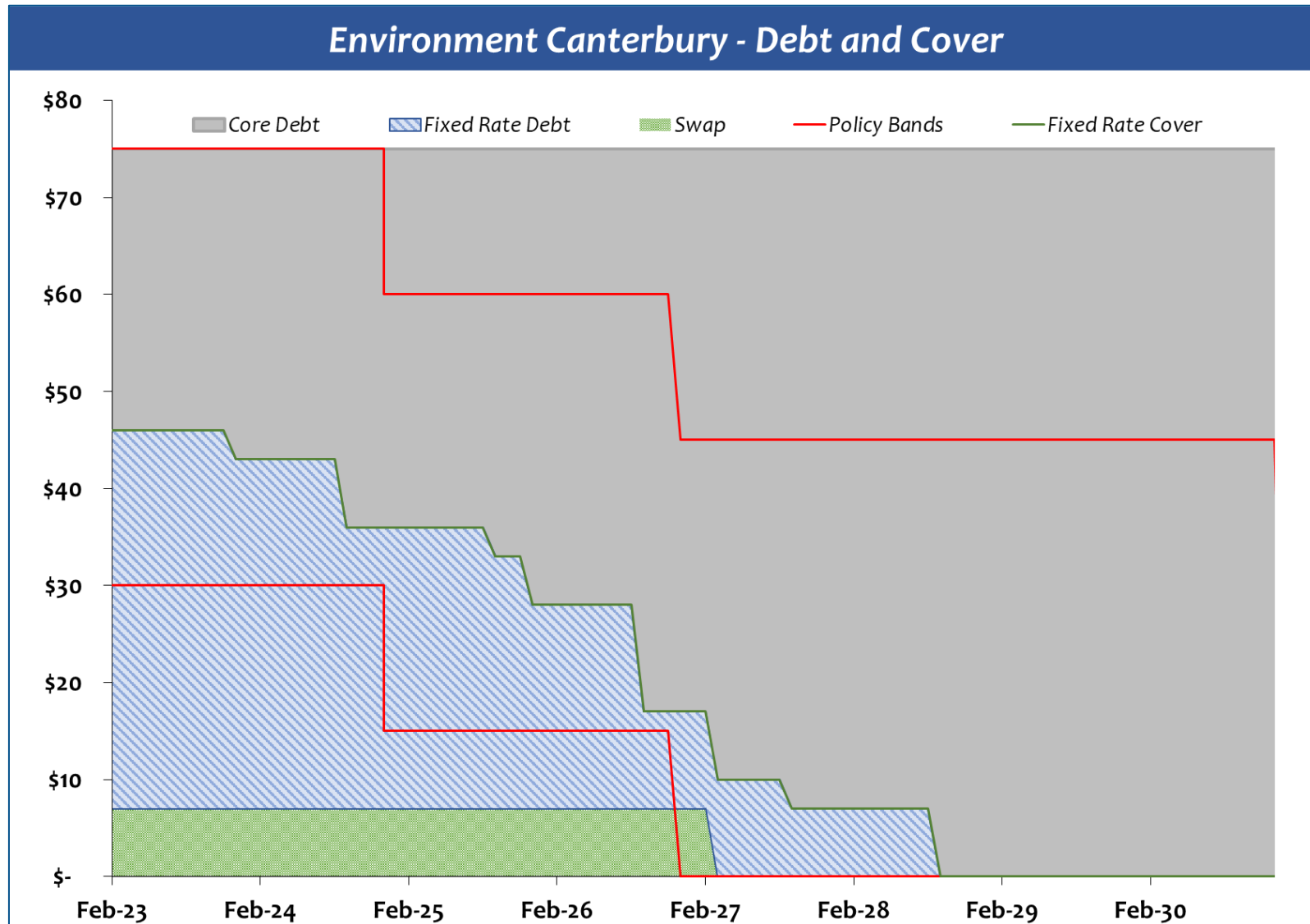
<b>New Zealand</b>	<b>Rate</b>	<b>Change from current</b>
<i>Current Rate¶</i>	4.75	
Wed 5 Apr 23	5.14	0.39
Wed 24 May 23	5.32	0.57
Wed 12 Jul 23	5.43	0.68
Wed 16 Aug 23	5.49	0.74
Wed 4 Oct 23	5.48	0.73
Wed 29 Nov 23	5.40	0.65
Wed 28 Feb 24	5.30	0.55
Wed 10 Apr 24	5.22	0.47
Wed 22 May 24	5.14	0.39
Wed 10 Jul 24	5.06	0.31
¶ OCR announced after RBNZ meeting at 2pm Wednesday, 16 March 2023		
<b>USA</b>	<b>Rate</b>	<b>Change from current</b>
<i>Effective FFR^</i>	4.58	
Wed 22 Mar 23	4.89	0.31
Wed 3 May 23	5.17	0.59
Wed 14 Jun 23	5.35	0.77
Wed 26 Jul 23	5.44	0.86
Wed 20 Sep 23	5.44	0.87
Wed 1 Nov 23	5.39	0.82
Wed 13 Dec 23	5.31	0.73
Wed 31 Jan 24	5.20	0.62
^Effective Rate today 4.57%. Policy Rate 4.5-4.75% range; Interest Rate on Excess Reserves		



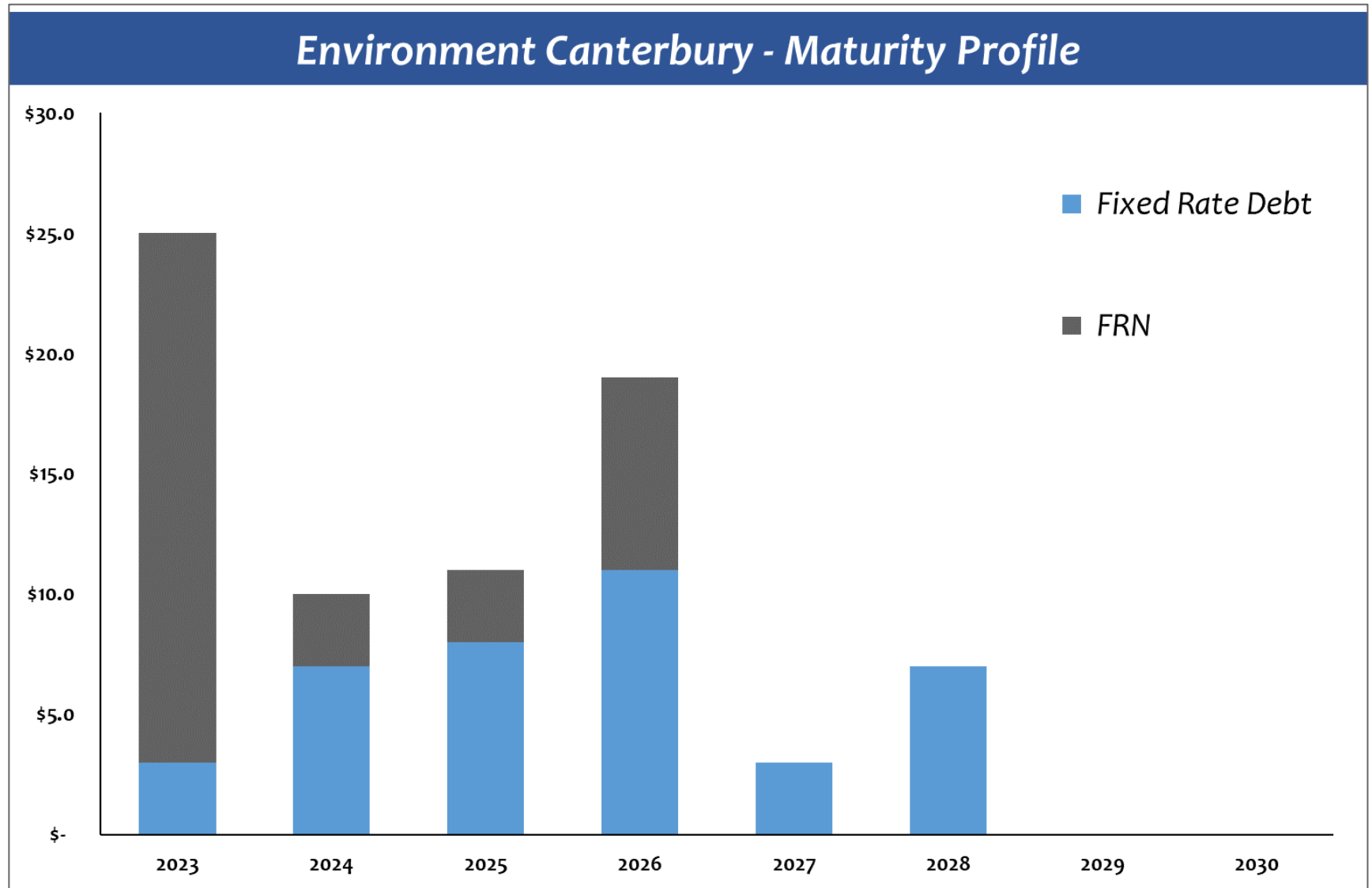
# US and NZ 10 year bond rates going back 5 years



# Environment Canterbury - debt and cover



# Environment Canterbury - debt maturity profile



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## GET IN TOUCH

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