

Audit & Risk Subcommittee Agenda

21 September 2022



Meeting conducted in the Council Chamber, Lvl 2 Philip Laing House
144 Rattray St, Dunedin

Members:

Cr Hilary Calvert (Chair)
Mr Andrew Douglas (Independent member)
Cr Kevin Malcolm
Cr Andrew Noone
Cr Kate Wilson

Senior Officer: Pim Borren, interim Chief Executive

Meeting Support: Liz Spector, Governance Support Officer

21 September 2022 02:00 PM

Agenda Topic	Page
1. APOLOGIES No apologies were noted prior to publication of the agenda.	
2. PUBLIC FORUM No requests from members of the public to address the Audit and Risk Subcommittee were received prior to publication of the agenda.	
3. CONFIRMATION OF AGENDA Note: Any additions must be approved by resolution with an explanation as to why they cannot be delayed until a future meeting.	
4. CONFLICT OF INTEREST Members are reminded of the need to stand aside from decision-making when a conflict arises between their role as an elected representative and any private or other external interest they might have.	
5. CONFIRMATION OF MINUTES The Subcommittee will consider minutes of the previous meeting as a true and accurate record, with or without changes.	3
5.1 Minutes of the 11 August 2022 meeting	3
6. ACTIONS (Status of Subcommittee Resolutions) The Subcommittee will review open actions of resolutions of the A&R Subcommittee	9
6.1 Open Actions at 21 September 2022	9
7. MATTERS FOR CONSIDERATION	11
7.1 BUDGETING FOR OPERATIONAL DEFICITS This report is provided to clarify steps to take to end the practice of budgeting for operational deficits.	11

8.	RESOLUTION TO EXCLUDE THE PUBLIC	17
	That the public be excluded from the following items under LGOIMA 48(1)(a):	
	- Confidential minutes of the 11 August 2022 Audit & Risk Subcommittee meeting	
	- Consideration of Draft Annual Report for the year ended 30 June 2022	
8.1	Public Excluded Reason and Grounds	17
9.	CLOSURE	



Minutes of a meeting of the Audit and Risk Subcommittee held in
the Council Chamber on Thursday, 11 August 2022 at 1PM

Membership

Cr Hilary Calvert

(Chairperson)

Mr Andrew Douglas

(Independent Member)

Cr Kevin Malcolm

Cr Andrew Noone

Cr Kate Wilson

Welcome

Chairperson Hilary Calvert welcomed Councillors, members of the public and staff to the meeting at 1:34 pm. Staff present included Amanda Vercoe (GM Governance, Culture and Customer), Gavin Palmer (GM Operations), Margot Anderson (Manager People and Safety), Andrea Howard (Manager Executive Advice), Gina Watts (Safety and Wellbeing Coordinator), and Liz Spector, (Governance Support). Staff present electronically included Nick Donnelly (GM Corporate Services), Richard Saunders (GM Regulatory and Communications) and Nahshon O'Kane (Safety and Wellbeing Partner).

1. APOLOGIES

There were no apologies. Chair Calvert noted that Dr Borren, interim CE, was unable to attend the meeting and that Mr Donnelly was the Senior Officer.

2. PUBLIC FORUM

No public forum was held.

3. CONFIRMATION OF AGENDA

The agenda was confirmed as presented.

4. CONFLICT OF INTEREST

No conflicts of interest were advised.

5. CONFIRMATION OF MINUTES

Resolution: Cr Malcolm Moved, Cr Wilson Seconded

That the minutes of the meeting held on 12 May 2022 are confirmed as a true and accurate record.

MOTION CARRIED

6. ACTIONS (STATUS OF COMMITTEE RESOLUTIONS)

Open actions from resolutions of the Subcommittee were reviewed.

7. MATTERS FOR CONSIDERATION

7.1. GOV2243 Safety and Wellbeing Report

This report was provided to summarise progress towards the Safety and Wellbeing Team's key strategic priorities and safety performance indicators for the period April 2022 – June 2022 (Quarter 4, FY 21/22). The report also summarised key areas of focus for the Safety and Wellbeing team for the 2021/22 financial year and beyond. Margot Anderson (Manager People and Safety), Gina Watts (Safety and Wellbeing Coordinator) and Nahshon O'Kane (Safety and Wellbeing Partner), and Amanda Vercoe (GM Governance, Culture and Customer) were present to respond to questions about the report.

Following questions about the report, Chair Calvert asked that a table be included in future reports that highlighted strengths, focuses, issues and how these will be addressed to allow anyone reading the Safety and Wellbeing report to understand what issues stand out for the Team. Cr Malcolm also suggested that table differentiate between organisational and contractor areas of note. Ms Anderson agreed to include this table in future reports to the subcommittee.

Following further discussion, it was moved:

Resolution AR22-123: Cr Noone Moved, Andrew Douglas Seconded

That the Subcommittee:

- 1) *Notes this report.*

MOTION CARRIED

7.2. CS2242 Corporate Policy Overview Report

The Policy Review Group (PRG) was established in October 2020 to oversee Council’s internal organisational policies. This group was established to consider new policies and amendments to existing policies quarterly. The Audit and Risk Subcommittee requested the group's reviews be reported to each future meeting. Amanda Vercoe (GM Governance, Culture and Customer) and Nick Donnelly (GM Corporate Services/CFO) were available to respond to questions about the report.

Following questions of the report, Cr Calvert asked that staff provide dashboard data for the Working Better Together Framework alongside this report starting with the first Audit and Risk meeting of the next triennium.

Resolution AR22-124: Cr Calvert Moved, Andrew Douglas Seconded

That the Audit and Risk Subcommittee:

- 1) **Notes** this report.
- 2) **Notes** staff will provide dashboard data for the Working Better Together framework from the first A& R meeting of the next triennium.

MOTION CARRIED

8. RESOLUTION TO EXCLUDE THE PUBLIC

Resolution: Cr Calvert Moved, Cr Malcolm Seconded:

That the public be excluded from consideration of the following items Under LGOIMA 48(1)(a) per the order paper in the agenda:

- Minutes of the 12 May 2022 public-excluded portion of the Audit and Risk Subcommittee meeting
- Managed Fund Report, 30 June 2022
- Risk Register
- Vehicle Monitoring and Tracking
- Wilding Conifer Contract Management Update

MOTION CARRIED

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

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
<i>Minutes of the 12 May 2022 Audit and Risk Subcommittee meeting</i>	Section 7(2)(b)(ii) - To protect information where the making available of the information—would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the	

	<p>information.</p> <p>Section 7(2)(c)(i) –To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.</p> <p>Section 7(2)(c)(ii) - To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information—would be likely otherwise to damage the public interest.</p> <p>Section 7(2)(e) - To avoid prejudice to measures that prevent or mitigate material loss to members of the public.</p> <p>Section 7(2)(g) - To maintain legal professional privilege.</p> <p>Section 7(2)(h) - To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities.</p> <p>Section 7(2)(i) - To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).</p> <p>Section 7(2)(j) - To prevent the disclosure or use of official information for improper gain or improper advantage.</p>	
<p>3.1 Managed Fund – June 2022</p>	<p>Section 7(2)(b)(ii) - To protect information where the making available of the information—would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.</p> <p>Section 7(2)(c)(i) –To protect information which is subject to an</p>	<p>Section 48(1)(a): Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (a) that the public conduct of</p>

	<p>obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.</p> <p>Section 7(2)(h) - To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities.</p>	<p>the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>
<p>3.2 Risk Register</p>	<p>Section 7(2)(e) - To avoid prejudice to measures that prevent or mitigate material loss to members of the public.</p> <p>Section 7(2)(j) - To prevent the disclosure or use of official information for improper gain or improper advantage.</p>	<p>Section 48(1)(a): Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds:</p> <p>(a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>
<p>3.3 Vehicle Monitoring and Tracking</p>	<p>Section 7(2)(c)(ii) - To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information—would be likely otherwise to damage the public interest.</p>	<p>Section 48(1)(a): Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds:</p> <p>(a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>
<p>3.4 Wilding Conifer Contract Management Update</p>	<p>Section 7(2)(e) - To avoid prejudice to measures that prevent or mitigate material loss to members of the public.</p> <p>Section 7(2)(g) - To maintain legal</p>	<p>Section 48(1)(a): Subject to subsection (3), a local authority may by resolution exclude the public from the</p>

Action Register

Search Criteria

Showing Completed Items: Yes

Include Items Completed From: 11/08/2022

Applied Filters

Meeting Types: Audit and Risk Subcommittee

Generated By: Liz Spector

Generated On: 13/09/2022 at 1:28pm

Meeting Date	Item	Status	Action Required	Assignee/s	Action Taken	Due Date
12/05/2022	CS2222 Procurement and Contract Management	Completed	Make minor changes to the PCM policy per discussions at the meeting to include language clarification re obtaining written quotes for contracts in the \$25k to \$100k range, incorporate risk into the contract mgmt section similar to that in the procurement section, and develop guidelines to include a risk analysis into procurement planning documentation, noting guidelines and templates may change from time to time.	General Manager Corporate Services and CFO, Manager Finance - Reporting	03/08/2022 General Manager Corporate Services and CFO Wording has been amended in PCM Policy to clarify that lower dollar value requirements continue to apply to higher value procurement not just the additional requirements. A risk analysis guideline has been developed and is reviewed. Once complete this will be included in the procurement material provided to staff.	11/08/2022
24/02/2022	A&R2201 Legislative Compliance and Mandatory Documents Register	In Progress	Track Public Records Act 2005 recordkeeping on the Action Register until the new records management system is implemented. Res AR22-102	General Manager Corporate Services and CFO, Legal Counsel	02/05/2022 General Manager Corporate Services and CFO Action will remain until new records system is implemented later in 2022	30/09/2022
11/08/2022	CS2242 Corporate Policy Overview Report	Assigned	Provide dashboard data for the Working Better Together framework from the first Audit and Risk meeting of the next triennium. Res AR22-124	General Manager Governance, Culture and Customer		28/02/2023

7.1. CS2253 Budgeting for Operational Deficits

Prepared for:	Audit and Risk Subcommittee
Report No.	CS2253
Activity:	Governance Report
Author:	Nick Donnelly, General Manager Corporate Services
Endorsed by:	Nick Donnelly, General Manager Corporate Services
Date:	21 September 2022

PURPOSE

- [1] To provide clarity on steps to take to end the practice of budgeting for operational deficits.

EXECUTIVE SUMMARY

- [2] In the audit of the 2020-21 Annual Report and Audit Plan for the 2021-22 Annual Report Council's auditor, Deloitte, raised the issue of Council's ongoing operating deficits. They noted that these deficits were both budgeted and unbudgeted.
- [3] Council's Long-term Plans (LTP) typically budget for deficits in the first 3 years of the 10-year LTP planning cycle. These deficits are usually largest in year 1 as new initiatives are initiated and the deficits decrease over time to achieve surplus in year 3 or 4 of the LTP cycle. Surpluses are then forecast to continue and increase over the remainder of the 10 years of the LTP.
- [4] Annual Plans for years 2 and 3 of each LTP cycle are often adjusted to increase deficits over and above the level set in the LTP. The new LTP cycle begins from year 4 and resets that year's operational surplus / deficit. This replanning typically results in year 2 and 3 deficits increasing and planned year 4 surpluses reverting to year 1 deficits in the new LTP.
- [5] On top of adjustments to annual plans and LTPs, actual deficits also can vary from these budgeted amounts due to lower income or unbudgeted expenditure being realised during the financial year. Further to this, some of these unbudgeted deficits require further planned deficit increases in following years.
- [6] Historically, the largest variance to planned operational deficits occurs in year 3 of the LTP cycle. These changes then tend to have a follow-on impact into the next LTP cycle. As a result, Council has not achieved any of the operational surplus envisaged over the previous two LTP cycles.
- [7] The actual deficit in the first 3 years of the 2018-21 LTP cycle (financial years 2016-18) was \$11.5 million greater than initially set in the LTP. Of this, \$4.8 million was due to adjustments in the year 2 and 3 annual plans, and \$6.7m was due to unbudgeted activity.

- [8] The ongoing use of deficits to fund operational expenditure means funding is required from reserves to meet the shortfall. If planned surpluses are not achieved in subsequent years these deficits will be retained or grow in the reserves. This will place the onus on future ratepayers to pay for historic expenditure and limit service delivery improvements in future years.
- [9] The use of reserves to establish activities and to fund some operational activity i.e., one-offs may be financially prudent; however, ongoing funding of operational expenditure via deficits/reserves is not sustainable and discipline needs to be maintained to ensure future planned surpluses are achieved.
- [10] Use of reserves to fund unbudgeted expenditure once a financial year has started may also be financially prudent. Consideration should be given to the impact of this unbudgeted expenditure on future years and whether deficit should be recovered in subsequent years rates.

RECOMMENDATION

That the Audit and Risk Subcommittee:

- 1) **Notes** this report.

BACKGROUND

- [11] At the 12 May 2022 meeting the Audit and Risk Subcommittee requested:
“A report be brought to the Finance Committee to provide clarity on steps to take to end the practice of budgeting for operational deficits.”
- [12] The action register for the 11 August 2022 Audit and Risk Subcommittee noted staff were considering whether a paper was the best way for Council to discuss this matter and a workshop may be more appropriate and useful.
- [13] This was discussed at the 11 August Audit and Risk Subcommittee meeting and a paper was requested for the 21 September 2022 extraordinary Audit and Risk Subcommittee meeting.
- [14] Operational deficits are budgeted via the LTP and annual plan processes. Actual deficits may vary from the budgeted amounts if unbudgeted revenue or expenditure variances occur once the financial year has commenced.
- [15] Operational deficits occur in a year that operational revenue from rates, grants, fees and charges and other income is not sufficient to meet the operational expenditure in that same financial year.
- [16] Under section 100(1) of the Local Government Act 2002, local authorities must ensure that each year’s projected operating revenues are set at a level sufficient to meet that year’s projected operating expenses.
- [17] Section 100(2) allows projected operating revenues to be set at a different level to subsection (1) if Council resolves that it is financially prudent to so.

DISCUSSION

[18] Operating surplus / deficits over the last 6 years (this covers the first 3 years of the last 2 LTP cycles):

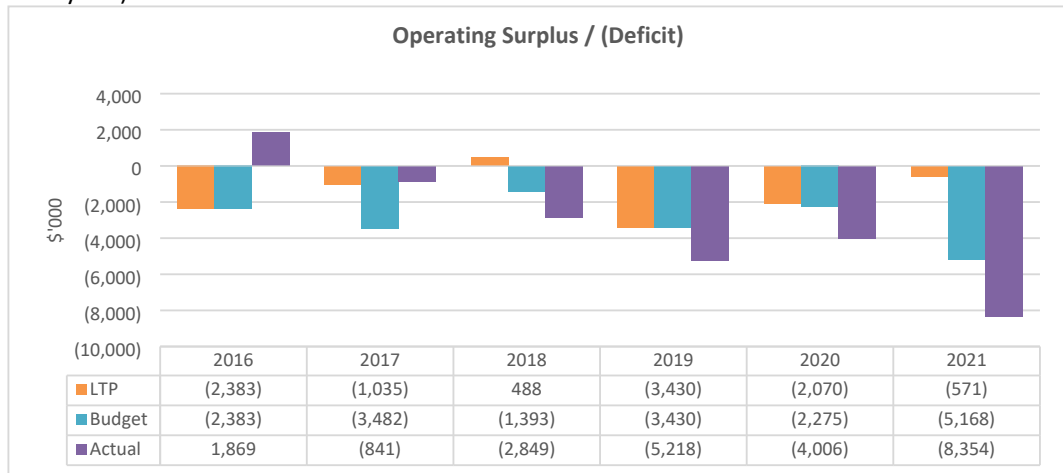


Figure 1: Operating Surplus / Deficit

[19] The above 6-year surplus / deficit data can be grouped into the 2 LTP cycles:

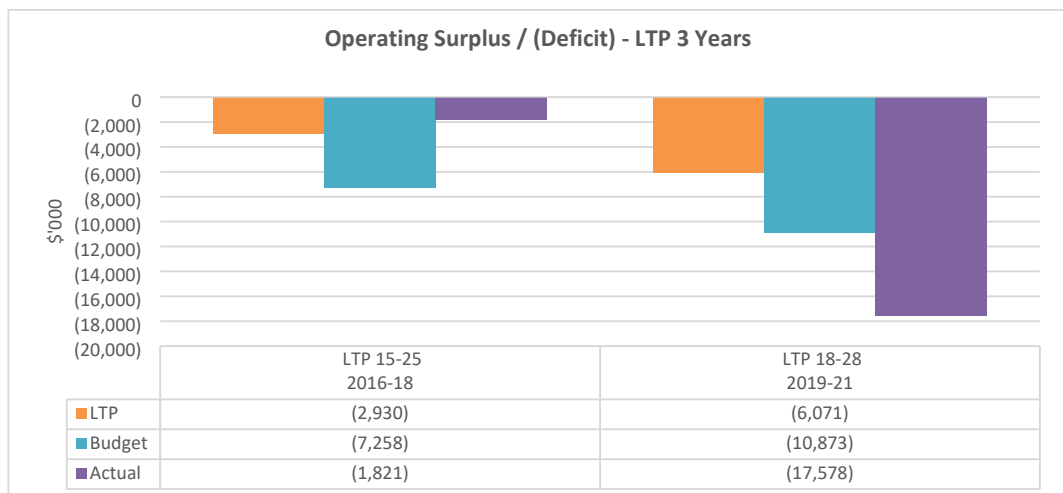


Figure 2: Operating Surplus / Deficit – LTP 3 Years

[20] Figure 2 shows the LTP 2015-25 cycle included adjustments to the LTP deficits but overall, the actual deficits were lower, and over the 3-year period, the actual deficit achieved was \$1.1 million better than the LTP.

[21] The LTP 2018-21 cycle also included adjustments to those set in the LTP however, unlike 2015-25 these did not net out over the 3-year period and overall deficits were \$11.5 million worse than the LTP.

[22] Most of these adjustments, both budgeted and unbudgeted, occurred in year 3 of each LTP cycle.

[23] Operational deficits are funded from reserves.

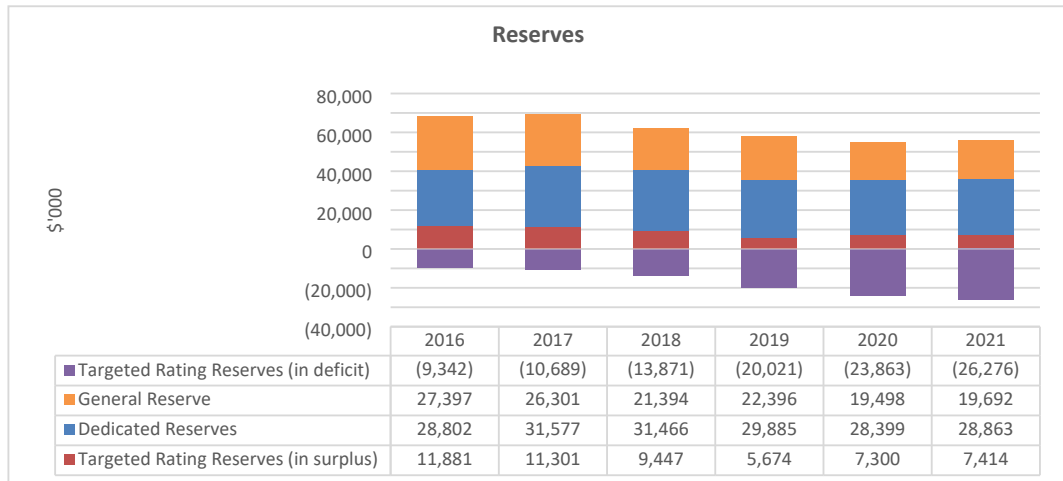


Figure 3: Reserves

- [24] Figure 3 shows the breakdown of reserves over the last 6 years. Dedicated reserves have remained consistent over that period. Targeted rate reserves have declined from \$2.5 million in surplus to \$18.9 million in deficit. General reserves have also decreased, from \$27.4 million to \$19.7 million.
- [25] The reserves need to be reconciled back to financial assets (cash and the managed fund) to show Council’s reserve position on a cash basis.

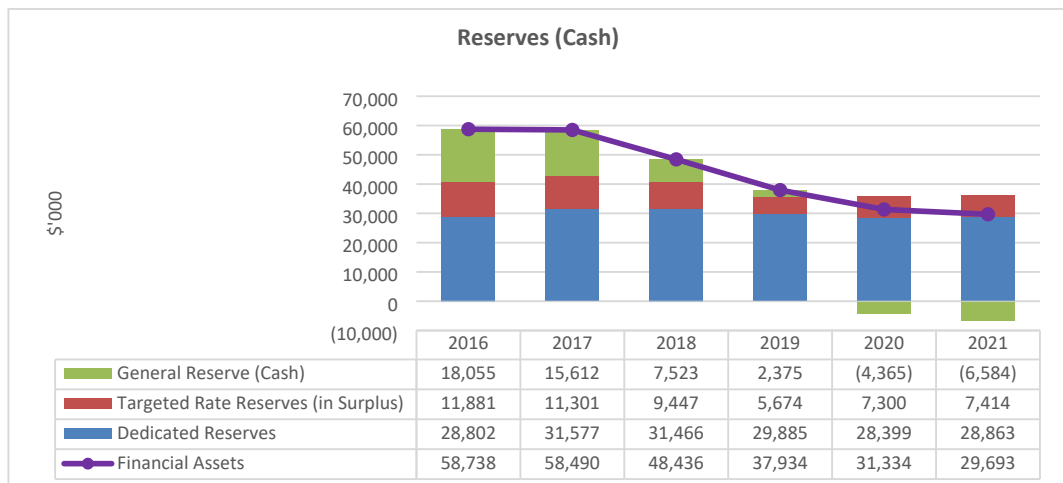


Figure 4: Reserves (Cash)

- [26] Figure 4 shows that over the last 6 years, financial assets decreased from \$58.7 million to \$29.7 million. On a cash basis the general reserve has decreased from \$18.1million to a deficit of \$6.6 million.
- [27] Details of dedicated reserves are shown below:

Dedicated Reserves	2016	2017	2018	2019	2020	2021
Asset Replacement	5,987	5,820	6,070	5,034	3,756	2,937
Building	10,997	13,614	13,248	13,105	13,440	13,573

Emergency Response	3,891	4,033	4,182	4,325	3,901	4,476
Kuriwao	6,271	6,361	6,432	6,472	6,397	6,962
Water Mgt	1,433	1,427	1,039	875	897	906
Environmental Enhancement	223	322	495	74	8	9
Total Dedicated Reserves	28,802	31,577	31,466	29,885	28,399	28,863

Table 5: Dedicated Reserves

[28] Details of targeted rate reserves are shown below:

Targeted Rating Reserves	2016	2017	2018	2019	2020	2021
M 1 River Mgt - Dunedin	2,017	1,955	1,768	1,479	1,462	1,380
M 2 River Mgt - Clutha	163	157	112	38	183	183
M 3 River Mgt - Central	321	398	387	395	460	434
M 4 River Mgt - Wakatipu	636	707	753	684	745	707
M 5 River Mgt - Wanaka	366	423	505	571	571	(274)
M 6 River Mgt - Waitaki	(30)	6	143	222	512	529
E 1 Emergency Management			(140)	(63)	(669)	(434)
F 1 Alex Flood Protection	661	438	306	231	146	56
F 2 Leith Flood Protection	(7,890)	(9,423)	(11,925)	(14,665)	(15,734)	(14,976)
F 3 Lower Clutha Flood & Drainage	226	142	(149)	(197)	(101)	(687)
F 4 Lower Taieri Flood	753	1,008	1,060	632	955	1,337
F 5 West Taieri Drainage	(1,053)	(1,016)	(1,577)	(1,844)	(1,926)	(1,909)
F 6 East Taieri Drainage	489	582	386	199	346	454
F 7 Toko	145	155	155	150	244	243
F 8 Shotover River SRA	(270)	(67)	57	133	204	249
Stoney Creek	133	138	143	148	152	154
M 7 Lower Waitaki River Control	(8)	(19)	(17)	(9)	4	(6)
A 2 Clean Heat Clean Air	487	413	350	209	47	0
T 2 PT Dunedin	5,423	4,779	2,930	(2,539)	(4,504)	(6,489)
T 2 PT Wakatipu	61	(35)	83	(188)	(359)	(843)
W 3 Compliance Dairy	(39)	(75)	25	74	80	74
W 3 Lake Hayes				(372)	(365)	(369)
L 7 Wilding Pines			(63)	(144)	(205)	(289)
W 3 Rural Water Quality	(52)	(54)	284	509	1,189	1,614
Total Targeted Rating Reserves	2,539	612	(4,424)	(14,347)	(16,563)	(18,862)

Table 6: Targeted Rating Reserves

CONSIDERATIONS

Strategic Framework and Policy Considerations

[29] Operational deficits and the use of reserves are outlined in the Financial Strategy, Long-Term Plans and Annual Plans.

Financial Considerations

[30] This paper outlines the financial considerations regarding operational deficits.

Significance and Engagement

[31] There are no significance and engagement considerations.

Legislative and Risk Considerations

[32] The requirement to balance the budget is outlined in Section 100 of the Local Government Act 2002.

[33] This paper outlines the risk considerations regarding the ongoing budgeting and use of operational deficits.

Climate Change Considerations

[34] There are no climate change considerations.

Communications Considerations

[35] There are no communications considerations.

ATTACHMENTS

Nil

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

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
<p>Confidential minutes of the 11 August 2022 Audit and Risk Subcommittee meeting</p>	<p>To protect information where the making available of the information— would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information – Section 7(2)(b)(ii)</p> <p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i)</p> <p>To protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information— would be likely otherwise to damage the public interest – Section 7(2)(c)(ii)</p> <p>To avoid prejudice to measures that prevent or mitigate material loss to members of the public – Section 7(2)(e)</p> <p>To maintain legal professional privilege – Section 7(2)(g)</p> <p>To enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities – Section 7(2)(h)</p> <p>To prevent the disclosure or use of official information for improper gain or improper advantage – Section 7(2)(j)</p>	<p>Section 48(1)(a) - Subject to subsection (3), a local authority may by resolution exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds:</p> <p>(a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>
<p>Annual Report and Audit Management</p>	<p>To protect information which is subject to an obligation of confidence or which any person has been or could be</p>	<p>Section 48(1)(a) - Subject to subsection (3), a local authority may by resolution</p>

<p>Letter</p>	<p>compelled to provide under the authority of any enactment, where the making available of the information— would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied – Section 7(2)(c)(i)</p>	<p>exclude the public from the whole or any part of the proceedings of any meeting only on 1 or more of the following grounds: (a) that the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</p>
---------------	--	---

This resolution is made in reliance on [section 48\(1\)\(a\)](#) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by [section 6](#) or [section 7](#) of that Act or [section 6](#) or [section 7](#) or [section 9](#) of the Official Information Act 1982, as the case may require, which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public.