

I hereby give notice that an extraordinary meeting of the Audit and Risk Committee will be held on:

Date: Tuesday, 14 February 2023
Time: 2.00pm
Meeting Room: Reception Lounge
Venue: Auckland Town Hall
301-305 Queen Street
Auckland

**Kōmiti Tātari me te Mātai Raru Tūpono /
Audit and Risk Committee**

OPEN AGENDA

MEMBERSHIP

| | |
|---------------------------|---|
| Chairperson | Bruce Robertson |
| Deputy Chairperson | Cr Lotu Fuli |
| Members | Paul Connell Cassandra Crowley Cr Julie Fairey Cr Christine Fletcher, QSO Cr Shane Henderson Martin Matthews |
| Ex-officio | Mayor Wayne Brown IMSB Member Tony Kake, MNZM Deputy Mayor Cr Desley Simpson, JP |

(Quorum 3 members)

Mike Giddey
**Kaitohutohu Mana Whakahaere / Governance
Advisor**

9 February 2023

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1 Ngā Tamōtanga | Apologies

An apology from Mayor W Brown has been received.

2 Te Whakapuaki i te Whai Pānga | Declaration of Interest

3 Ngā Petihana | Petitions

4 Ngā Kōrero a te Marea | Public Input

5 Ngā Kōrero a te Poari ā-Rohe Pātata | Local Board Input

6 Ngā Pakihi Autaia | Extraordinary Business

Potential Long-term Plan Amendment Consultation Document - risk and control update

File No.: CP2023/00198

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Te take mō te pūrongo

Purpose of the report

1. To support the committee in its role to review the effectiveness of governance over risks, design and operation of internal controls over the preparation of a proposal to amend our Long-term Plan (10-year Budget 2021-2031) included in consultation material for the Annual Budget 2023/2024.

Whakarāpopototanga matua

Executive summary

2. This report provides a status update on key controls employed and management of significant risks related to the development of a potential amendment to our 10-year Budget 2021-2031 included in consultation material for the Annual Budget 2023/2024 which relates to the amendment of Auckland Council's Auckland Airport Shareholding Policy to provide for the full or partial sell down of council's shareholding.
3. All key control activities have now been completed. The following table summarises the key control activities related to the preparation of the consultation material.

| Area | Key control activities |
|-----------------------|---|
| Project oversight | Annual budget project control group |
| Project planning | Approved project execution plan |
| Financial information | Financial control review of accounting treatment and financials Financial forecasts based on audited information |
| Legal issues | Review and sign-off of documentation by legal team |
| Taxation implications | Advice from tax team of any implications |

4. All process risks related to the amendment of our 10-year Budget 2021-2031 are managed as part of the overall project management for the Annual Budget 2023/2024. All risks are recorded in a centralised risk register which is updated regularly by project management and provided to the project control group fortnightly as part of status reporting.
5. There are no outstanding high or critical risks to this project on the central risk register. However, the timeframes remain tight to achieve deadlines for public consultation as part of the broader annual budget process.
6. The specific costs and benefits associated with this proposal depend on future events which are subject to a high degree of uncertainty. The approach taken to address this in the consultation materials has been to make reasonable assumptions, undertake sensitivity analysis and then fully disclose the high-level of uncertainty and the impacts of this uncertainty.

7. The key areas of uncertainty addressed in this way relate to:
 - the amount of sale proceeds received (after transaction costs)
 - the timing of the transaction
 - future interest rates
 - future airport dividends
8. At the time of writing, the audit process is largely complete and no significant outstanding audit issues have been raised with council staff. Final review, updating and checking activities are continuing. Audit New Zealand's update on the audit process is the subject of another item on this agenda.

Ngā tūtohunga Recommendation/s

That the Audit and Risk Committee:

- a) whiwhi / receive the report on the key controls and risks relating to Auckland Council's proposal to amend its long-term plan in relation to the council's shareholding in Auckland International Airport Limited
- b) advise the Governing Body that effective internal control and risk management processes have been followed during the preparation of the consultation material for the proposed amendment
- c) advise the Governing Body that there are no significant outstanding audit issues in relation to the proposed amendment.

Horopaki Context

9. Staff presented to the Audit and Risk Committee's meeting on 12 December 2022 on the background to this potential amendment to our 10-year Budget 2021-2031 and the respective roles of the Governing Body and the Audit and Risk Committee in a long-term plan amendment.
10. At Governing Body on 15 December, the decision was made to proceed with consulting on an amendment to our 10-year Budget 2021-2031 as part of the draft Annual Budget 2023/2024.
11. The resolutions made on 15 December 2022 that relate to the amendment were:

Resolution number GB/2022/134

a) ii) consultation on a proposed amendment to the Airport Shareholding Policy in the Long-term Plan 2021-2031 to provide for a full sell down of the council's 18.09% shareholding in Auckland International Airport Limited

g) note that the consultation document for the Annual Budget 2023/2024 related to amending the Airport Shareholding Policy to provide for the full sell down of the shareholding in Auckland International Airport Limited, will include information on alternative options including:

- i) partial sell down of approximately 8% and maintaining at least a 10% 'blocking stake' shareholding*
- ii) retention of the current number of shares as per the current policy.*

12. Staff have prepared the required consultation materials including the proposal to amend our 10-year Budget 2021-2031. Governing Body will be asked to adopt this material on 15 February 2023.

Tātaritanga me ngā tohutohu

Analysis and advice

13. The following paragraphs detail the status of key controls identified to be critical to ensure that:
 - a) long-term plan amendment processes are robust
 - b) information contained in the consultation material relating to the amendment is materially complete, fit for purpose, and reliable
 - c) any risks associated with the potential amendment to our 10-year Budget 2021-2031 are minimised
 - d) the potential amendment meets the requirements of the Local Government Act 2002.

Project oversight

14. Oversight of the project is undertaken by the Annual Budget 2023/2024 Project Control Group. This group includes representation from across the organisation including governance, risk, engagement, legal, local boards, finance, strategy and planning and the mayor's office. The project sponsor is the Group Chief Financial Officer, Peter Gudsell.
15. A project execution plan has been prepared and approved by the General Manager Financial Strategy and Planning as business owner and the Group Chief Financial Officer as project sponsor.
16. The project plan includes a detailed timeline and key milestones. Delivery against these milestones is monitored and reported to the General Manager Financial Strategy and Planning and to the Annual Budget 2023/2024 Project Control Group.
17. A communications and engagement approach for the potential amendment to our 10-year Budget 2021-2031 is captured within the Annual Budget 2023/2024 communications and engagement plan. This describes how the Auckland Council intends to engage and communicate with Aucklanders on the draft budget including the proposal to amend our 10-year Budget 2021-2031.
18. This plan will include targeted engagement with mana whenua and mataawaka, and our harder to reach communities across Tāmaki Makaurau.

Financial information

19. The proposal includes two sets of financial information. The first is to support the decision-making and is therefore based on latest information and assumptions. The second is prepared to show the amendments to the financial statements included in the 10-year Budget 2021-2031 and in part reflects assumptions made in the preparation of that document back in May 2021.
20. The financial assumptions and calculations prepared to support decision-making have been reviewed by the council's treasury staff.
21. The projected amendments to the financial statements and funding impact statements have been reviewed by the Financial Control team.

Legal issues

22. All consultation materials have been reviewed, and signed off, by the council's internal public law team to confirm that they comply with the requirements of the necessary legislation.
23. The council's commercial law team has also provided review of the consultation material with a focus on the implementation of any resultant transaction.

24. Final legal sign-off of all consultation material was provided by Helen Wild, General Counsel.

Taxation implications

25. The proposal has been discussed with the council's internal tax team and it has been confirmed that there are no tax issues.

Quality assurance

26. A quality assurance review of the draft consultation document was performed by staff across the Auckland Council group including:

- Chief Executive Officer
- Group Chief Financial Officer
- CCO Governance
- General Manager Financial Strategy and Planning
- Group Financial Controller
- Head of Financial Strategy
- Public Law and Commercial Law
- Nga Mātārae
- Mayoral Office

Key assumptions

27. The specific costs and benefits associated with this proposal depend on future events which are subject to a high degree of uncertainty. The approach taken to address this in the consultation materials has been to make reasonable assumptions, undertake sensitivity analysis and then fully disclose the high-level of uncertainty and the impacts of this uncertainty.

28. The following table sets the key assumptions we have made, the risks and level of uncertainty associated with these assumptions and the potential impacts.

| Assumption | Risks and Impact | | | | | | | | | | | | | | | | | | |
|--|---|-------|-------|-------|-------|-------|-------|-------|------|------|---------------|-------|-------|-------|-------|-------|-------|-------|-------|
| <p>Sale proceeds</p> <p>The council is projecting sale proceeds of \$1.9 billion from the full sale of all the shares it owns in AIAL.</p> <p>This is based on the council's shareholding of 266,328,912 shares, the share price as at 9 Nov 2022 (\$7.46 per share), and a provision for a 5% lower realisation value to allow for the size of the transaction.</p> <p>The share price is subject to market movements.</p> | <p>Risks – That the market share price at the time of sale differs significantly from the assumption</p> <p>That the costs of the transaction differ from the provision made</p> <p>Level of uncertainty – High</p> <p>Impacts – If the share price is greater than assumed and/or the transaction impact is less, the net proceeds will be greater than \$1.9billion. This will enable the council to reduce debt further and make additional interest savings.</p> <p>If the share price is less than assumed and/or the transaction impact is greater, the net proceeds will be less than \$1.9billion. This will not enable the council to reduce debt by as much and the resulting interest savings will be lower.</p> | | | | | | | | | | | | | | | | | | |
| <p>Transaction date</p> <p>For purposes of modelling to support consultation, the council has assumed the sale of shares and reduction of debt will occur on 1 July 2023.</p> <p>The actual date and method of sale will depend on the timing of decision-making and market conditions.</p> <p>Maximising sale price will be weighed against the interest costs of delaying sale for too long.</p> <p>Professional advice will guide that decision to maximise overall benefit to council.</p> | <p>Risks – That the transaction date differs from the modelling</p> <p>Level of uncertainty – High</p> <p>Impacts – If the transaction is executed prior to 1 July 2023 then the council will be able to reduce debt earlier and make interest savings in the current financial year. The estimated impact of a one-month earlier transaction (assuming no movement in other assumptions) would be around \$7 million of additional interest cost savings.</p> <p>If the transaction is executed after 1 July 2023 the projected debt reduction will be delayed and the full projected interest savings for 2023/2024 may not be achieved. If the transaction was delayed by one month, then the interest benefits would be reduced by around \$7 million.</p> | | | | | | | | | | | | | | | | | | |
| <p>Interest rates</p> <p>The council's interest rate projections are based on an assessment of market rates and forecast borrowing requirements.</p> <p>The council manages its interest rate exposure to provide some certainty of its borrowing costs over the short to medium term.</p> <p>The council interest rate projections assume it maintains its AA/Aa2 credit rating from S&P Global and Moody's.</p> <p>For the remaining eight years of the 10-year Budget 2021-2031 the forecast average interest rates on council borrowing are:</p> | <p>Risks – Prevailing interest rates differ significantly from forecast</p> <p>Level of uncertainty – High</p> <p>Impacts - If actual interest rates are lower the savings from the sale of shares will be lower.</p> <p>If actual interest rates are higher the savings from the sale of the shares will be higher.</p> <p>Council's average interest rate on borrowing is highly dependent on several factors including market interest rates, council's credit rating, interest rate hedging level, as well as wholesale capital market condition etc.</p> | | | | | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="background-color: #003366; color: white;"></th> <th style="background-color: #003366; color: white;">FY24</th> <th style="background-color: #003366; color: white;">FY25</th> <th style="background-color: #003366; color: white;">FY26</th> <th style="background-color: #003366; color: white;">FY27</th> <th style="background-color: #003366; color: white;">FY28</th> <th style="background-color: #003366; color: white;">FY29</th> <th style="background-color: #003366; color: white;">FY30</th> <th style="background-color: #003366; color: white;">FY31</th> </tr> </thead> <tbody> <tr> <td style="background-color: #ADD8E6;">Interest rate</td> <td>4.61%</td> <td>4.63%</td> <td>4.66%</td> <td>4.71%</td> <td>4.78%</td> <td>4.83%</td> <td>4.91%</td> <td>4.98%</td> </tr> </tbody> </table> | | | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | Interest rate | 4.61% | 4.63% | 4.66% | 4.71% | 4.78% | 4.83% | 4.91% | 4.98% |
| | FY24 | FY25 | FY26 | FY27 | FY28 | FY29 | FY30 | FY31 | | | | | | | | | | | |
| Interest rate | 4.61% | 4.63% | 4.66% | 4.71% | 4.78% | 4.83% | 4.91% | 4.98% | | | | | | | | | | | |
| <p>Dividends</p> <p>Projections of potential future dividends are based on a broker consensus estimate for the next four years published by Bloomberg.</p> <p>Dividends beyond this are projected to grow at the level of inflation (2%) in line with our Financial Strategy targets.</p> | <p>Risks – That the level of future dividend differs significantly from that projected</p> <p>Level of uncertainty – High</p> <p>Impacts – If the level of dividend paid by AIAL is higher than projected then the net level of saving for the council from the sale of shares will be reduced.</p> <p>If the level of dividend is lower the savings from the sale will be greater than projected.</p> | | | | | | | | | | | | | | | | | | |

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29. The sensitivity analysis undertaken shows that the financial benefits from reduced interest costs associated with the proposal will be greater than the dividends foregone over the remaining period of the 10-year Budget 2021-2031, except under the most adverse combination of the key variables.

30. Once a decision is made following public consultation, there will be financial risks associated with how and when any transaction is executed. This will be managed with the assistance of an independent expert advisor. The details of how and when we would transact are not specified in the proposal, rather we would seek to make those decisions based on market conditions at the time following the advice of our expert advisor with a sole focus on achieving maximum value for money.

Audit review

31. At the time of writing this report, Audit New Zealand were mid-way through their audit review of the proposal to amend our 10-year Budget 2021-2031 and supporting information included in the consultation material for the Annual Budget 2023/2024. At this stage, no significant outstanding audit issues have been raised with council staff. Final review, updating and checking activities are continuing.
32. Audit New Zealand's update on the audit process is the subject of another item on this agenda. Any final updates relating to the outcome of that audit will be provided to the committee during the meeting.

Tauākī whakaaweawe āhuarangi Climate impact statement

33. There are no climate impacts associated with the recommendations of this report.

Ngā whakaaweawe me ngā tirohanga a te rōpū Kaunihera Council group impacts and views

34. The controls set out in this report have been involved staff from the council finance, legal and other teams.
35. There are no impacts on Council Controlled Organisations associated with the recommendations of this report.

Ngā whakaaweawe ā-rohe me ngā tirohanga a te poari ā-rohe Local impacts and local board views

36. Local boards will continue to have the opportunity to provide input on the proposal as part of the broader annual budget process.
37. There are no impacts on local boards associated with the recommendations of this report.

Tauākī whakaaweawe Māori Māori impact statement

38. While the potential long-term plan amendment will be of interest to Māori there is no impact on Māori arising from the decision this committee is being asked to make.

Ngā ritenga ā-pūtea Financial implications

39. While the potential long-term plan amendment does have financial implications for the Auckland Council, including in its implementation, this report does not require the committee to make decisions with financial implications.
40. Any associated costs related to the audit of consultation material will be included as costs to the overall Annual Budget 2023/2024 project.

Ngā raru tūpono me ngā whakamaurutanga Risks and mitigations

41. All process risks related to the amendment of our 10-year Budget 2021-2031 are managed as part of the overall project management for the Annual Budget 2023/2024. All risks are recorded in a centralised risk register which is updated regularly by project management and provided to the project control group fortnightly as part of status reporting.
42. There are no outstanding high or critical risks to this project on the central risk register. However, the timeframes remain tight to achieve deadlines for public consultation as part of the broader annual budget process.
43. The approach to addressing key areas of uncertainty in relation to future events is set out in the body of this report.
44. While the recent flooding at Auckland Airport significantly disrupted aeronautical operations, this has not had an adverse impact of the value of the shares.
45. However, the recent storm event will have financial implications for the Auckland Council group. Finance staff have prepared a memo on these implications, and what this will mean for the council's Annual Budget 2023/2024 process. This memo has been sent to councillors and to the independent members of this committee. Finance staff will provide an update to the committee of the associated financial risks and impacts at an appropriate time.

Ngā koringa ā-muri Next steps

46. Following the presentation of this report, the Office of the Auditor-General and Audit New Zealand will present their status report on audit matters.
47. The council will make a decision to adopt the consultation material on 15 February 2023, ahead of consultation with Aucklanders taking place between 28 February and 28 March 2023.
48. Further updates will be provided to the Audit and Risk Committee as we progress with the budget.

Ngā tāpirihanga Attachments

There are no attachments for this report.

Ngā kaihaina Signatories

| | |
|-------------|--|
| Authors | Tamsyn Matchett - Programme Manager Ross Tucker - General Manager, Financial Strategy and Planning |
| Authorisers | Peter Gudsell - Group Chief Financial Officer Phil Wilson - Director, Governance & CCO Partnerships |

Exclusion of the Public: Local Government Official Information and Meetings Act 1987

That the **Audit and Risk Committee**

a) exclude the public from the following part(s) of the proceedings of this meeting.

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 follows.

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 which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

C1 **CONFIDENTIAL: Office of the Auditor-General and Audit New Zealand briefing**

| Reason for passing this resolution in relation to each matter | Particular interest(s) protected (where applicable) | Ground(s) under section 48(1) for the passing of this resolution |
|--|--|---|
| The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7. | s7(2)(c)(i) - The withholding of the information is necessary 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. In particular, the briefing paper from the Office of the Auditor-General covers work being performed by council staff and is still subject to a final opinion. | s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7. |