

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

Date: Friday, 2 June 2023
Time: 10.00am
Meeting Room: Room 1, Level 26
Venue: 135 Albert 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
Ex-officio	Martin Matthews Mayor Wayne Brown IMSB Member Tony Kake, MNZM Deputy Mayor Cr Desley Simpson, JP

(Quorum 3 members)

Mike Giddey
Kaitohutohu Mana Whakahaere / Governance
Advisor

30 May 2023

Contact Telephone: +64 9 890 8143
Email: Mike.Giddey@aucklandcouncil.govt.nz
Website: www.aucklandcouncil.govt.nz

Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. Should Members require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.

ITEM	TABLE OF CONTENTS	PAGE
1	Ngā Tamōtanga Apologies	5
2	Te Whakapuaki i te Whai Pānga Declaration of Interest	5
3	Ngā Petihana Petitions	5
4	Ngā Kōrero a te Marea Public Input	5
5	Ngā Kōrero a te Poari ā-Rohe Pātata Local Board Input	5
6	Ngā Pakihi Autaia Extraordinary Business	5
7	Potential Long-term Plan Amendment - risk and control update	7
8	Te Whakaaro ki ngā Take Pūtea e Autaia ana Consideration of Extraordinary Items	
PUBLIC EXCLUDED		
9	Te Mōtini ā-Tukanga hei Kaupare i te Marea Procedural Motion to Exclude the Public	13
C1	CONFIDENTIAL: Office of the Auditor-General and Audit New Zealand briefing	13

1 Ngā Tamōtanga | Apologies

Apologies from Deputy Chairperson Cr L Fuli and Mayor W Brown have 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 - risk and control update

File No.: CP2023/06656

Item 7

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, and design and operation of internal controls over the preparation of a proposal to amend our Long-term Plan (10-year Budget 2021-2031) regarding Auckland Council's Auckland Airport Shareholding Policy.

Whakarāpopototanga matua Executive summary

2. This report provides the final 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 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 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.
4. There are no outstanding high or critical risks to this project on the central risk register.
5. Two alternative options of either a full or partial sale of the council's airport shares were included in the consultation material and therefore staff have prepared, and had audited, two different versions of the potential final amendment. This will support the Governing Body in enabling either option to be adopted.
6. At the time of writing this report, Audit New Zealand were finalising their audit review of the amendment to our 10-year Budget 2021-2031. At this stage, no significant outstanding audit issues have been raised with council staff. Final review, updating and checking activities are continuing.
7. 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.

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) whakaae / agree to advise the Governing Body that effective internal control and risk management processes have been followed during the preparation of the proposed amendment
- c) whakaae / agree to advise the Governing Body that there are no significant outstanding audit issues in relation to the proposed amendment.

Horopaki Context

8. The Governing Body agreed on 15 December 2022 to consult on a proposal to amend Auckland Council's Auckland Airport Shareholding Policy to enable either a full or partial sale of its shares.
9. Staff then presented to the Audit and Risk Committee's meeting on 14 February 2023 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. The following key controls were monitored throughout the development of the consultation document and supporting information for the amendment to the 10-year Budget:
 - Annual Budget 2023/2024 Project Control Group providing oversight of key deliverables, risks and issues
 - Financial Control department sign-off on Generally Accepted Accounting Principles (GAAP) compliance for financial statements
 - Legal Services department sign-off of compliance with relevant legislation
 - review of taxation implications
 - quality assurance processes undertaken.
11. The chair of this committee, with delegated authority, provided assurance to the Governing Body that effective internal control and risk management processes had been followed during the preparation of the consultation document and supporting information and that there were no significant outstanding audit issues at the date of adoption on the 15 February 2023.
12. At an Emergency Committee meeting on 15 February 2023, the decision was made to proceed with consulting on an amendment to our 10-year Budget 2021-2031 as part of the Annual Budget 2023/2024 public consultation process.
13. Council sought the community's views on the proposal between 28 February and 28 March 2023 as part of consultation on the Annual Budget 2023/2024.
14. A special consultative procedure (SCP) was required under the Local Government Act 2002 because of the proposed long-term plan amendment. The approach to meeting those requirements was set out in the communications and engagement plan that was agreed to by the Governing Body on 18 February 2023.
15. During consultation council received a total of 41,146 pieces of feedback, including 4,488 pieces of feedback at in-person events. This represents the largest budget consultation in Auckland Council's history to date.
16. A summary and full report on the feedback received, including the breakdown of responses from Aucklanders on the proposal to amend the 10-year budget has been published on our website [here](#).

Tātaritanga me ngā tohutohu Analysis and advice

17. In December 2022 the Governing body decided to include two alternative options of a full or partial sale of shares in Auckland International Airport Limited within the Consultation Document for the Annual Budget 2023/2024. Council staff have therefore prepared, and had audited, two versions of a potential amendment to the long-term plan, one for a full sale and one for a partial sale.

18. The following paragraphs detail the final status of key controls identified to be critical to ensure that:
 - a) long-term plan amendment processes are robust
 - b) information contained in the proposed 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.
19. 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.
20. A project execution plan was prepared and approved by the general manager financial strategy and planning as business owner and the group chief financial officer as project sponsor.
21. 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.
22. Following consultation and the reporting of public feedback, staff provided updated advice to the Governing Body on 26 April 2023 around the airport shareholding. This has been released publicly on the council's [website](#).
23. This advice included financial analysis using updated assumptions from 17 April 2023. These were sourced from:
 - share price – the closing NZX market price on 17 April 2023
 - interest rates – an updated forecast of the council's average cost of capital based on market information on 17 April 2023
 - dividends – a broker consensus estimate for the next four years published by Bloomberg. Dividends beyond this are projected to grow at the level of inflation in line with our Financial Strategy
24. The financial assumptions and calculations prepared to support decision-making have been reviewed by the council's treasury staff.
25. Further third-party information was provided, confidentially, to members to review alongside staff advice.
26. The financial information included in the proposed amendments were calculated based on the existing assumptions in the 10-year Budget 2021-2031 and an additional assumption around sale proceeds based on the share price on 17 April 2023. This additional assumption (shown below) will be disclosed in the amended plan, including the associated risks and impacts of uncertainty.

Full Sale

Assumption	Risks and impact
Airport share sale proceeds	
<p>The council is projecting sale proceeds of \$2.2 billion from the full sale of all the shares it owns in AIAL.</p> <p>This is based on the share price as at 17 April 2023 (\$8.66 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 proceeds from sale differ significantly from the assumption.</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 \$2.2 billion. 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 \$2.2 billion. This will not enable the council to reduce debt by as much and the resulting interest savings will be lower.</p>
Airport share transaction date	
<p>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 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 assumption.</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 \$8 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 \$8 million.</p>

Partial Sale

Assumption	Risks and impact
Sale proceeds	
<p>The council is projecting sale proceeds of \$989 million from the partial sale of all the shares it owns in AIAL.</p> <p>This is based on the share price as at 17 April 2023 (\$8.66 per share), and a provision for a 3% 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 proceeds from sale differ significantly from the assumption.</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 \$989 million. 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 \$989 million. This will not enable the council to reduce debt by as much and the resulting interest savings will be lower.</p>
Airport share transaction date	
<p>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 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 assumption.</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 \$4 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 \$4 million.</p>

27. The projected amendments to the financial statements and funding impact statements have been reviewed by the Financial Control team.
28. Audit New Zealand had raised some technical accounting questions about the correct treatment under GAAP of some line items within the consultation materials. The council's Financial Control team provided our view about the correct accounting treatment, but Audit New Zealand's technical accounting team were not able to complete their assessment of the issue at that stage. They have subsequently confirmed in writing that they are now in full agreement with the council's proposed accounting treatment.
29. All proposed policy amendments 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.
30. The council's commercial law team has also provided review of the proposed policy amendments with a focus on the implementation of any resultant transaction.
31. Final legal sign-off of the policy and supporting financial information was provided by Helen Wild, general counsel.
32. The proposal has been discussed with the council's internal tax team and it has been confirmed that there are no tax issues.
33. A quality assurance review of the proposed amendment was performed by staff across the Auckland Council group including the:
 - group chief financial officer
 - general manager financial strategy and planning
 - group financial controller
 - head of financial strategy
 - Public Law and Commercial Law teams.
34. At the time of writing this report, Audit New Zealand were finalising their audit review of the amendment to our 10-year Budget 2021-2031. At this stage, no significant outstanding audit issues have been raised with council staff. Final review, updating and checking activities are continuing.
35. 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**

36. 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**

37. The controls set out in this report have been involved staff from the council finance, legal and other teams.
38. 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**

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

Tauākī whakaaweawe Māori Māori impact statement

41. 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

42. 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.
43. 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

44. 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.
45. There are no outstanding high or critical risks to this project on the central risk register.
46. The approach to addressing key areas of uncertainty in relation to future events is set out in the body of this report.

Ngā koringa ā-muri Next steps

47. Following the presentation of this report, the Office of the Auditor-General and Audit New Zealand will present their status report on audit matters.
48. The Governing Body will make decisions around any amendment to the 10-year Budget 2021-2031 on 8 June 2023.

Ngā tāpirihanga Attachments

There are no attachments for this report.

Ngā kaihaina Signatories

Authors	Michael Burns - Manager Financial Strategy Tamsyn Matchett - Programme Manager
Authorisers	Ross Tucker - General Manager, Financial Strategy and Planning 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 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.