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Report to the Policy and Finance Committee
from Stuart Macaskill, Chairman

Controller and Auditor-General's Report on Governance

1. Purpose

To consider the implications of the Controller and Auditor-General's Report to Parliament on governance within the Local Government sector.

2. Background

On 23 March 2001 the Controller and Auditor-General tabled a report in Parliament entitled "Local Authority Governance of Subsidiary Entities".

On 6 April 2001 the Chief Financial Officer distributed with the Councillors' Bulletin copies of the Controller and Auditor-General's report. A copy is tabled.

The Report includes a number of recommendations in relation to what the Controller and Auditor-General considers to be best practice in the area of governance.

The report is particularly relevant to the Council in relation to governance issues relating to:

- Council LATE's (WRC Holdings Ltd, Pringle House Ltd and Port Investments Ltd)
- CentrePort Ltd
- The Wellington Regional Stadium Trust

The report is also interesting from the point of view of the proposed Water Trust.

3. **Comment**

The Controller and Auditor-General's report provides some interesting views on governance issues, many of which I agree with.

However, I am concerned about the recommendations relating to the role of the Local Authority CEO (paras 218-220). I am also aware that at least one of our Councillors has been in communication with the media about the appropriateness of the General Manager being a director of CentrePort, given some of the comments made in the Controller and Auditor-General's Report.

The Chief Financial Officer has already reiterated the Council's policy on this matter in his memorandum dated 6 April 2001 to all Councillors (included in the Councillors' Bulletin on 6 April 2001). i.e. that the position of Chief Adviser to the Council on Port matters is delegated to the Chief Financial Officer.

This delegation and separation of roles is a sensible response in my view, to any perceived conflict of interest situation as a result of the General Manager also being a director of CentrePort. It is also the policy that has worked very well since 1995.

In our case the formal monitoring role expected by the Controller and Auditor-General is actually carried out by Port Investments Ltd (with the assistance of the Chief Financial Officer) with the Council able to rely in the first instance on the governance exercised by PIL.

However, the real strength of the current arrangement is that the Council benefits from the best of both worlds. Not only is formal monitoring carried out independently of the Council but the Council, as ultimate shareholder, also has a direct linkage to the Board of CentrePort which ensures the necessary informal communications channels also work effectively.

This enables the shareholders' expectations (eg. in terms of political issues) to be appropriately dealt with by CentrePort. In essence it brings a depth of understanding of the issues which you can't get from pure monitoring alone. In this respect I believe the Controller and Auditor-General's recommendations do not take account of the practical benefits of our current arrangements.

In my view the current arrangements have greatly enhanced the Council's governance over its key CentrePort investment – a position we would almost certainly not have achieved had the purest view of the perceived conflict of interest have been taken.

As the Chief Financial Officer has noted in his memo dated 6 April 2001, Council's current policy has received no adverse audit comment since it was implemented in 1995.

However, as the issue is back on the table I believe it needs to be dealt with again. I am therefore proposing to write to the Office of the Controller and Auditor-General and seek further clarification.

4. Recommendations

- (1) *That the Committee recommend that Council:*
- (a) *receive the report and note its contents.*
 - (b) *note the current arrangements whereby the General Manager is also a director of CentrePort have worked well since 1995.*
 - (c) *request the Chairman seek clarification from the Office of the Controller and Auditor-General on the appropriateness of Council's policy in relation to the General Manager also being a director of CentrePort Ltd, in light of the Controller and Auditor-General's most recent report on Governance of Local Authority Subsidiary Entities.*

STUART MACASKILL
Chairman