
Monday, 7 December 2020

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Risk and Assurance Committee Meeting

Kaupapataka

Open Agenda

Te Rā Hui:
Meeting date: **Monday, 7 December 2020**

Te Wā:
Time: **1.00pm**

Te Wāhi:
Venue: **Landmarks Room
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings**

Te Hoapā:
Contact: **Democracy and Governance Services
P: 06 871 5000 | E: democracy@hdc.govt.nz**

Te Āpiha Matua:
Responsible
Officer: **Group Manager: Corporate - Bruce Allan**

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Risk and Assurance Subcommittee – Terms of Reference

Fields of Activity

The Risk and Assurance Committee is responsible for assisting Council in its general overview of financial management, risk management and internal control systems that provide;

- Effective management of potential risks, opportunities and adverse effects.
- Reasonable assurance as to the integrity and reliability of the financial reporting of Council.
- Monitoring of Council's requirements under the Treasury Policy.
- Monitoring of Councils Strategic Risk Framework.

Membership

- Membership (7 including 4 Councillors).
- Independent Chair appointed by Council.
- Deputy Chair appointed by Council.
- 3 external independent members appointed by Council.

Quorum – 4 members

Delegated Powers

Authority to consider and make recommendations on all matters detailed in the Fields of Activity and such other matters referred to it by Council.

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Koromatua
Chair: Jon Nichols – External Independent Appointee

Nga Kai Kaunihera
Councillors: Simon Nixon (Deputy Chair), Alwyn Corban, Tania Kerr, and Geraldine Travers
Robin Hape - Heretaunga Takoto Noa Māori Standing Committee appointee
Jaun Park – External Independent Appointee
Mayor Sandra Hazlehurst (ex-officio)

Tokamatua:
Quorum: 4 members

Kaihokoe mo te Apiha
Officer Responsible: Group Manager: Corporate – Bruce Allan

Te Rōpū Manapori me te Kāwanatanga
Democracy & Governance Services: Christine Hilton (Extn 5633)

Te Rārangi Take

Order of Business

Apologies & Leave of Absence – Ngā Whakapāhatanga me te Wehenga ā-Hui

1.0 An apology from Councillor Travers has been received.

At the close of the agenda no requests for leave of absence had been received.

2.0 Conflict of Interest – He Ngākau Kōnatunatu

Members need to be vigilant to stand aside from decision-making when a conflict arises between their role as a Member of the Council and any private or other external interest they might have. This note is provided as a reminder to Members to scan the agenda and assess their own private interests and identify where they may have a pecuniary or other conflict of interest, or where there may be perceptions of conflict of interest.

If a Member feels they do have a conflict of interest, they should publicly declare that at the start of the relevant item of business and withdraw from participating in the meeting. If a Member thinks they may have a conflict of interest, they can seek advice from the General Counsel or the Manager: Democracy and Governance (preferably before the meeting).

It is noted that while Members can seek advice and discuss these matters, the final decision as to whether a conflict exists rests with the member.

Confirmation of Minutes – Te Whakamana i Ngā Minitī

3.0 Minutes of the Risk and Assurance Committee Meeting held Monday 19 October 2020.

(Previously circulated)

4.0 2021-2031 Long Term Plan **7**

5.0 2019/20 Annual Report **11**

6.0 Group Manager Corporate Quarterly Update **15**

7.0 Minor Items – Ngā Take Iti

8.0 Urgent Items – *Ngā Take Whakahihi*

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**Hastings District Council: Risk and Assurance
Committee Meeting**

Item 4

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: **Lex Verhoeven, Strategy Manager**

Te Take:
Subject: **2021-2031 Long Term Plan**

1.0 Purpose and summary - *Te Kaupapa Me Te Whakarāpopototanga*

1.1 The purpose of this report is to follow-up on the items outlined within the earlier preliminary 19 October report presented to the Committee. In particular this update focuses on:

- Overall project status
- Underlying Assumptions
- Where the budget is at (Rates and Debt)
- Treasury Policy considerations

1.2 Overall Project Status

1.3 From a risk and assurance perspective the project is on track, albeit further behind than would normally be the case with previous Long Term Plan processes. Core underlying information, such as the Asset Management Plans (AMP's) are on track as per the project timetable and scheduled for delivery to Audit New Zealand in the New Year. The Infrastructure Strategy is currently being updated to ensure consistency with the core themes contained within the AMP's.

1.4 Due to the multiple considerations within this 10 year budget (and beyond), completing the story in terms of integration with the financial strategy will still be a work in progress during the month of December. The AMP's will be updated in time for the audit process in the New Year.

1.5 Underlying Assumptions

A Long Term Plan with a 10 year view, and an Infrastructure Strategy with a 30 year view is invariably based on a set of forecast assumptions. To be circulated separately to this report is the draft set of assumptions informing this Long Term Plan. Some of the assumptions of focus for the Committee will be highlighted at the meeting including:

- Direction of Growth
- Inflation
- Interest Rates
- Three Water Reform
- Covid -19 Pandemic

1.6 Where the budget is at (Rates and Debt)

- 1.7 As referred to earlier the Council is in an ongoing process of budget refinement and prioritisation currently. In accordance with Council protocol the first call on funding is to “look after what we have”. This involves addressing the key issues being brought forward through our AMP’s in a managed way and within the affordability considerations for our community.
- 1.8 Officers have reconciled asset renewal funding plans with forecast depreciation to ensure assets are being looked after prudently over time. A sustained period of escalation in renewal funding defines the first three years of this plan.
- 1.9 Debt control and repayment is another focus of the Council’s Financial Strategy. The current approach is to build-in escalated debt repayment in an incremental way into the rating base from year 4.
- 1.10 In conjunction with this approach is a transition to rate funding community enhancement (amenity type projects), which in some cases have been previously debt funded. The council has invested significantly in the last 10 years in this type of infrastructure to make “Hastings a place where talent wants to live”. That infrastructure investment also addressed identified deficits in certain areas such as our parks and reserves as one example.
- 1.11 Debt funding has been used for these more significant community assets (i.e. premier parks, key CBD blocks, Cultural Precinct, Regional Sports Park), but as Council moves to advancing community infrastructure projects (with a lower level of service, more at the neighbourhood level) it is recommended to transition to funding from rates. This may be presented to the community as a “Finishing Touches” package.
- 1.12 The final lens being placed over the future debt profile is the deliverability of the programme. This will be a particular focus of the impending audit of Council’s Long Term Plan.
- ## 1.13 Treasury Policy Considerations
- 1.14 An update on the overall rates position and a presentation on debt and any possible refinement to the Council’s Treasury Policy will be made at the meeting.

2.0 Recommendations – Ngā Tūtohunga

- A) That the Risk and Assurance Committee receive the report of the Strategy Manager titled 2021-2031 Long Term Plan dated 7 December 2020.
- B) That the Committee provide guidance on any elements within the circulated material or presentations made at the meeting.

Attachments:

There are no attachments for this report.

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**Hastings District Council: Risk and Assurance
Committee Meeting**

Item 5

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: **Aaron Wilson, Financial Controller**

Te Take:
Subject: **2019/20 Annual Report**

1.0 Purpose and summary - *Te Kaupapa Me Te Whakarāpopototanga*

- 1.1 The purpose of this report is for the committee to receive the 2019/20 Annual Report and 2019/20 Summary Annual Report and recommend that it be adopted by Council.
- 1.2 Subsequent to the Annual Report 2020 update that was provided to the committee on the 19th October 2020, officers have been providing Audit with additional detailed information as Audit have been working through the audit process.
- 1.3 A copy of the Annual Report and Annual Report Summary will be attached to this agenda separately.

2.0 Changes in Accounting Standards:

Terms:

- 2.1 PBE – Public Benefit Entity is an entity as defined in the Public Audit Act 2001 and all offices of Parliament. This is the accounting standard that Council report under.
- 2.2 IPSAS – International Public Sector Accounting Standards and are standards that are issued by the international accounting board for use by public entities in the preparation of financial statements.
- 2.3 Equity Accounting – This is where the investment in an entity and subsequent surplus/deficits are recorded.

Changes:

- 2.4 A number of new standards, interpretations and amendments effective for the first time, have been adopted in the financial statements. These are:
- 2.5 PBE IPSAS 35 CONSOLIDATED FINANCIAL STATEMENTS - This standard supersedes PBE IPSAS 6 consolidated and separate financial statements and introduces a single “control model” for all entities whereby control exists when all of the following conditions are met:
- Power over the investee
 - Exposure, or rights, to variable returns from investee
 - Ability to use power over investee to affect the entity’s returns from the investee.

An assessment has been completed and in discussion with Audit, officers have now consolidated into the Group the Regional Sports Park based on this the new accounting standard.

PBE IPSAS 36 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES - This requires the use of the equity method to account for investments in joint ventures as well as for investments in associates.

The Council has interests in associates, (HB Airport Ltd, and Horse of the Year Ltd), and had accounted for these associates in the Group consolidation. There has been no change in how Council account for these interests.

- PBE IPSAS 37 JOINT ARRANGEMENTS – This now requires joint arrangements to be classed as either Joint Operations or Joint Ventures.

Council have a Joint Operation, namely Omarunui Landfill, that Council own 63.68% of along with Napier City Council owning 36.32%. The new definition of joint control has not resulted in a change in the recognition and non-recognition of the Council’s arrangement.

Updated Result:

- 2.6 Set out below is a summary of the 2019/20 financial year:

Unaudited Accounting Result	BUDGET COUNCIL \$'000	ACTUAL COUNCIL \$'000	Variance \$'000
Operating Revenue	130,425	142,477	12,052
Less: Operating Expenditure	126,023	136,048	(10,025)
Net Surplus/(Deficit) before Swaps and associates	4,402	6,429	2,027
Unrealised movement on Swaps	-	5,196	(5,196)
Net Surplus/(Deficit) after Swaps	4,402	1,233	(3,169)
Gain/(Loss) on Revaluations	67,470	35,899	(31,571)
Net Surplus after accounting gains and losses	71,872	37,132	(34,740)

Audit Opinion:

- 2.7 As was highlighted in the 19th October 2020 report to the committee, Audit NZ has raised what they believe is an issue that relates to non-financial performance information, specifically the *DIA Mandatory Performance Measure 4 (customer satisfaction)* where Council has not been capturing all the necessary information.
- 2.8 This issue is not solely an issue that Hastings Council face on their own, with a significant number of Councils having to work through this issue with Audit NZ.

- 2.9 Audit NZ have given an unmodified opinion on the audited information, *excluding* the Activity Groups statement. Where the Activity Groups are concerned Audit NZ have given a *Qualified Opinion*, on the basis that their work was limited with respect to the verification of the number of complaints for some services. Please read the Opinion attached.

3.0 Items of Interest

- 3.1 COVID-19 Disclosure – Officers have considered the impact of COVID-19 as part of its impairment testing on its statement of Financial Position. There is a table showing the assets and what impact or other COVID has had on that class. This is found in the Accounting Policies Section.
- 3.2 Revaluation of assets and impairments – The effects of the revaluation can be seen in note 19, which shows the movement for the financial year and a breakdown of how the revaluation reserve is made up.
- 3.3 Non- Financial Performance measures – These are found under the section our **reporting framework** and highlight against performance measures set by the Department of Internal Affairs. This is found under the water supply performance measure 4, which is the measure on Customer satisfaction that Audit NZ have given a modified opinion on.
- 3.4 Financial Reporting and Prudence Benchmarks – These are a series benchmarks that are a legal requirement and show a good overall assessment of whether Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings.

4.0 Recommendations – Ngā Tūtohunga

- A) That the Risk and Assurance Committee receive the report of the Financial Controller titled 2019/20 Annual Report dated 7 December 2020.
- B) That the Committee recommend to Council that the Annual Report for the year ended 30 June 2020 be adopted.

Attachments:

There are no attachments for this report.

Monday, 7 December 2020

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**Hastings District Council: Risk and Assurance
Committee Meeting**

Item 6

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: **Bruce Allan, Group Manager: Corporate**

Te Take:
Subject: **Group Manager Corporate Quarterly Update**

1.0 Purpose and summary - *Te Kaupapa Me Te Whakarāpopototanga*

- 1.1 The purpose of this report is to provide the Committee with an update on matters of interest to the Committee that are not included on separate agenda items for this meeting.
- 1.2 **Treasury Update**
- 1.3 Given the last meeting was as recent as 19 October 2020 and a full Treasury update was provided at that time, there is no Quarterly Treasury Update on this agenda. There has been no borrowing activity since the last update.
- 1.4 Staff are looking to establish a term deposit account with the Bank of China on the recommendation of our Treasury Advisors Bancorp. The Bank of China has consistently offered superior term deposit rates and has a credit rating consistent with the New Zealand banks and in line with Council's Treasury Policy.
- 1.5 The current policy limits for term deposits are no more than \$20m per lending institution and while this is not likely to be exceeded, the Bank of China will give Council some competitive alternatives to consider when placements are made. Current arrangements are in place with the BNZ and Westpac.
- 1.6 Council remains compliant with its Treasury Management Policy measures and KPI's.
- 1.7 **Insurance Update**

- 1.8 With the change to AON as Council's insurance broker, the renewal dates have changed from 1st July to the 1st of November. Policies have been renewed and cover is in place on all policies. Premiums are still yet to be finalised as there is still discussions ongoing with regards to the expectations of savings from the tender process versus the indicative increases that the markets have quoted. Early indications are that premiums have increased by up to 15%. AON National manager is meeting with officers on the 9th December to discuss premiums.
- 1.9 **Internal Audit**
- 1.10 Crowe have recently been engaged to undertake some data analytics over Council's Accounts Payable and Payroll databases and transactions. In line with previous reports, it highlights a number of transactions that should be looked into in more detail. This work is programmed to take place before the Christmas holiday period.
- 1.11 Each test result has been given a risk indicator. The risk indicators were determined based on a subjective determination of the likelihood of the results containing fraud or error and the potential materiality of any fraud or error identified. Of the 43 tests undertaken, one patrol test was assessed as high and 13 tests were assessed as medium risk.
- 1.12 **Strategic Risk**
- 1.13 The updated Hastings District Council Enterprise Risk Management (ERM) framework and policy and refined Tier 1 Strategic Risk Register have been presented to Council's Strategy and Policy Committee and have been endorsed and recommended for adoption by Council. The main change to the Risk Framework is incorporating the recently adopted risk appetite statements.
- 1.14 Council will be asked to adopt this updated framework and risk register at their meeting on December 8th 2020.
- 1.15 **Outstanding Actions**
- 1.16 Attached as **Attachment 1** are the outstanding actions from previous Risk and Assurance meetings.

2.0 Recommendations – Ngā Tūtohunga

- A) That the Risk and Assurance Committee receive the report of the Group Manager: Corporate titled Group Manager Corporate Quarterly Update dated 7 December 2020.

Attachments:

- 1↓ Risk & Assurance Committee Action Sheet - CG-16-6-00039
December 2020

**Hastings District Council
 Risk and Audit Subcommittee
 Status of Actions Sheet – December 2020**

Item No.	Meeting Date	Action	Reporting Officer	Progress	Complete
1	02/07/19	<u>Governance Oversight of Finances</u> <ul style="list-style-type: none"> Finance to develop a inhouse training package. 	GM:C	Delayed due to COVID-19	
2	27/07/20	<u>Health & Safety Risk Management</u> <ul style="list-style-type: none"> Internal audit against ISO 45001:2018 Gap Analysis standard be undertaken with progress reports to Committee. 	Jennie Kuzman	H&S Update to February meeting	
3	18/10/20	<u>Risk Assurance</u> <ul style="list-style-type: none"> Updated Enterprise Risk Management Framework and Risk Register to be circulated to Committee prior to Strategy and Policy Committee Review Risk Appetite statements in 2021 following adoption of 2021-31 Long Term Plan Incorporate annual review of growth nodes (industrial and residential) for Committee, focusing on risks being addressed by Council 	Regan Smith Regan Smith GM:C	 For May meeting For July meeting	Completed
4	18/10/20	<u>Insurance</u> <ul style="list-style-type: none"> Provide short summary of insurance cover under catastrophic event situations 	GM:C	For February meeting	