OPEN

A G E N D A

RISK AND AUDIT SUBCOMMITTEE MEETING

Meeting Date:	**Monday, 3 September 2018**
Time:	**10.00am**
Venue:	**Landmarks Room** **Ground Floor** **Civic Administration Building** **Lyndon Road East** **Hastings**

Subcommittee Members	Chair: Mr J Nichols *Ex Officio: Mayor Hazlehurst* Deputy Mayor Kerr (Deputy Chair) Councillors Nixon and Travers *(Quorum=3)*
Officer Responsible	Chief Financial Officer, Bruce Allan
Committee Secretary	Christine Hilton (Ext 5633)

Risk and Audit Subcommittee – Terms of Reference

A subcommittee of the Finance and Risk Committee

Fields of Activity

The Risk and Audit Subcommittee 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; and
- Reasonable assurance as to the integrity and reliability of the financial reporting of Council; and
- Monitoring of the Council's requirements under the Treasury Policy

Membership (4 Members)

Chairman appointed by the Council
The Mayor
Deputy Mayor
2 Councillors
An independent member appointed by the Council.

Quorum – 3 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 the Council or the Finance and Risk Committee

The subcommittee reports to the Finance and Risk Committee.

HASTINGS DISTRICT COUNCIL

RISK AND AUDIT SUBCOMMITTEE MEETING

MONDAY, 3 SEPTEMBER 2018

VENUE:	Landmarks Room Ground Floor Civic Administration Building Lyndon Road East Hastings
TIME:	**10.00am**

A G E N D A

1. Apologies

At the close of the agenda no apologies had been received.

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

2. Conflict of Interest

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 <u>do</u> 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 <u>may</u> have a conflict of interest, they can seek advice from the General Counsel or the Democratic Support Manager (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.

3. Confirmation of Minutes

Minutes of the Risk and Audit Subcommittee Meeting held Monday 2 July 2018.
(Previously circulated)

4. 2018 Annual Report Update and Interim Audit   5

REPORT TO: RISK AND AUDIT SUBCOMMITTEE

MEETING DATE: MONDAY 3 SEPTEMBER 2018

FROM: CHIEF FINANCIAL OFFICER
BRUCE ALLAN
FINANCIAL CONTROLLER
AARON WILSON

SUBJECT: 2018 ANNUAL REPORT UPDATE AND INTERIM AUDIT

1.0 SUMMARY

1.1 The purpose of this report is to update the Subcommittee about progress being made with the Annual Report and provide unaudited financial statements for the Subcommittee's information and consideration.

1.2 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost–effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.

1.3 This report concludes by recommending that the report be received.

2.0 BACKGROUND

2.1 The purpose of this report is to provide the Subcommittee with an update on progress being made with the 2017/18 Annual Report, highlight any issues and provide a preliminary pre-audit update on the financial result.

2.2 The Council's Risk & Audit Subcommittee will continue to be appraised of developments and issues that could affect the year-end financial arrangements and the audit of the annual report.

3.0 CURRENT SITUATION

3.1 Mr Stephen Lucy, Audit New Zealand Audit Director will be in attendance to speak to the Interim Audit Report and the upcoming 2018 Annual Report Audit.

3.2 Interim Audit Status Report

3.3 The key findings from the interim audit are detailed in the report which is attached as **Attachment 1**. The reports states, "Based on the work performed, we found that overall the management control environment, systems, key controls, and procedures at the District Council are operating effectively."

3.4 The report does however identify some issues for improvement particularly around purchase card usage and un-editable files for bank uploads. Staff

have made significant progress on both these areas to ensure policies are being adhered to and controls are being maintained.

3.5   The report notes that of the 15 recommendations made previously, 7 of those recommendations have been addressed with a further 8 remaining outstanding. We expect that 3 of those outstanding recommendations will be closed out with the Final Audit and the remaining 5 recommendations are requiring of longer term fixes but are being addressed. Those longer term fixes include amongst other things the implementation of reasonably significant software implementations.

3.6   <u>Revaluation of Land and Buildings, Water services and Heritage and Cultural</u>

3.7   All asset classes are on a revolving revaluation cycle, the Transportation and Parks and Reserves assets were revalued last year, this year the revaluation of all Land and Buildings, Water services and heritage and cultural assets have been the major revaluation activity.

3.8   The Land and Building asset revaluation has been undertaken by John Reid of Added Valuation. This year the valuation for Land and Buildings has seen the fair value assessed at $208.6m which is an increase of $46.8m in value. The main drivers for this increase are due to strong market and economic conditions, along with the increase in costs of rebuilding or constructing an asset of a comparable nature.

3.9   The water services revaluation covers the three main areas within water infrastructure, these being, Water supply, Wastewater and Stormwater. An external independent consultant, Waugh Infrastructure Management Ltd, was engaged to peer review the work and validate the information. A valuation report is prepared specifically for audit, showing what the prior valuation was for the different categories of the 3 waters assets and what it is now, with analysis on the drivers on increases/decreases in value of the various components.

3.10   This year the valuation of the 3 waters assets have shown a $113.5m increase in the Optimised Depreciated replacement cost. (This is the current replacement cost less allowance for physical deterioration and optimisation for obsolescence). The main driver for this is the unit rate adjustments that have been made, in particular in the rates of reticulation. This adjustment to unit rates was done on the recommendation of an Opus assessment report. Council rates have been historically low compared to the national average.

3.11   The Heritage and Cultural assets are revalued every five years. This class of asset involves the collection of Mayoral portraits. The valuation was completed by Webbs and had an adjustment downward adjustment of twenty-four thousand dollars.

3.12   <u>Changes to reporting standards</u>

3.13   There have been no changes to reporting standards for this year's annual report.

3.14   <u>Reporting Timeframes</u>

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3.15 Audit NZ will arrive on September 3rd to undertake their audit and at the time of writing the Annual Report is on track to be principally completed for their review.

3.16 <u>Financial result</u>

3.17 Note that the financial results detailed below are provisional at the time of writing and are subject to change, although Officers do not believe that any changes will be significantly material.

3.18 The unaudited rating result for the 2017/18 year is a positive result and is as follows:

Rating Area 1	$	*1,192,222*
Rating Area 2	$	*536,292*
Total for the District	**$**	***1,728,514***

3.19 This result compares with a $1,158,369 rating surplus reported in 2016/17. Council will at its Finance and Risk Committee on September 11th determine how this surplus will be allocated.

3.20 Set out below is a summary of the **draft unaudited operating accounting result** for the 2017/18 financial year. Please note that this is not the same as the rating result.

Unaudited Operating Accounting Result	Budget Council $'000	Actual Council $'000	Variance $'000
Operating Revenue	115,577	130,985	15,408
Less Operating Expenditure	111,709	116,770	(5,061)
Net Surplus/(Deficit)	**3,868**	**14,215**	**10,347**
Gain / (Loss) Revaluations	27,437	159,772	132,335
Net Surplus after accounting gains / losses	31,305	**173,987**	**142,682**

3.21 The draft unaudited financial result for the year ended 30 June 2018 before gains or losses on revaluations is a surplus of $14.2m with favourable variance to the budget of $10.3m

3.22 Revenue has a favourable variance of $15.4m. The increase in revenue compared to budget is made up of the following activities:

- Subsidies and grants make up a significant amount of the increase in revenue at $8.4m. Most of this is made up of NZTA subsidies that are reimbursements for capital work done, along with $3.75m granted to the Opera house project.

- Development Contributions are $0.84m above budget with large contributions received from the Irongate and Omahu Road development areas driving this increase.

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- Fees and Charges are above budget by $2.7m. This increased revenue has been achieved across quite a number of Council activities including Landfill, Parking, and environmental consents, this is reflective of the stronger economic conditions.

- Water vested assets were above budget by $1.7m

3.23 Expenditure is higher than budget by $5m and higher than last year by $2.9m. The key drivers for this expenditure are in contracted services which are $4.8m above budget. Brought forwards from the prior 2016/17 year however, are an offset to a large portion of the higher expenditure at $4m. Personnel costs were higher, with the addition of personnel in the water area a key driver.

3.24 Draft Financial Statements

3.25 Attached as **Attachment 2** for the Subcommittees information is an early view of the unaudited financial statements.

4.0   OPTIONS

4.1 This report is for information only and does not contain any options for the subcommittee.

5.0   SIGNIFICANCE AND ENGAGEMENT

5.1 The matters within this report do not trigger the thresholds within Council's significance policy.

6.0   RECOMMENDATIONS AND REASONS

A) **That the report of the Chief Financial Officer titled** "**2018 Annual Report Update and Interim Audit**" **dated 3/09/2018 be received.**

Attachments:

1	Interim Audit of Hastings District Council to Risk & Audit Subcommittee for the year ended 30 June 2018	CG-14-25-00058
2	Unaudited Financial Statements to 30 June 2018	CG-14-25-00057

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

27 August 2018

Level 2, 100 Molesworth Street
Thorndon
PO Box 99, Wellington 6140

Jon Nichols
Chair – Audit and Risk Committee
Hastings District Council
Private Bag 9002
Hastings 4156

Dear Jon

Interim audit of Hastings District Council for the year ended 30 June 2018

We have completed our interim audit of the Hastings District Council (the District Council) for the year ended 30 June 2018.

This letter provides a summary of the key findings arising from our interim audit.

We have provided a separate letter to the Acting Chief Executive which provides more detail on these matters as well as providing a follow-up on the progress that has been made in respect of outstanding recommendations from our previous audits.

Assessment of your control environment

Based on the work we performed, we found that overall the management control environment, systems, key controls, and procedures at the District Council are operating effectively for the purposes of our audit.

Our assessment of the control environment has been performed for the purpose of planning the most effective and efficient audit approach, in order to enable us to express an audit opinion on the financial statements and the non-financial information.

In performing this assessment we consider both the "design effectiveness" and "operational effectiveness" of internal control. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems. Internal controls are the policies and processes that are designed, implemented and maintained by the governing body and management – to provide reasonable assurance as to

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reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements. Both "design effective" and "operationally effective" internal control is important to minimising the risk of either fraud or misstatement occurring.

We note that the responsibility for the effective design, implementation and maintenance of internal control rests with Council, as the governing body.

1. Audit findings

1.1 Purchase cards use

We recommend the purchase card (pCard) policy and guidelines are again communicated to users to ensure that staff are aware of the appropriate use of pCards. In particular we recommend:

- cardholders ensure transactions are properly coded and supported by the relevant receipts; and

- cardholders ensure that the pCard is only used for justifiable business expenditure incurred.

We found a number of instances where expenditure was not in line with the pCard policy.

We also noted:

- One transaction for 27 bottles of wine for partners of Councillors and General Managers. The policy allows for pCard expenditure for justifiable business purposes only; in future it would be helpful for expenditure of this nature to have a clear explanation as to its business purpose.

- One transaction was for the renewal of the Chief Executive's Koru club membership. The Council's Operations Manual (section 5.31.7) states that "*HDC does not pay for memberships of airline lounges*".

1.2 Need to make CSV Bank upload file un-editable

We recommend the District Council implement a method of ensuring the csv bank file cannot be edited before upload.

The risk is that these files can be edited and the changes go unnoticed when the payment is approved. The changes could be made to the bank account details or amounts.

The District Council is aware of this issue and is in the process of trying to implement a way to change this and has been in contact with the bank to see how this could be achieved.

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1.3   Prior years' recommendations

Summary of action taken against previous years' recommendations:

Number of recommendations from previous years' audits	Current status
7	Matters that have been resolved
8	Outstanding – No progress has been made or progress is being made, but not yet fully resolved

In particular, we note that progress is being made in respect of our previous recommendation that:

- A review process be implemented to ensure all workflow invoices are appropriately approved on a one up basis; and

- The District Council ensures finance staff are checking that manual invoice approvals are on a one up basis as well as within the approver's delegated financial authority.

The Financial Controller is now reviewing the report from the system of approvals each month and will either:

- "green" transactions that appear to have been appropriately approved although it was not by the person's direct one up manager (e.g. one up approval from a different department); or

- "red" transactions that require further attention. These are sent to the Chief Financial Officer to follow up with the applicable General Managers.

This report is not currently signed off to show who has completed the review and whether the CFO (as one-up approver) has checked it. We understand that consideration is being given to doing this so that there is evidence of independent review.

Acknowledgement

We wish to acknowledge the assistance provided by the District Council's management and staff during the audit.

Yours sincerely

Stephen Lucy
Director

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Unaudited Financial Statements to year ended 30 June 2018

Actual Council 2017 $'000	Actual Group 2017 $'000	Statement of comprehensive revenue and expense for the year ended 30 June 2018	Notes	Budget Council 2018 $'000	Actual Council 2018 $'000
		REVENUE			
70,769	70,769	Rates		72,234	72,674
24,321	24,337	Fees and charges (i)		21,742	24,394
21,756	22,131	Subsidies and grants (ii)		16,096	24,534
6,192	6,192	Development and financial contributions (iii)		3,876	4,711
78	78	Donations (iv)		3	609
190	197	Interest revenue		0	162
3,550	3,550	Other revenue		626	1,209
21	21	Vested infrastructural assets		1,000	2,692
126,878	**127,277**	**Total revenue**		**115,577**	**130,985**
		EXPENSES			
78,806	78,938	Operational costs (v)		75,986	81,890
31,522	31,535	Depreciation and amortisation expense		31,173	31,200
3,519	3,519	Finance costs (vi)		4,550	3,680
113,847	**113,992**	**Total expenses**		**111,709**	**116,770**
-	270	Share of associate surplus/(deficit)		-	-
13,031	**13,555**	**Surplus/ (deficit) before tax**		**3,868**	**14,215**
-	-	Income Tax expense		-	-
13,031	**13,555**	**Surplus/(deficit) after tax**		**3,868**	**14,215**
		Other comprehensive revenue and expense:			
28,675	28,698	Gain/loss on infrastructural revaluations		27,437	113,512
234	241	Gain/Loss on library book revaluations		-	46,761
-	-	Financial assets at fair value through other comprehensive revenue		-	(501)
28,909	**28,939**			**27,437**	**159,772**
41,941	**42,494**	**Total other comprehensive revenue and expense**		**31,305**	**173,987**
		Net Surplus /(Deficit) attributable to:			
13,031	13,555	Hastings District Council		3,868	14,215
-	-	Minority Interest		-	-
13,033	**13,555**			**3,868**	**14,215**
		Total comprehensive revenue and expense attributable to:			
41,942	42,494	Hastings District Council		31,305	173,987
-	-	Minority Interest		-	-
41,942	**42,494**			**31,305**	**173,987**

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Attachment 2

Unaudited Financial Statements to year ended 30 June 2018

Actual Council 2017 $'000	Actual Group 2017 $'000	Statement of financial position as at 30 June 2018	Notes	Budget Council 2018 $'000	Actual Council 2018 $'000
		ASSETS			
		Current assets			
7,383	7,734	Cash & cash equivalents		1,265	1,640
12,260	12,547	Receivables (i)		9,246	11,966
114	114	Inventory		59	108
30	246	Short Term Investments		-	30
19,787	**20,641**	**Total current assets**		**10,570**	**13,744**
		Non-current assets			
		Other financial assets			
27	27	Derivative financial instruments		-	-
1,807	7,630	Investments in associates		1,066	1,807
		Other financial assets			
237	1	Investments in CCO's and similar entities		590	150
1,491	1,491	Investment in other entities		-	1,731
		Other non-current assets		1,568	-
3,562	**9,149**	**Total other financial assets**		**3,224**	**3,688**
170,515	170,856	Plant, property and equipment		208,304	227,220
1,738,502	1,738,502	Infrastructural assets		1,700,675	1,882,645
503	503	Biological Assets		-	19
320	320	Intangible assets		205	127
1,913,401	**1,919,328**	**Total non-current assets**		**1,912,408**	**2,113,700**
1,933,188	**1,939,969**	**Total assets**		**1,922,979**	**2,127,444**
		LIABILITIES			
		Current liabilities			
18,713	19,032	Payables and deferred revenue (ii)		14,437	21,050
2,467	2,467	Employee entitlements		2,241	2,612
212	212	Derivative financial instruments		-	93
-	-	Borrowings and other financial liabilities (iii)		9,929	22,000
21,392	**21,711**	**Total current liabilities**		**26,607**	**45,754**
		Non-current liabilities			
659	659	Provisions		703	719
480	480	Employee entitlements		676	432
5,489	5,489	Derivative financial instruments		3,500	6,385
60,741	60,741	Borrowings and other financial liabilities (iii)		89,360	55,740
67,369	**67,369**	**Total non-current liabilities**		**94,239**	**63,276**
88,761	**89,080**	**Total liabilities**		**120,846**	**109,030**
1,844,428	**1,850,889**	**Net assets (assets minus liabilities)**		**1,802,133**	**2,018,413**
		EQUITY			
1,219,951	1,224,259	Accumulated funds		1,218,430	1,233,762
3,169	3,169	Restricted Reserves		3,563	3,572
621,308	623,460	Revaluation Reserves		580,140	781,079
1,844,428	**1,850,889**	**Total equity**		**1,802,133**	**2,018,413**

REPORT TO: **RISK AND AUDIT SUBCOMMITTEE**

MEETING DATE: **MONDAY 3 SEPTEMBER 2018**

FROM: **CHIEF FINANCIAL OFFICER**
                    BRUCE ALLAN

SUBJECT: **2018-28 LONG TERM PLAN AUDIT REPORT**

1.0   SUMMARY

1.1   The purpose of this report is to inform the Subcommittee about the Audit Management Letter received for the 2018-28 Long Term Plan.

1.2   The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost–effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.

1.3   This report concludes by recommending that the Audit Management Letter from Audit New Zealand for the 2018-28 Long Term Plan be received.

2.0   BACKGROUND

2.1   The audit of the 2018-28 Long Term Plan is completed by Audit New Zealand and is undertaken in two parts, with the first part being an audit of the Consultation Document. The Audit management Letter for the Consultation Document was presented to the Subcommittee in May.

2.1.1 The second part of the Long Term Plan Audit process is to provide an Audit opinion on the overall Long Term Plan. Most of this work is undertaken at the time of assessing the quality of the information and assumptions used for informing the Consultation Document. As such the final audit process for the LTP is more about understanding the changes that have been made through the consultative process and any additional reporting requirements not included in the information are provided at the time of consultation.

2.2   On completion of each stage of the audit, an Audit management letter is produced to highlight any issues identified during the audit and suggested improvements. Attached as **Attachment 1** is the Report to Council from Audit New Zealand for Council's Long Term Plan 2018-2028.

3.0   CURRENT SITUATION

3.1   The Audit Management letter confirms that an unmodified opinion was issued on 28 June 2018 and provides the following positive comment:

"We found that the District Council had prepared well and largely followed the project plan for the LTP. The District Council staff were responsive to our

queries and corrected items in the LTP and the underlying information to ensure that this was as complete and accurate as possible for adoption by Council."

3.2 Consistent with the Audit management Letter for the Consultation Document, Audit NZ identified Water Systems, Bridges and the Municipal Building as key risks and issues which were areas of emphasis during the audit

3.3 Audit did note some areas of improvement in relation to quality assurance processes over documents submitted for audit to ensure that there is consistency between them and that when changes are made that they flow through all of the documents that make up the LTP and underlying information. Management accept that improvements could be made to this part of the LTP process and have undertaken a full debrief with improvements identified and assigned to staff for action.

3.4 Officers have also identified a number of improvements that can be made to the financial model used to collate the LTP budget data, including how that data flows through to the Statement of Financial Position. These identified improvements will address the issues identified by Audit through the audit process.

4.0 RECOMMENDATIONS AND REASONS

A) **That the report of the Chief Financial Officer titled** "**2018-28 Long Term Plan Audit Report**" **dated 3/09/2018 be received.**

B) **That the Audit New Zealand Report to the Council on the audit of the 2018-28 Long Term Plan be received.**

Attachments:

1   2018/28 Long Term Plan Audit Report   CG-14-25-00054

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of

Hastings District Council's

Long Term Plan for the period

1 July 2018 to 30 June 2028

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Attachment 1

Report to the Council on the audit of Hastings District Council's
Long Term Plan for the period 1 July 2018 to 30 June 2028

Page 1

Report to the Council

We have completed the audit of the Hastings District Council (the District Council) Long Term Plan for the period 1 July 2018 to 30 June 2028. This report sets out our findings from the audit and draws attention to our detailed findings, and where appropriate makes recommendations for improvement.

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AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Item 5

Attachment 1

Key messages

We have completed the audit of the District Council's Long Term Plan (LTP) for the period 2018-28 and issued an unmodified opinion on 28 June 2018.

Issues identified during the audit

We found that the District Council had prepared well and largely followed the project plan for the LTP. The District Council staff were responsive to our queries and corrected items in the LTP and the underlying information to ensure that this was as complete and accurate as possible for adoption by Council.

The main issue identified during the audit was that the District Council could improve the quality assurance process over the LTP submitted for audit to ensure that there is consistency between it and the underlying financial model information (see item 4.1).

The District Council also needs to ensure that balances included in the statement of financial position are accurate. This relates to ensuring that all relevant items are inflated or are based on the financial information in the rest of the underlying information (see item 4.2).

Thank you

We would like to thank the Council, management and staff for their assistance during the audit.

Stephen Lucy
Audit Director
3 July 2018

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of Hastings District Council's Long Term Plan
for the period 1 July 2018 to 30 June 2028

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1   Our audit opinion

1.1   We issued an unmodified audit opinion

We issued an unmodified audit opinion on the District Council's LTP on 28 June 2018.

This meant we were satisfied the District Council's LTP meets the statutory purpose.

We found the underlying information and assumptions used to prepare the LTP provided a reasonable and supportable basis for the preparation of the LTP.

1.1   Unadjusted misstatements

The LTP is free from material misstatements, including omissions. However, in the course of the audit, we found certain misstatements that are individually and collectively not material to the LTP.

We have discussed any misstatements that we found with management. All misstatements were amended prior to the District Council adopting the LTP.

2   Audit scope and objective

The scope of our audit engagement and our respective responsibilities are contained in our audit engagement letter dated 12 December 2017.

3   Report from the LTP consultation document

We issued our report to Council on the LTP consultation document (CD) on 20 June 2018. Within that report we commented on the following matters:

- Overall process;
- Control environment;
- Areas of audit emphasis; and
- Other matters arising from our audit work

This report follows on from the LTP CD management report. Where items have been reported on in the LTP CD management report we have not reported on them again in this report unless additional matters have been identified.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of Hastings District Council's Long Term Plan   Page 4
for the period 1 July 2018 to 30 June 2028

4   Preparation of the LTP audit and quality assurance checks

From review of the LTP and supporting information we noted the following items.

4.1   Quality assurance processes

We noted during our audit that the quality assurance processed involved in the completion of the LTP and the underlying financial model information could be improved. The examples below were noted during the audit and corrected but a good QA process would have corrected these prior to the audit.

- There were a number of inconsistencies noted between the capital expenditure summaries and updated LTP.

- The benchmark graphs were not updated to reflect the amended financial model information. This resulted from the District Council hardcoding information in the model which did not automatically update as a result of changes.

- Baseline performance information was not included for all Groups of Activities.

A process for tracking the changes made in the financial model and the LTP could be more formalised. This would ensure that any changes made would follow through which is particularly important where information is hardcoded in the system.

4.2   Flat lining of information

We noted during the audit of the LTP CD and the underlying information that there were balances included in the statement of financial position that were flat-lined. The balances noted that have been flat-lined are cash and cash equivalents, inventories, employee benefits and provisions[1]. These were not corrected in the updated financial model and LTP.

The cash and cash equivalents balance being flat lined was explained to us as follows;

> *"Cash and Cash equivalents is a figure that represents a realistic amount of working capital that would be held as at 30 June each year. The financial model does not link this to any other cash requirements. It is external debt that moves based on cashflows, linked to funding requirements in the model."*

However we are still of the view that the cash balance would move in line with the operations of the District Council rather than this movement being through the debt figures.

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[1] Derivative financial instruments balances were also flat lined; however this is understandable given the lack of robust information to enable meaningful forecasts for these instruments.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of Hastings District Council's Long Term Plan
for the period 1 July 2018 to 30 June 2028

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The amounts for the other (non-cash) balances are not materially misstated by not including an inflation factor to the balances.

4.3 Consultation

Elected members reviewed the feedback received on each proposal and agreed on any changes to be made to the LTP. Topics were considered one by one. The deliberations covered all the topics in the Consultation Document, along with other topics on which the Council had received submissions.

The District Council received 124 submissions with 35 submitters requesting to be heard in support of their submission.

We have confirmed that the changes approved following deliberations have been correctly flowed through into the financial model and reflected in the LTP.

5 Areas of audit emphasis

During the planning stage of the audit, and our review of the content of the LTP, we identified the following key risks and issues which were areas of emphasis during our audit. In this section of the report, we comment on our findings on those matters.

5.1 Water Systems

As a result of the August 2016 water contamination event in Havelock North the District Council has completed and adopted a Water Strategy. The comprehensive response plan to this strategy, including the financial impact, was assessed at the CD audit stage.

Our focus for the LTP stage was determining the changes made to the proposed water investment and strategy as a result of the consultation process and the flow through impact on the financial model. We were satisfied that there were no significant changes as a result of the consultation process.

5.2 Bridges

The strengthening and replacement of bridges is a significant matter for the LTP, particularly as it pertains to Rating Area Two (Rural). The Council completed some pre-consultation on this issue and put a proposed approach and programme out to the community.

At the CD audit stage we were satisfied that the programme of bridge strengthening and replacements had been included in the underlying financials appropriately and that they are based on appropriate costings and the timing matches that planned by the District Council. Our focus for the LTP stage was determining the changes made to the proposed investment in bridges as a result of the consultation process and the flow through impact

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

on the financial model. We were satisfied that there were no significant changes and that the changes made were correctly reflected in the financial model and underlying information in the LTP.

5.3   Municipal building

The Municipal building is adjacent to the Opera House Theatre. Both buildings, which are owned by the District Council, were assessed as being earthquake prone in 2014.

Council has set aside some funding in the LTP towards development of the building. Before any work is done or funds spent the group heading this work will present options to the Council and there will be consultation on the preferred design with ratepayers.

At the CD stage we were satisfied that the funding had been included in the underlying information appropriately. Our focus for the LTP stage was determining the changes made to the proposed investment as a result of the consultation process and the flow through impact on the financial model. We were satisfied that there were no significant changes made.

5.4   Assumptions

We have reviewed the significant forecasting assumptions and are satisfied that these are complete and have been applied appropriately in the financial model. We also reviewed the supporting documentation key assumptions such as the BERL and Growth assumptions and confirmed these to external information.

Our focus for the final LTP audit was on identifying any changes made or required to be made to the assumptions.

There were no issues noted as a result of our review that have not been corrected.

6   Publication of the LTP on the District Council's website

If the District Council intends to publish the LTP electronically, please allow time for us to examine the final electronic file version of the audit report before its inclusion on your web site.

We need to ensure consistency with the paper-based documents that have been subject to audit. Changes may also be needed to parts of the audit opinion; for example page number references.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of Hastings District Council's Long Term Plan   Page 7
for the period 1 July 2018 to 30 June 2028

Appendix 1: Mandatory disclosures

Area	Key messages
Our responsibilities in conducting the audit.	We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the 2018-28 LTP and reporting that opinion to you. This responsibility arises from section 93C(4) of the Local Government Act 2002.
	The audit of the LTP does not relieve management or the Council of their responsibilities.
	Our audit engagement letter dated 12 December 2017 contains a detailed explanation of the respective responsibilities of the auditor and the Council.
Auditing standards	We carry out our audit in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, the International Standard on Assurance Engagements 3400: *The Examination of Prospective Financial Information*, and the Auditor-General's Auditing Standards.
Auditor independence	We confirm that, for the audit of the District Council's LTP for the period 1 July 2018 to 30 June 2028, we have maintained our independence in accordance with the requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.
	In addition to our work in carrying out all legally required external audits, we have provided an assurance report on certain matters in respect of the Council's Debenture Trust Deed. Other than these assignments, we have no relationship with or interests in the Council or any of its subsidiaries.
Other relationships	We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit.
	We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year.
Unresolved disagreements	We have no unresolved disagreements with management about matters that individually or in aggregate could be significant to the LTP. Management has not sought to influence our views on matters relevant to our audit opinion.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

REPORT TO: **RISK AND AUDIT SUBCOMMITTEE**

MEETING DATE: **MONDAY 3 SEPTEMBER 2018**

FROM: **MANAGER STRATEGIC FINANCE**
BRENT CHAMBERLAIN

SUBJECT: **TREASURY ACTIVITY AND FUNDING**

Item 6

1.0   SUMMARY

1.1   The purpose of this report is to update the Subcommittee on treasury activity and funding issues.

1.2   The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost effective to households and businesses. Good quality infrastructure means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future requirements.

1.3   This report concludes by recommending that the report on treasury activity and funding is received.

2.0   BACKGROUND

2.1   The Hastings District Council has a Treasury Policy which forms part of the 2018-28 Long Term Plan and a Treasury Management Policy. Under these policy documents responsibility for monitoring treasury activity is delegated to the Risk and Audit Subcommittee.

2.2   Council is provided with independent treasury advice by Stuart Henderson of PricewaterhouseCoopers and receives weekly and monthly updates on market conditions.

2.3   Under the Treasury Policy, formal reporting to Council occurs quarterly and regular more in depth treasury reporting is provided for the Risk and Audit Subcommittee.

3.0   CURRENT SITUATION

3.1   Council's debt portfolio is managed within the macro limits set out in the Treasury Policy. It is recognised that from time to time Council may fall out of policy due to timing issues as debt moves closer to maturity and shifts from one time band to another. The treasury policy allows for officers to take the necessary steps to move Council's funding profile back within policy in the event that a timing issue causes a policy breach.

3.2   The following table sets out Council's overall compliance with Treasury Management Policy as at 31 July 2018:

| Measure	Compliance	Actual	Min	Max
Liquidity	✓	115%	110%	170%
Fixed debt	✓	65%	55%	95%
Funding profile:				
0 – 3 years	✓	43%	10%	50%
3 – 5 years	✓	26%	20%	60%
5 years +	✓	31%	10%	60%
Net Debt as % Equity	✓	5%	0%	20%
Net Debt as % Income	✓	67%	0%	150%
Net Interest as % Income	✓	3%	0%	15%
Net Interest as % Rates	✓	5%	0%	20%

Council is currently compliant with Treasury Management Policy.

3.3 The current total core net external debt is $85.2m (net of pre-funding) as at 31 July 2018. This is supported by the Debt Status Report as at 31 July 2018 (**Attachment 1**). Core external debt has increased $10m from the July 2018 report.

3.4 The additional $10m was required to fund the current capital spend program being undertaken.

3.5 Three new interest rate swaps were transacted in July 2018.

Bank	Amount	Start Date	Finish Date	Interest Rate
Kiwibank	$5m	01-Dec-2018	17-Jun-2020	2.178%
Kiwibank	$3m	01-Dec-2018	30-Nov-2027	3.020%
ANZ	$5m	03-Jun-2019	30-Jun-2028	3.120%

See the diagram under 4.3 for details of the interest rate swap portfolio.

3.6 The graph below shows the final position for the Council's budgeted capital spend program for the 2017-18 year and what it managed to deliver:
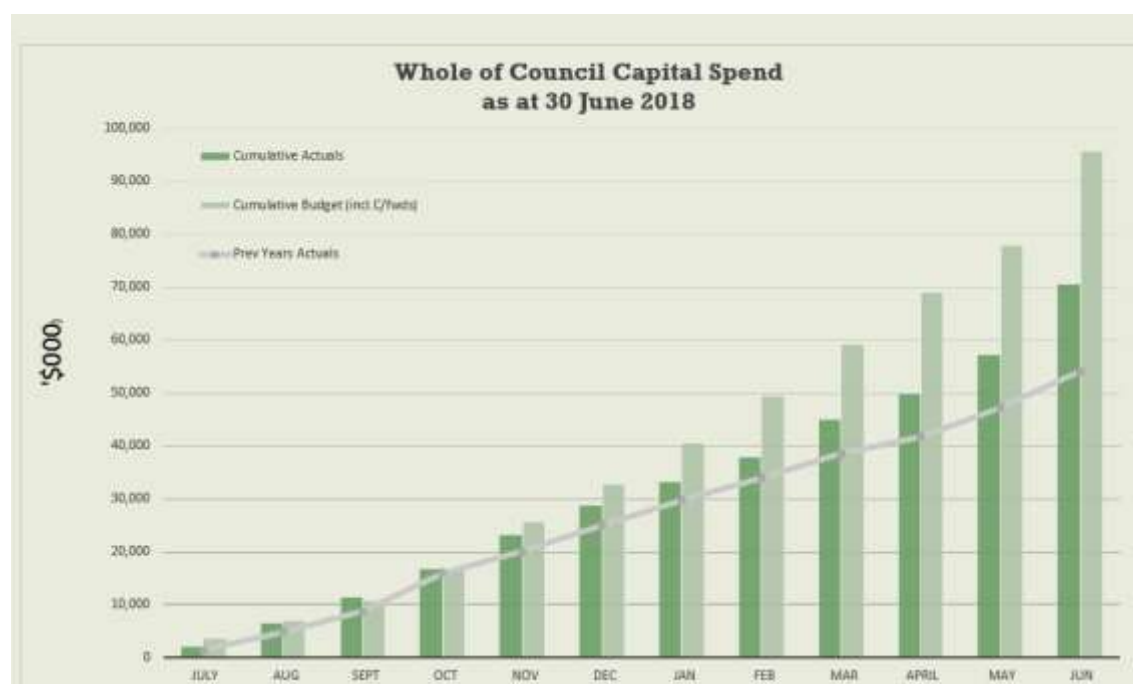
You'll note that Council completed $70.6m of capital programs which is ahead of the previous years $54.1m, but lower than the $95.6m budgeted. This means that the majority of this shortfall will be carried forward to the 2018/19 year. The 2018/19 years budget is $83.1m before carry forwards get added.

4.0 FORECAST SITUATION

4.1 The chart below shows the key drivers of the expected movement in borrowings over the next 11 months. This is based on the 2018/19 annual plan and estimated carry forwards from 2017/18.
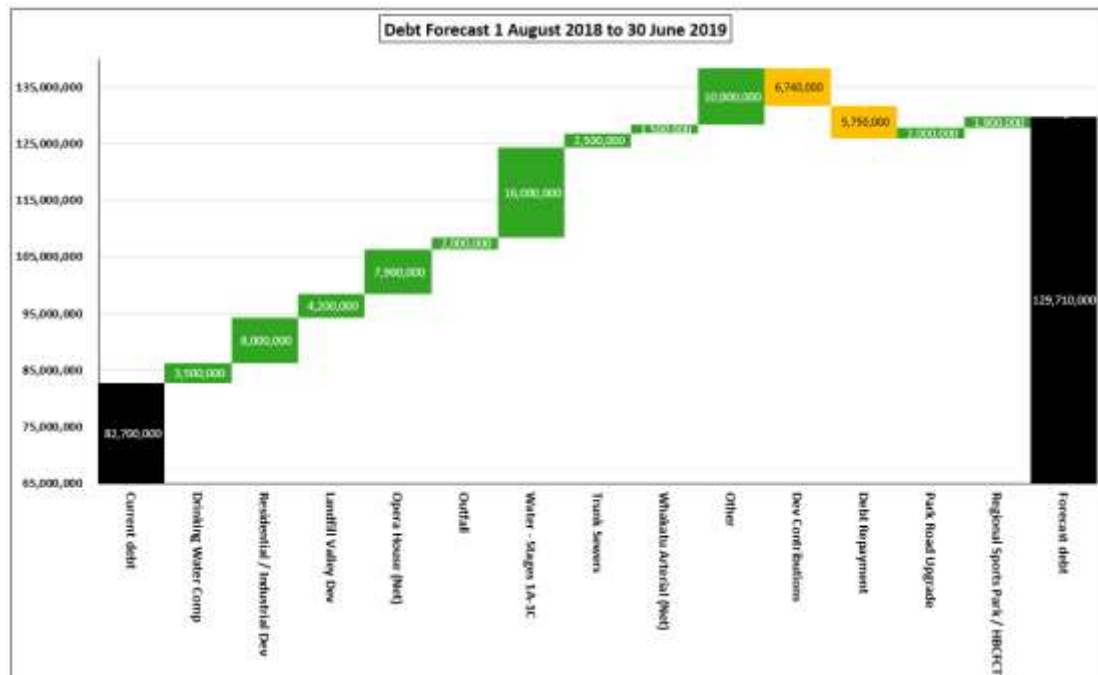
4.2 The chart identifies the major projects underway, however the smaller renewal projects have been aggregated into the "Other" heading.

4.3 The following graph shows Council's fixed debt is within the policy minimum and policy maximum set out in Council's Treasury Management Policy. This graph also incorporates Council's forecast debt over the long term (discounted to 80% of projections). The projected external debt requirement for the next 12 months is forecast to increase, which coupled with the maturity of some existing LGFA debt, gives the Council the opportunity to take advantage of new longer term debt at historically low levels of interest.

Hastings District Council - 80% of forecast & peak extended by 2 years
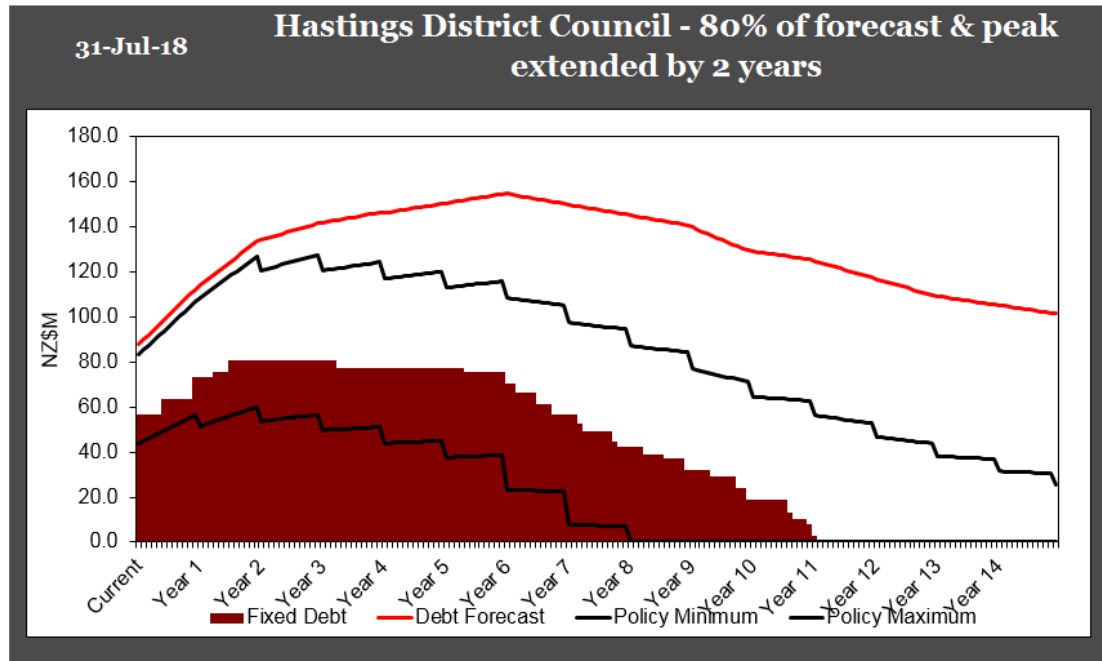
4.4   The peak of the existing swap cover (years 2-3) is $80.5m, which is less than Council's existing debt level of $87.7m, and sees Council's interest rate cover sitting at mid-point of policy.

4.5   Officers and PWC are currently happy with the level of interest rate cover in place (being midpoint of policy). Officers continue to monitor the situation as Council brings on new debt. PWC are currently recommending a target level of below 3.6% for retail swaps at the longer end of the yield curve (swaps of 5 to 10 years in length).

4.6   Council has participated in the latest LGFA tender round to acquire $17.5m of pre-funding for the $20.0m LGFA loan due for refinancing in March 2019. The reason Officers have taken this decision is due the favourable difference in interest rates between retail deposit rates and wholesale borrower rates prevailing at the moment.

Council has borrowed:

Borrowing	Maturity	Today's BKBM	Margin	Expected Interest Rate	Deposit Rates
$10.0m	April 2020	1.91%	0.19%	2.10%	3.25%
$7.5m	April 2022	1.91%	0.33%	2.24%	3.25%
$17.5m Total				2.16% Weighted Average	3.25% Average

This money will be put on term deposit (along with the existing $2.5m deposit) to mature in March 2019 at an expected interest rate of 3.25% pa.

This should provide the Council a net interest benefit of 1% pa for a period of 200 days, which will generate a net interest benefit of approx. $100,000.

This pre-funding of debt refinancing is an allowed activity under Council's Treasury Policy where "Holding short term investments for working capital and liquidity requirements" is a permitted activity.

4.7   This prefunding also has the added benefit of improving Council's liquidity ratio. Liquid funds are defined in the Treasury Policy as Overnight Bank Deposits, Term Deposits of less than 30 days in maturity, and Term Deposits linked to pre-funding of maturity term debt exposures.

4.8   Following this pre-funding transaction the Council debt maturity has the following profile:
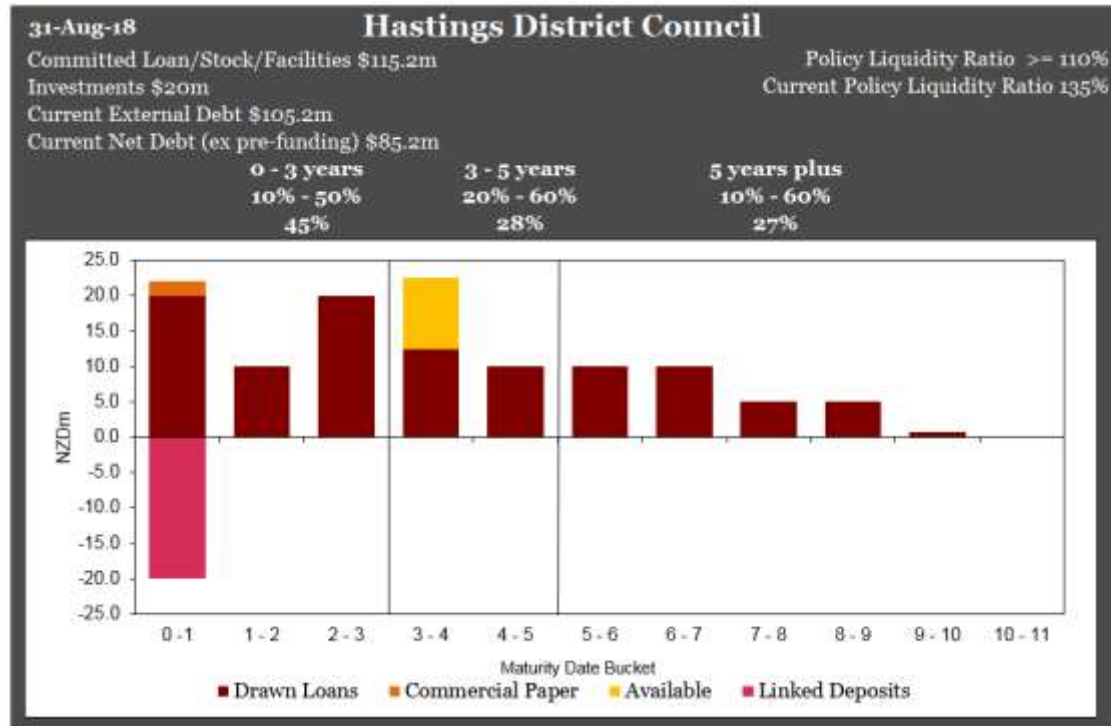
4.9   This shows a liquidity ratio of 135% (thanks to the linked term deposits), and all debt maturity ratios are maintained within policy.

5.0   MARKET COMMENTARY

5.1   The Reserve Bank of New Zealand (RBNZ) last issued a Monetary Policy Statement on 9 August 2018 where the Official Cash Rate was held at 1.75%. The Reserve Bank Governor stated *"We expect to keep the OCR at this level through 2019 and into 2020, longer than we projected in our May Statement. Risks remain to our central forecast. We will keep the OCR at an expansionary level for a considerable period to contribute to maximising sustainable employment, and maintaining low and stable inflation."*

5.2   Westpac Chief Economist Dominick Stephens says *"An economic slowdown has taken businesses, markets, the RBNZ and the Treasury by surprise. But from our perspective, the slowdown is no surprise. In November last year we forecast annual GDP growth in 2018 of 2.4%. At that time, we predicted that the RBNZ would become more dovish when it inevitably downgraded its overly optimistic GDP forecasts. This is all still broadly proceeding as anticipated. What had changed was the leadership at the Reserve Bank, with Adrian Orr taking over as Governor in March."*

5.3   Below is ASB's take on the OCR announcement, and how this has changed since May, and where they see interest rates going over the next 3 years:

Balance of Risk to OCR from Individual Judgements

RBNZ key judgements and risks	RBNZ Risk assessment (August)	RBNZ Risk assessment (May)	ASB's View
Robust global growth continues:	Downside	Balanced	Downside: on trade tensions
Global inflation increases gradually:	Upside	Some upside for oil/global CPI. Balanced elsewhere	Reduced upside: through weaker dairy auction prices
NZ grows above trend:	Some downside	Some upside	Balanced: residential construction firmer, but business confidence weak, house prices and retail weaker
NZ capacity pressures build:	Some downside	Broadly Balanced	Downside: from slower 2018Q1 growth, slower medium-term growth
Inflation takes its time to return to target:	Upside via wages and higher petrol prices	Some upside risk from higher wage inflation	Stronger upside: Risk tilt to sooner on high fuel prices

Source: ASB. Red denotes a downgrade to the RBNZ's assessed risk, green an upgrade to the risk.

ASB interest rate forecasts (end of quarter)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20	Mar-21
			<< actual	forecast >>				
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.50
NZ 90-day bank bill	1.88	2.0	2.0	2.0	2.0	2.0	2.5	3.0
NZ 2-year swap rate	2.21	2.2	2.1	2.2	2.3	2.3	2.7	3.2
NZ 10-year Bond	2.75	2.7	2.9	2.9	3.0	3.0	3.2	3.5

5.4   At the last Risk and Audit Subcommittee meeting a request was made to include some KPI's on the Hawkes Bay Economy. This information has been compiled, however it has been decided that it is more appropriate to include this as an update to full Council, through the Finance and Risk Committee, and as such this will be included on that agenda.

6.0   FUNDING FACILITIES

6.1   **Attachment 2** shows details of Council's current debt facilities together with details of expiry dates and margins.

6.2   Council's liquidity ratio of 115% at 31 July 2018 (based on net external debt of $85.2m and total facilities/investments of $97.7m) is within policy (policy 110% - 170%). Officers are comfortable with this ratio because of continued uncertainty on debt forecasts and the ability to increase debt from the LGFA at relatively short notice.

7.0   RECOMMENDATIONS

That the report of the Manager Strategic Finance titled Treasury Activity and Funding dated 3/09/2018 be received.

Attachments:

1   Risk & Audit - Debt Status July 2018   FIN-09-01-18-154
2   Risk & Audit - Funding & Interest Risk July 2018   FIN-09-01-18-155

Status Report on Council Debt
As at 31 July 2018

1. Loan Funding Requirement 2018/19

	Carry Forwards	Budget Annual Plan	Actual to 31-Jul-2018
		$	$
Proposed New Loans		47,013,964	10,000,000
Less Debt repayment		-6,294,606	-524,550
Total Required	0	40,719,358	9,475,450

2. External Borrowing (Net Debt)
Bank Facilities	0
Term Funding	87,740,565
Total External Borrowing at 31 July 2018	**87,740,565**

3. Summary of Internal Borrowings
Balance 1 July 2018	37,488,166
Plus: Requirement to date	9,475,450
Less: Movement in bank facilities	-10,000,000
Internal Borrowings at 30 June 2018	**36,963,616**

Funding of internal borrowings
Total Internal Borrowings	36,963,616
Funded from Special Fund Reserves (interest bearing)	12,606,716
Funded from Special Fund Reserves (non interest)	19,954,747
General Funds used for internal borrowings	**4,402,153**

4. Gross Council Debt allocated to activities
Actual External Debt on Issue	87,740,565
Plus: Internal Borrowings	36,963,616
Gross Debt at 30 June 2018	**124,704,181**

Interest Rate Profile

Year of Maturity	Profile at 1/07/2018	Percentage of Total	Profile at 30/06/2019		Percentage of Total	Ave Interest Rate
2018/19	10,000,000	17.47%	3,000,000		4.72%	4.74%
2019/20	15,000,000	26.21%	15,000,000		23.62%	4.86%
2020/21	12,000,000	20.96%	15,000,000		23.62%	5.64%
2021/22	12,500,000	21.84%	12,500,000		19.69%	4.33%
2022/23	0	0.00%	0		0.00%	#DIV/0!
2023/24	2,000,000	3.49%	2,000,000		3.15%	4.91%
2024/25	3,000,000	5.24%	3,000,000		4.72%	1.65%
2025/26	2,000,000	3.49%	13,000,000		20.47%	1.31%
2026/27		0.00%	0		0.00%	0.00%
Beyond 2027	740,565	1.29%			0.00%	
Totals	57,240,565	100%	63,500,000	0	100%	4.31%

Average Term (years)		4.17
Average Interest Rate (excl margins)		4.3%

Swaps	500,000 **	-24,240,565	**
Bank Facility		0	
External Debt	56,740,565	87,740,565	
Total	57,240,565	63,500,000	

** Represents swaps held where no external debt held to offset.
(excludes Swaptions)

Item 6

Attachment 1

Council Debt Interest Rate Profile as at 30 June 2018

Council Debt Interest Rate Profile as at 30 June 2019

Item 6

Attachment 2
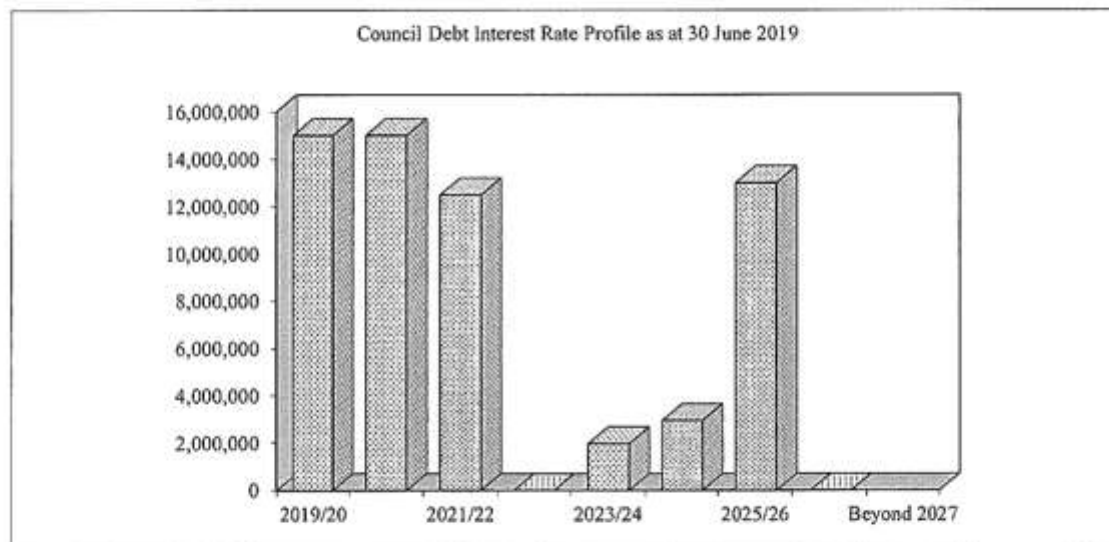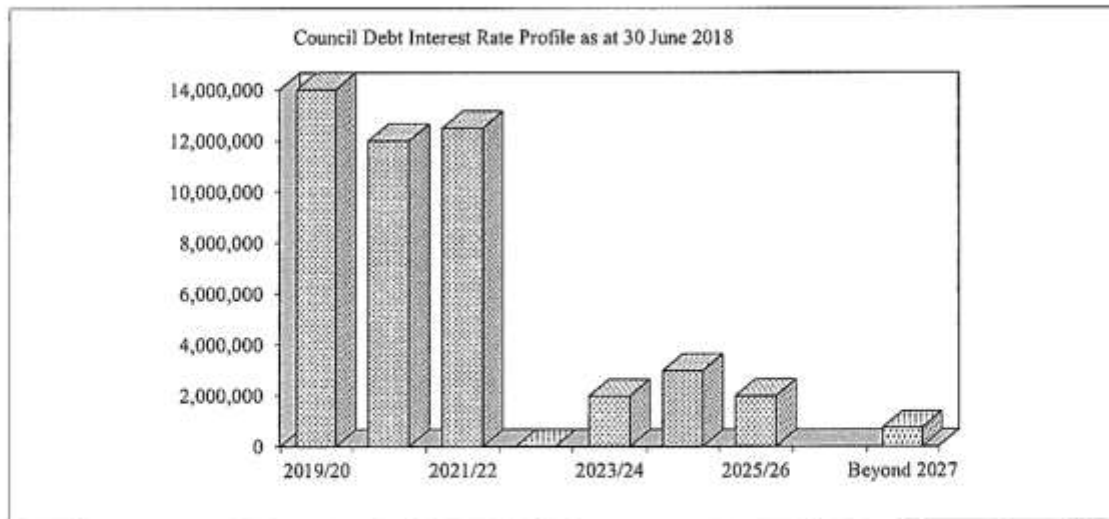
Funding and Interest Rate Risk 30 July 2018

Type	Banking Institution	Facility Amount ($M)	Facility Maturity	Margin %	Commitment Fee %	Total %
Floating Rate Notes	LGFA	15.00	15-Mar-2019	1.28%	0.00%	1.28%
	LGFA	5.00	15-Mar-2019	0.56%	0.00%	0.56%
	LGFA	15.00	17-May-2021	0.84%	0.00%	0.84%
	LGFA	5.00	15-May-2021	0.75%	0.00%	0.75%
	LGFA	5.00	14-Apr-2022	0.38%	0.00%	0.38%
	LGFA	5.00	15-Apr-2023	0.83%	0.00%	0.83%
	LGFA	5.00	15-Apr-2023	0.80%	0.00%	0.80%
	LGFA	10.00	15-Apr-2024	0.58%	0.00%	0.58%
	LGFA	5.00	15-Apr-2025	0.87%	0.00%	0.87%
	LGFA	5.00	15-Apr-2025	0.61%	0.00%	0.61%
	LGFA	5.00	15-Apr-2026	0.65%	0.00%	0.65%
	LGFA	5.00	15-Apr-2027	0.65%	0.00%	0.65%
Commerical Paper	LGFA	2.00	17-Jun-2019	0.140%	0.00%	0.14%
Debt Facilities	WBC	10.00	30-Jun-2022	1.25%	0.27%	1.52%
Local Government	Housing NZ	0.74	30-Jun-2028	0.00%	0.00%	0.00%

REPORT TO: **RISK AND AUDIT SUBCOMMITTEE**

MEETING DATE: **MONDAY 3 SEPTEMBER 2018**

FROM: **DISTRICT CUSTOMER SERVICES MANAGER**
     GREG BRITTIN
     RISK AND CORPORATE SERVICES MANAGER
     REGAN SMITH

SUBJECT: **GOVERNANCE RISK**

1.0 SUMMARY

1.1 The purpose of this report is to obtain a decision from the Subcommittee recommending to council whether or not Governance Risk is added to the Strategic Risk Register.

1.2 This issue arises from a Council workshop in May 2018, where Councillors requested the Risk and Audit Subcommittee undertake further evaluation of "Governance Risk" in the Hastings District Council (HDC) context.

1.3 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost–effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.

1.4 The objective of this decision relevant to the purpose of Local Government is to ensure the Governance function of Council performs effectively in order to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost–effective for households and businesses.

1.5 This report concludes by recommending that Governance Risk is added to Council's strategic risk register.

2.0 BACKGROUND

2.1 Governance has been defined as "the system by which companies are directed and controlled" (Committee on the Financial Aspects of Corporate Governance, 1992).

2.2 For governance to be effective an appropriate separation of duties between the governors and management is required.

2.3 The Institute of Directors (IOD) consider that Governance makes decisions on: "What" activities are undertaken, "Where", and "Why" and Management decide "How" these activities are implemented.

2.4 ***The IOD define four pillars of good governance as:***

2.4.1 Determining Purpose: Take ownership of the organisation's strategic direction by defining purpose (the Local Government Act defines this), goals and strategy.

2.4.2 Effective Governance Culture: Add value by acting as a team with a high performance culture committed to engaged, quality governance of the organisation. It celebrates debate, diversity, thoughtful challenge and respectful dissent.

2.4.3 Holding to Account: Value-adding governance holds management strictly and continuously to account through informed, astute, effective and professional oversight.

2.4.4 Effective Compliance: Add value by ensuring the organisation is, and remains, viable. It ensures the probity of financial reports and processes and a high standard of compliance with regulatory environments. Risk management is a key feature of the board's capability and the board should scan and manage existing and prospective risk to the organisation.

2.5 ***Relevance for Council***

2.5.1 Effective Governance is critical for all organisations and in general terms the following is applicable in the Council context.

2.5.2 If the organisation's goals and strategy are not well defined the organisation will struggle to deliver the desired results

2.5.3 If the governance body is not able to work effectively (together; with the Chief Executive; or with external/internal stakeholders), it is very unlikely that effective decisions will be made. Inability to make effective decisions on goals, strategy or policy will severely impact the organisation's ability to successfully deliver intended outcomes.

2.5.4 Failure to monitor the achievement of desired outcomes, leaves the attainment of goals to management. This fails to create sufficient accountability for delivery of outcomes aligned with strategy.

2.5.5 Failing to achieve sufficient legal compliance exposes the organisation to significant financial, service delivery and reputation risks.

2.5.6 Therefore, if any of these functions are not delivered effectively there is less certainty that goals will be successfully achieved.

3.0 CURRENT SITUATION

3.1 The Council adopted a Risk Management Policy and Framework, and Tier 1 Strategic Risk Register in July 2017 and recognises the importance of managing risk.

3.2   The Tier 1 Strategic Risk Register captures the major risks facing the Council and Governance Risk is not currently included.

3.3   Operational risk management is evolving through a structured project and the Risk and Audit Subcommittee receive regular updates on the work being carried out. The subcommittee provide professional oversight to the work programme to ensure it remains aligned with objectives.

4.0   OPTIONS

4.1   Option 1: Recommend to Council that Governance Risk is added to Council's Strategic Risk Register.

4.2   Option 2: Retain status quo I.e. recommend that Governance Risk is not added to Council's Strategic Risk Register

5.0   SIGNIFICANCE AND ENGAGEMENT

5.1   While Governance Risk is a significant concept within the Council context, its inclusion, or not in Council's Strategic Risk Register does not trigger Council's Significance and Engagement Policy and no consultation is required.

6.0   ASSESSMENT OF OPTIONS (INCLUDING FINANCIAL IMPLICATIONS)

6.1   The attached Governance risk analysis considers potential threats or risks to effective Governance in the Council environment and highlights the current controls in place within HDC to prevent the risk eventuating.

6.2   The HDC contextual information has been formulated by staff based on discussions at previous workshops and committee meetings.

6.3   Councillor training was identified as a critical control in managing Governance Risk and the current framework has been reviewed as part of the analysis.

6.4   **Option 1:** Recommend to Council that Governance Risk is added to Council's Strategic Risk Register.

6.4.1 Including the risk in the strategic risk register recognises the importance of effective governance in relation to achieving the purpose of Local Government.

6.4.2 Successful risk management increases the likelihood of achieving objectives, encourages proactive management and protects value.

6.4.3 Although Council are aware of the importance of risk management, adding Governance Risk to the strategic risk register formalises the commitment to proactively managing the risk.

6.4.4 If option 1 is preferred – an additional item for consideration is for staff to review the current training programme for elected members (a critical control in managing the risk) with a view to providing options for enhancement of the future development package.

6.4.5 There are no immediate financial considerations to consider, however new initiatives to manage the risk, for example improvements or expansion of the elected member development programme may incur costs.

6.5 **Option 2:** Retain status quo i.e. recommend that Governance Risk is not added to Council's Strategic Risk Register

6.5.1 The current Council is aware of the importance of managing risk, evidenced by the adoption of the Risk Management Policy and Framework, and Tier 1 Strategic Risk Register in July 2017.

6.5.2 The subcommittee may consider that sufficient work is being done and that there is limited value in adding Governance Risk to Council's Strategic Risk Register.

7.0 PREFERRED OPTION/S AND REASONS

7.1 Option 1: recommending to Council that Governance Risk is added to Council's Strategic Risk Register.

7.2 The addition of Governance risk to the strategic risk register recognises the importance of Governance in the Council context.

7.3 Items on the register are regularly discussed at subcommittee meetings and inform operational management of the organisation.

8.0 RECOMMENDATIONS AND REASONS

A) **That the report of the District Customer Services Manager titled "Governance Risk" dated 3/09/2018 be received.**

B) **That the Risk and Audit Subcommittee recommends to Council that "Governance Risk" is added to Council's Strategic Risk Register and that further work is done to investigate and present options for an elected member development programme to support the delivery of effective governance.**

With the reasons for this decision being that the objective of the decision will contribute to meeting the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and business by:

i) **Setting a clear direction for Council to follow to help achieve the strategic objectives defined in the Long Term Plan and meet statutory obligations.**

ii) **Increasing certainty that strategic goals will be achieved.**

Attachments:

1 Governance Risk Analysis   PMD-03-81-18-158

Item 7

Attachment 1

Governance Risk: Relevance to Council

Overview

The following is a summary of Governance Risk that references the Institute of Directors (IoD) four pillars of good governance, considering potential threats or risks to effective governance in the general Council context i.e. they are applicable to all Councils and not Hastings District Council (HDC) specific. The consequences provide a brief overview of issues which could occur if the threats are realised.

The controls to prevent these types of risk eventuating are based on staff analysis of processes and practice at HDC. While additional measures maybe available, this list provides a basis for discussion and decision making.

Governance Risk Summary - Sources of Risk based on IoD 4 Pillars

Pillar 1: Determining Purpose

Definition: Governance setting a clear strategic direction with well-defined goals and vision	
Potential Threats or Risks to effective Governance	Description
Failure to set clear strategic direction, vision and/or well-defined goals	Lack of clarity in Council vision and goals.
Failure to articulate strategy and goals to the community	Failure to clearly articulate and communicate the long term plan to the community; or failure to make the plan easily accessible by the public.
Inconsistent interpretation of goals and vision amongst elected members	
Deviation from LTP principles	
Lack of Cultural Awareness	
Changes in Governance Team every three years – election cycle	Significant change could disrupt long term strategic direction. Failing to induct new councillors effectively can threaten quality of Governance.
Failure to engage effectively with the community (lack of opportunity provided)	Goal setting does not have sufficient public involvement and subsequently direction is not aligned with the community aspirations
Failing to Regularly review its vision and goals	Vision and goals are reviewed infrequently (no programme for review) and/or there is limited review in response to major events
Council's organisational structure (committee structure and internal organisational structure) does not support delivery of the council's vision, goals and strategies	
The vision, goals and strategy are not reflected in the Chief Executive's performance agreement	

Council do not systematically utilise data or analytics to monitor, evaluate, forecast and refine spending decisions	
Failure to review budget against strategies and priorities annually (rather than developing budgets from the previous year's expenditures)	

Consequences of Risks	Description
Loss of Public Confidence	
Unexpected Surprises	
Significant variation in service levels	Public Service Level expectations are not aligned with Councils delivery
Constant Change in objectives	

Pillar 2: Effective Governance Culture	
Definition: A high performance team culture with all members committed to engaged, quality governance, celebrating debate, diversity, thoughtful challenge and respectful dissent.	

Potential Threats or Risks to effective Governance	Description
Dysfunctional team culture	Failure to establish an effective governance team culture where all members work together in a respectful manner, offering constructive dialogue, debate and thoughtful challenge.
Disengaged Councillors	Lack of attendance at meetings and/or failure to work constructively with other Councillors or staff
Code of Conduct breaches	Failure to follow agreed protocols.
Personal/ political views cloud judgement	Personal bias impacts on ability to make informed decisions
Debate is frowned upon	

Consequences of Risks	Description
Failure to make decisions	
Poor Quality decision making	
Loss of Public Confidence	
Progress stagnates – delivery hindered	
Constant Change in objectives	

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Ineffective leadership	
Individualism	

Pillar 3: Holding to Account	
Definition: Holding management strictly and continuously to account through informed, astute, effective and professional oversight.	

Potential Threats or Risks to effective Governance	Description
Lack of oversight	Failure to hold to management to account for delivery of strategic priorities
Inadequate separation of duties	Governance become too involved in the "How" or operational aspects of Council.
Failure to recognise shortages in elected member knowledge and capability	Not having the skills/knowledge to challenge appropriately to understand what questions should be asked -
Allowing management to deviate from priorities	Council's vision, goals and strategies are not reflected in plans, projects and expenditure
Poor management reporting processes	Quality of decisions are compromised by inadequate reporting practices I.e. Management do not provides elected members with clear, accurate and sufficient policy advice on a timely basis
Quality of the relationship (confidence, trust and transparency) between elected members and the Chief Executive	

Consequences of Risks	Description
Reputational damage	
Progress stagnates – delivery hindered	
Fraud/corruption	

Pillar 4: Effective Compliance	
Definition: Ensuring legal compliance is maintained across the range of Council activities. Risk management is a key feature of Governance and Council must be informed as to existing and prospective risk to the organisation.	

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Potential Threats or Risks to effective Governance	Description
Ineffective Risk policies and procedures in place	
Failure to annually review strategic risk content (risks, mitigations and emerging risks)	
Poor quality decisions	Poor Decision Making Financial, Legal and Community decision making
Failing to achieve sufficient legal compliance	Exposes the organisation to significant financial, service delivery and reputation risks.
Lack of community engagement	Ineffective consultation resulting in decision that are not in the best interests of the community
Failing to make decisions in a timely, balanced and informed manner	
Loss of confidence/ vote of no confidence – peers or community	
Consequences of Risks	Description
Statutory Management	
Significant non-compliance	
Fines/penalties	
Legal Action	
Loss of trust and confidence	

HDC Preventative Controls

The controls in place to reduce the likelihood of ineffective governance eventuating include the following. Note: each control may mitigate multiple threats.

Controls to Manage Risk	Description
New Councillor Induction/Orientation	Two day induction and orientation session.
Urban/Rural Bus Tours	District Awareness.
Councillor Development Programme	Training is a mix of Internal and External training around roles/responsibilities. Critical control: see further details below.
Policies and Procedures	A number of guiding documents are in place. The Local Government Act 2002 and Hastings District Council Code of Conduct are key controls.
Elected member expertise	Council membership encompasses a diverse range of skills, knowledge and cultural experience.
Attending conferences/seminars	Where deemed relevant and approved by the Mayor/Deputy Mayor – elected members attend National conferences. A requirement of the Elected Member Expenses and Allowances Policy 2016, is to provide a written report to share knowledge and potential benefits with other Councillors.
Council Vision	Comprehensive community engagement process in 2008 established the Council's current vision – which has been reaffirmed in the 2012 and 2015 LTP processes. Priorities in the vision are re-assessed as a when required.
Long Term and Annual Plan documents and workshops	Confirm direction and priorities. Consistent approach to financial planning.
Council Strategic Retreats	Off-site strategy development and hot topic discussion sessions.
Portfolio Leadership	New approach implemented to enable each councillor to take an active leadership role within Council. Each leader will focus on the development of policy relevant to their portfolio, and oversee those particular areas from a governance perspective.
Strategic Risk Register	Council has adopted a Risk Management Policy and Framework, and Strategic Risk register which summarises the top strategic risks facing Council.
Council Workshops – specific topic focussed	Workshops focussed on specific topics of importance. Mix of officer led complemented by external experts when required.
Health and Safety Training	A number of workshops for elected members and managers have been held to ensure that the legislative environment and framework within HDC is well understood.
Council Reporting Templates	The Council's reporting template contains prompts and guidance for the report author to establish alignment between the decision being considered and the Council's strategic framework.

Independent Committee Chair – Risk and audit	Recognise skill shortage in elected member knowledge and recruit/appoint appropriate external expertise.
Expert Advice (external/internal)	Seek guidance from subject matter experts as and when required.
Independent assessment – LGNZ excellence programme	LGNZ programme utilising expert independent assessors to evaluate Council performance across four key areas of Governance, Leadership and Strategy; Financial Decision-making and Transparency; Service Delivery and Asset Management; Communicating and Engaging with the Public and Business.
Community Consultation Methodology and Channels	The Council's Significance and Engagement Policy (within the LTP) broadly sets out the Council's engagement approach based on the continuum of participation from inform through to participate.
External Audit Programme	External reviews provide assurance to Governance.
Comprehensive Range of Council adopted/endorsed policies and strategies.	Provide direction to management.
Community Partnerships – including Iwi	
Ambassador Role	
Credit rating issued by Standard & Poor's	

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Critical Control Review: Councillor Training Programme

Councillor training has been identified as a critical control in managing Governance Risk.

Councillors have varied backgrounds and skillsets, meaning specific training is required to ensure successful governance of a large organisation employing 400+ staff, with a multi-million dollar turnover and assets valued upwards of a billion dollars. The current training programme is outlined below:

Current Programme
Induction and orientation session (2 day)
New Councillor Training provided by EQUIP (the training arm of LGNZ)
GROW Councillor Handbook
Rural and Urban Bus tours
Making Good Decisions (RMA Accredited Commissioner training)
Councillor Retreat (strategic direction workshop)
In house workshops
National Conference Attendance
Portfolio Ownership
Potential Options (some of these were raised at the May workshop)
Individual Training Plans - professional development timetabled throughout the three year triennium. A confidential personal development interview would frame individual requirements.
Skills/Competency Matrix: identify areas of strength and weakness across the elected members. Knowledge helps to maximise value added skill base and develop plans to address areas of weakness.
Institute of Directors (IOD) training – more information available
LGNZ Equip: self-evaluation offering – more information available
Mentoring System
Conference Briefing Sessions – conference attendees prepare short summary report and share learnings
360 degree feedback (seeking feedback from stakeholders on their performance)
Surveys
Formal Self-Assessment - For example a survey amongst the elected members on how well they believe they are individually and collectively functioning

Observations

- The current training is somewhat ad-hoc – relying on management and/or individual elected representatives to identify personal learning and development needs and seek assistance.
- There is no structured process for review of training effectiveness.
- A number of policies support the programme (Elected Member Expenses and Allowances Policy 2016; Councillor Learning and Development Strategy; Value for Money Matrix – Councillor Development), but are these well understood by elected members?

Key Question: Does the current offering provide sufficient support to elected members? or is additional work required to enhance the effectiveness of Councils Governance.

Risk Analysis

Possible Risk Description:

Failure to effectively determine purpose, establish a positive governance culture, hold management to account and verify organisation compliance.

Possible Expanded Risk Description:

Failure to clearly define Councils goals and strategy, to monitor the achievement of anticipated outcomes, or to work effectively together as a team, will detract from the quality of decisions and impede the achievement of strategic objectives. Inadequate oversight of management or the failure to ensure legal compliance exposes the organisation to significant financial, service delivery and reputation risks.

Possible Top Event (Loss of control or "tipping point" in bow tie analysis):

The nature of Governance means a significant failing or loss of control could be defined as:

"Governance decisions that expose Council to significant safety, financial, compliance, service level or reputational risk".

Draft Governance Risk Assessment:

Inherent			Current			Target		
Likelihood	Consequence	Inherent Risk	Likelihood	Consequence	Inherent Risk	Likelihood	Consequence	Target Risk
Likely	Severe	Very High	Possible	Major	Medium	Rare?	Moderate?	Low?

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REPORT TO: **RISK AND AUDIT SUBCOMMITTEE**

MEETING DATE: **MONDAY 3 SEPTEMBER 2018**

FROM: **HEALTH AND SAFETY MANAGER**
JENNIE KUZMAN

SUBJECT: **HEALTH AND SAFETY RISK MANAGEMENT UPDATE**

1.0 SUMMARY

1.1 The purpose of this report is to provide an update to the subcommittee in regards to the management of Health and Safety risks within Council.

1.2 This issue arises due to the Health and Safety at Work Act 2015 and the requirement of that legislation for Elected Members to exercise due diligence to ensure that Council complies with its Health and Safety duties and obligations.

2.0 BACKGROUND

2.1 At its June 2016 meeting, Council accepted the recommendations from the Audit and Risk Subcommittee in relation to Health and Safety reporting.

2.2 This report serves as the report which is required to be provided quarterly to the Risk and Audit Subcommittee on Health and Safety risk management.

3.0 CURRENT SITUATION

3.1 **Overview of Health and Safety Risk Management**

3.2 As previously reported to the Risk and Audit Subcommittee during the May 2018 meeting, the 12 critical Health and Safety risks are currently being analysed by officers using "Bow Tie" risk evaluation software.

3.3 It is anticipated that this process will be completed by late November 2018 after which, they will be provided to the Risk and Audit Subcommittee at subsequent meetings.

3.4 **Effectiveness of Control Measures**

3.5 Attachment one provides a summary of Council's twelve critical Health and Safety risks, their controls and limitations and a score to demonstrate effectiveness of these controls.

3.6 The purpose of this summary report is to provide information to the subcommittee in order to gain an insight into the effectiveness of the Health and Safety risk control measures which are in place.

3.7 The Health and Safety risk control measures have each been evaluated on a scale of 1-4, where one is the lowest score indicating that inadequate controls are in place, a score of two indicates that the risk is partially controlled but further improvements are required, a score of three indicates that adequate

controls are in place and four is the highest score indicating that robust controls are in place.

3.8 Currently all of Council's critical Health and Safety risk control measures have been scored at level three indicating that adequate control measures are in place.

3.9 **Current Focus Areas**

3.10 Officers are currently focusing on the following critical Health and Safety risks due to either the release of specific regulations or a targeted focus from WorkSafe NZ:

- Risk of serious health effects from exposure to asbestos.

- Risk of fatality from loss of containment and/or exposure to a hazardous substance.

- Risk of fatality or serious health effects from exposure to harmful levels of noise, vibration, dust, or biological hazards

- Risk of serious health effects from exposure to factors causing stress

- Risk of serious health and/or safety effects from fatigue and working while fatigued

- Risk of adverse physical and mental health effects from exposure to aggression, physical violence and verbal abuse from members of the public and service users

3.11 The following paragraphs provide a summary in relation to each of the bullet points above.

3.12 The Health and Safety at Work (Asbestos) Regulations 2016 place a duty on businesses to have asbestos management plans in place for their buildings and workplaces where asbestos is likely to be found, by April 2018. Officers have completed a project to develop an overarching plan which has now been approved by the Chief Executive and will be implemented over the next 6 months.

3.13 The Health and Safety at Work (Hazardous Substances) Regulations 2017 were released in December, these supersede a large portion of the Hazardous Substances and New Organisms Act of 1996, setting out major changes to the way that Hazardous Substances are managed in New Zealand. Officers are currently working through a project to implement the required changes across Council. Given the number of areas that Council works across, these Regulations present a considerable amount of work for staff.

3.14 WorkSafe NZ have issued a strong mandate through their strategic plan for organisations to focus equally on 'Health' risks not just 'Safety' risks. Health risks relate back to the harmful effects from exposure to hazardous substances or equipment which can have a detrimental effect upon worker health. For example, exposure to asbestos fibres can cause lung disorders and cancers.

3.15 Considerable progress that has been made in regards to implementing risk control measures in these areas. Council expanded its exposure monitoring

programme in 2017/18 utilising specialist Occupational Hygienists to carry out monitoring testing in relation to activities where workers are potentially exposed to harmful levels of noise, vibration, dust, or biological hazards.

3.16   Council employed an in-house Occupational Health Nurse in December 2017 to coordinate and improve its existing health monitoring programme (which had previously been outsourced).

3.17   Officers are currently working on developing specific Fatigue Management and Mental Wellbeing policies to replace the existing Stress & Fatigue Policy. There are well established process in place to support workers experiencing fatigue, stress and mental ill health, which will be reviewed as part of this process.

3.18   Officers have completed and released a Conflict and Violence Management Policy, this builds on the extensive planning work and training that has been provided to workers across the organisation.

4.0   SIGNIFICANCE AND ENGAGEMENT

4.1   This Report does not trigger Council's Significance and Engagement Policy and no consultation is required.

5.0   RECOMMENDATIONS AND REASONS

A)   That the report of the Health and Safety Manager titled "Health and Safety Risk Management Update" dated 3/09/2018 be received.

Attachments:

1   Human Resources (NO PERSONAL   HR-03-6-4-18-94
INFORMATION) - Health and Safety - Hazard
Identification Assessment & Management -
Hazard/Risk Assessments - Review of Effectiveness
of Control Measures for Critical Health and Safety
Risks - August 2018

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Effectiveness of Control Measures - Critical Health and Safety Risks				
Critical Health & Safety Risk:	**Current Control Measures:**	**Limitations on Controls:**	**Controls under development/review:**	**Effectiveness of Control Measures** Score Range: 1. Inadequate controls 2. Partially controlled – needs improvement 3. Adequate controls 4. Robust controls
1. Risk of serious health and/or safety effects from manual handling of loads or repetitive or forceful movements	• Work procedures and planning of work using guidance documents - WorkSafe Approved Code of Practice - Manual Handling 2001 and Safe Work Australia Model Code of Practice: Hazardous manual tasks 2016 • Targeted campaign to raise awareness through Injury prevention (education and training). • Use of ergonomic work stations and tools e.g. use mechanical tools over manual methods • Job rotation, task variation, use alternate hands / tool, rest and refreshment breaks • Provide appropriate PPE when required – e.g. gloves, lifting tools • Emergency Procedures and Preparedness • Workers to identify hazards and controls using personal risk assessment tool daily • Regular team meetings to address hazard management	• Reliance on administrative control measures (training, procedures, PPE) • Limited use of engineering control measures • Limited engagement with contractors in managing this risk • Aging workforce – more prone to sustaining a musculoskeletal injury	• Development of manual handling safety procedure in accordance with latest guidance from WorkSafe. • Working with Occupational Physiotherapist to redesign high risk manual talks	3. Adequate Controls

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	• Supervisors monitor staff – review work practices being undertaken • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work.			
2. Risk of fatality when working at height, resulting from a fall from height or a falling object	• Work procedures and planning of work using guidance from WorkSafe - Code of Practice for Cranes 2009, Best practice guidelines for Working at Heights 2012, Working on Roofs 2012, Safe use of Ladders in the Workplace 2012, Mobile Elevating Work Platforms 2014, Scaffolding in New Zealand 2016, Factsheets: Safe working with ladders and step-ladders factsheet, ACC guides on ladder safety, Edge Protection, Preventing Falls, Roof Work, Temporary Work Platforms, Total Restrain Systems. • Work at height planned utilising appropriate fall prevention system for the task at hand (e.g. Scaffolding, EWP, total restraint, fall arrest) • All heights equipment is to be inspected and certified according to manufacturer's requirements and NZ Standards (e.g. AS/NZS 1891.4, AS/NZS 1892.1.1996) • Scaffolding <5m height is to be safe for use and fit for purpose, checked at least once a week, and ScafTag placed at all entrances • Scaffolding over 5m in height is to be installed by person that holds a Certificate of Competency, checked at least once a week, the inspection record held onsite, and a ScafTag placed at all entrances.	• Reliance on administrative control measures (training, procedures, PPE) • Limited engagement with contractors in managing this risk • Limited availability for specialised lifting equipment/advice e.g. scaffolding, crane operators •	• Development of Centralised Permit to Work System • Review of tasks requiring work at height – establish if alternate controls can be implemented	<mark>3. Adequate Controls</mark>

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	• Risk of a fall more than 5m is notifiable work, Scaffolding more than 5m in height is notifiable work • All staff working at height must be competently trained in the appropriate NZQA Unit Standards, as well as internal training in Safe Working at Heights, Ladder Safety, elevated work platforms • Maintain safety zones and protected workspaces, Provide edge protection that adheres to regulations • Emergency Procedures and Preparedness including provisions for retrieval • Provide appropriate PPE - Hard hats, non-slip boots, harnesses • Workers to identify hazards and controls using personal risk assessment tool daily • Regular team meetings to address hazard management • Supervisors monitor staff – review work practices being undertaken • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work.			
3. Risk of fatality from exposure to plant and machinery	• Work procedures and planning of work using guidance from WorkSafe eg. Codes of practice for Elevated work platforms, cranes, chainsaw safety guidelines, power tool guidelines • Staff must be trained in relevant safety procedures e.g. Small Engine Equipment, hand tools, manual handling • Planned preventative maintenance schedule for plant and equipment • All electrical equipment must be inspected / tested by a competent person and tagged to	• Reliance on administrative control measures (training, procedures, PPE) • Limited engagement with contractors in managing this risk		3. Adequate Controls

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	verify that it is safe for use (AS/NZS 3760: 2010 and AS/NZS 3012:2010) (3-Monthly for construction and painting; 6-Monthly for workshop; 12-Monthly for other low risk office / static facilities) • Emergency Procedures and Preparedness • Provide appropriate PPE e.g. Ear, head and eye protection, gloves, safety boots, protective clothing to cover skin, anti-vibration gloves • Workers to identify hazards and controls using personal risk assessment tool daily • Regular team meetings to address hazard management • Supervisors monitor staff – review work practices being undertaken • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work.			
4. Risk of adverse physical and mental health effects from exposure to aggression, physical violence and verbal abuse from members of the public and service users.	• Work procedures and planning of work using guidance from WorkSafe NZ: Guidelines for the Safety of Staff from the Threat of Robbery 2011, Violence at work: customer service areas 2016. • Working Alone Policy and Procedures • Conflict resolution training • Staff support and administration programmes in place and known by staff (e.g. Employee Assistance Programme) • Dedicated security personnel in high risk areas • Outside premises - security lighting, security bars / locks on doors and windows, security cameras, deterrent signage • Inside premises - use protective physical barriers (e.g. secure kiosk, desk widening,	• Reliance on administrative control measures (training, procedures, PPE) • Limited engagement with contractors in managing this risk • Third party risk - Not able to control the behaviour of members of the public and service users.	• Strategic review of Staff safety at HDC Facilities and project to implement recommendations	<mark>3. Adequate Controls</mark>

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	security screen); panic alarms; security camera; deterrent signage • Emergency Procedures and Preparedness • Workers to identify hazards and controls using personal risk assessment tool daily • Regular team meetings to address hazard management • Supervisors monitor staff – review work practices being undertaken • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work. •			
5. Risk of fatality when working in excavations	• Work procedures and planning of work using guidance from WorkSafe NZ: Guidelines Excavation Safety 2016, Guide for safety with underground services • Permits to Work - Corridor Access Request (CAR); Close Approach Permits for Electricity, Gas and Fibre; Permit and observer for electrical services that are undercut for more than 1m during excavation • Arrange for network provider to isolate power / gas source by temporary disconnection and lockout of circuits • Excavation work plan must be approved before work can begin • No mechanical digging within 500mm from identified power / gas services and 750mm of telecom fibre or major duct • Utilise hydro excavation measures • Use appropriate shoring, battering and/or protective cages for deep excavation work to stabilise the excavation and protect workers who are in the work area	• Reliance on administrative control measures (training, procedures, PPE) • Limited engagement with contractors in managing this risk	• Development of Centralised Permit to Work System	<mark>3. Adequate Controls</mark>

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	• Maintain safety zones and protected workspaces. • Consent required for work close to power-pole and/or stays • WorkSafe Notifications when excavation greater than 1.5 m • All staff must be competently trained in the appropriate NZQA Unit Standards and internal training in excavator operation, excavations and trenches, grave digging • Work is to be undertaken with a minimum of two workers (one person is a spotter) • Provide appropriate PPE – e.g. Eye protection, overalls, hi-vis vest, safety boots and hard hats • Emergency Procedures and Preparedness • Workers to identify hazards and controls using personal risk assessment tool daily • Regular team meetings to address hazard management • Supervisors monitor staff – review work practices being undertaken • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work.			
6. Risk of fatality from loss of containment and/or exposure to a hazardous substance	• Work procedures and planning of work using guidance from WorkSafe: Hazardous Substance regulations, Approved code of practice for hazardous Substance Management, A Guide to Respiratory Protection 1999, The Management of Agrichemicals (Fact sheet). • Ensure Hazardous Substances Registers and Safety data sheets (SDS) are maintained and made available for reference	• New Hazardous Substances Regulations come into effect in December 2017 – limitations on guidance and training • Reliance on administrative control measures (training, procedures, PPE)	• Development of Hazardous Substances procedures and training programmes to comply with legislative changes. • Targeted area for contractor engagement	3. Adequate Controls

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	• Use appropriate signage to identify the hazards, controls and emergency procedures • Isolate hazardous areas - use dangerous goods shed. Keep stored in order to prevent unauthorised access (including while in use on the job) • Store in original containers or well-marked containers if decanted. • Provide appropriate training e.g. 'D' licence endorsement; Cpproved Handler Certificate; Growsafe certificate, Spill Containment, Emergency Management, internal chemical handling training • Provide PPE – Protective clothing, masks / respirators, eye and skin protection as per safety data sheets. If required employees must undergo a fit test for respirators. • Undertake regular exposure and health monitoring for workers • Emergency Procedures and Preparedness • Workers to identify hazards and controls using personal risk assessment tool daily • Regular team meetings to address hazard management • Supervisors monitor staff – review work practices being undertaken • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work.	• Limited engagement with contractors in managing this risk • Contractor lack of awareness of health risks /poor monitoring and control measures • Delayed development of symptoms/health effects from initial exposure/ongoing exposure to chemicals		
7. Risk of fatality from exposure to a moving vehicle	• NZTA Driver licencing requirements • NZTA Vehicle registration and warrant of Fitness/ Certificate of Fitness requirements • Staff policy and procedures – Vehicles	• Reliance on administrative control measures (training, procedures, PPE) • Limited engagement with contractors in managing this risk		<mark>3. Adequate Controls</mark>

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	• Driver training programme and procedures for operational areas e.g. truck driving, mowing, tractor use • Temporary traffic Management requirements for work being undertaken in road corridor • Planned preventative maintenance schedule for vehicles • GPS monitoring • Emergency Procedures and Preparedness • Workers to identify hazards and controls using personal risk assessment tool daily • Regular team meetings to address hazard management • Supervisors monitor staff – review work practices being undertaken • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work.	• Third party risk - Not able to control the behaviour of other parties on public roads		
8. Risk of fatality or serious health effects from exposure to harmful levels of noise, vibration, dust, or biological hazards	• Work procedures and planning of work recognising health risks and using guidance from WorkSafe: WorkSafe strategic plan for work related health 2016, guidelines and fact sheets on exposure monitoring, health monitoring, noise, vibration, workplace exposure standards and biological exposure indexes, silica dust in construction, respiratory protective advice, local exhaust ventilation, welding • Occupational Hygiene programme to ensure regular exposure monitoring is undertaken to identify and manage occupational health hazards which may harm workers • Occupational health monitoring programme – pre-employment baseline testing, annual monitoring and exit testing to monitor the	• Reliance on administrative control measures (training, procedures, PPE) • Limited engagement with contractors in managing this risk • Contractor lack of awareness of health risks /poor monitoring and control measures • Delayed development of symptoms/health effects from initial exposure/ongoing exposure •	• Targeted area for contractor engagement	<mark>3. Adequate Controls</mark>

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	health of workers exposed to occupational health hazards and check that mitigation measures are effective. • Workplace ventilation design with appropriate exhaust systems for workshops • Training for staff undertaking tasks which may generate harmful levels of noise, vibration, dust, or biological hazards, e.g. power tool use, grinding, welding • Provision of appropriate PPE and Training to staff in the use of the PPE e.g. fit testing of respirators. • Emergency Procedures and Preparedness • Immunisation for staff exposed to biological pathogens e.g. Hepatitis, tetanus, diphtheria • Workers to identify hazards and controls using personal risk assessment tool daily • Regular team meetings to address hazard management • Supervisors monitor staff – review work practices being undertaken • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work.			
9. Risk of serious health effects from exposure to asbestos	• Work procedures and planning of work recognising health risks and using guidance from WorkSafe: Asbestos regulations 2016 and codes of practices for asbestos surveys and management and removal of asbestos 2016. • Asbestos surveys conducted for all council facilities and buildings to develop and maintain an asbestos register. • Occupational Hygiene programme to ensure regular exposure monitoring is undertaken	• Reliance on administrative control measures (training, procedures, PPE) • Limited engagement with contractors in managing this risk • Contractor lack of awareness of health risks /poor monitoring and control measures	• Implementation of overarching Asbestos Management Pan • Targeted area for contractor engagement	3. Adequate Controls

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Human Resources (NO PERSONAL INFORMATION) - Health and Safety - Hazard Identification Assessment & Management - Hazard/Risk Assessments - Review of Effectiveness of Control Measures for Critical Health and Safety Risks - August 2018

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	to identify and manage asbestos hazards which may harm workers
	• Occupational health monitoring programme – pre-employment baseline testing, annual monitoring and exit testing to monitor the health of workers exposed to asbestos hazards and check that mitigation measures are effective.
	• Procedures and training for staff undertaking tasks which involve the removal of asbestos in quantities under 10m3 – work must be in accordance with regulations and guidelines
	• Engagement of specialised asbestos removal contractors for asbestos removal in large quantities - work must be in accordance with regulations and guidelines
	• Emergency Procedures and Preparedness
	• Provision of appropriate PPE and training to staff in the use of the PPE e.g. fit testing of respirators.
	• Workers to identify hazards and controls using personal risk assessment tool daily
	• Regular team meetings to address hazard management
	• Supervisors monitor staff – review work practices being undertaken
	• Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work. work must be in accordance with regulations and guidelines, contractor workers must hold appropriate qualifications
	• Customers and Public regularly advised of the requirements for bringing waste

HPRM: HR-03-6-4-18-94

Human Resources (NO PERSONAL INFORMATION) - Health and Safety - Hazard Identification Assessment & Management - Hazard/Risk Assessments - Review of Effectiveness of Control Measures for Critical Health and Safety Risks - August 2018

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	containing asbestos to the Omarunui Landfill			
10. Risk of fatality when working in confined spaces	• Work procedures and planning of work using guidance from WorkSafe NZ: Guidelines for Confined space entry and Safe Work Australia: Model Code of Practice: Confined spaces 2016, and work undertaken confirms with Australian Standard AS 2865: 2009 Confined spaces. • Permits to Work are required for Confined spaces work. The Permit must detail the work being undertaken and by whom, identify and assess the risks, detail the risk control measures including the emergency response measures. The Confined space entry permit must be approved before work can begin. • All workers are required to hold current NZQA unit standards for confined space entry, planning and gas monitoring. • Additional Internal safety procedures and training for staff undertaking work in confined spaces • Emergency Procedures and Preparedness – including the requirements for a safety observer and regular gas monitoring of the hazardous gases in the confined space. • Provide appropriate PPE e.g. respirator suitable for the type of work; appropriate coveralls and gloves, safety harness or rescue line, safety boots, eye protection and hearing or body protection as identified in risk assessment. • Workers to identify hazards and controls using personal risk assessment tool daily	• Reliance on administrative control measures (training, procedures, PPE) • Limited engagement with contractors in managing this risk	• Development of Centralised Permit to Work System	<mark>3. Adequate Controls</mark>

Human Resources (NO PERSONAL INFORMATION) - Health and Safety - Hazard Identification Assessment & Management - Hazard/Risk Assessments - Review of Effectiveness of Control Measures for Critical Health and Safety Risks - August 2018

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	• Regular team meetings to address hazard management • Supervisors monitor staff – review work practices being undertaken • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work. Work must be in accordance with regulations and guidelines, contractor workers must hold appropriate qualifications.			
11. Risk of serious health effects from exposure to factors causing stress	• Work procedures and planning of work using guidance from WorkSafe NZ: Managing Stress and Fatigue in the Workplace. • Staff Policies and procedures - Stress and fatigue, rehabilitation and return to work • Supervisors and Managers to ensure staff to take regular refreshment and rest breaks, Adjust movement and job rotation between high level and low level work activity • Regular team meetings to address hazard management and engage with workers • Staff encouraged through education and training to keep hydrated and nourished with healthy food and water, ensure adequate sleep / rest • Peer group and management observation for signs of stress • Supervisors monitor staff – review work practices being undertaken • Provision of Employee Assistance Programme for staff to access confidential help/guidance • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work.	• Reliance on administrative control measures (training, procedures, PPE) • Limited engagement with contractors in managing this risk • Contractor lack of awareness of health risks /poor monitoring and control measures	• Development of Mental Health & Wellbeing Policy • Implementation of policy & training for Managers and Supervisors	<mark>3. Adequate Controls</mark>

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	•			
12. Risk of serious health and/or safety effects from fatigue and working while fatigued	• Work procedures and planning of work using guidance from WorkSafe NZ: Managing Stress and Fatigue in the Workplace. • Staff Policies and procedures - Stress and fatigue, rehabilitation and return to work, working alone • Supervisors and Managers monitor work patterns and ensure staff to take regular refreshment and rest breaks, Adjust movement and job rotation between high level and low level work activity • Development of on-call processes and procedures to manage fatigue as a result of overtime/call out situations, including the requirements for a roster and regular rotation of on call duties. • Regular team meetings to address hazard management and engage with workers • Staff encouraged through education and training to keep hydrated and nourished with healthy food and water, ensure adequate sleep / rest • Peer group and management observation for signs of fatigue • Supervisors monitor staff – review work practices being undertaken • Provision of Employee Assistance Programme for staff to access confidential help/guidance • Contractor management provisions – review safety plans and approve before work starts, regularly observe and monitor work.	• Reliance on administrative control measures (training, procedures, PPE) • Reliance upon workers managing sleep /fatigue • Limited engagement with contractors in managing this risk • Contractor lack of awareness of health risks /poor monitoring and control measures	• Development of Fatigue Management Policy • Implementation of policy & training for Managers and Supervisors • Targeted area for contractor engagement	3. Adequate Controls

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REPORT TO: **RISK AND AUDIT SUBCOMMITTEE**

MEETING DATE: **MONDAY 3 SEPTEMBER 2018**

FROM: **RISK AND CORPORATE SERVICES MANAGER**
                    REGAN SMITH
                    DISTRICT CUSTOMER SERVICES MANAGER
                    GREG BRITTIN

SUBJECT: **ENTERPRISE RISK MANAGEMENT UPDATE**

1.0   SUMMARY

1.1   The purpose of this report is to obtain a decision from the Subcommittee adopt the updated Hastings District Council (HDC) Enterprise Risk Management Policy and Framework and obtain feedback on the proposed Key Risk Indicators (KRI).

1.2   This issue arises from adoption of the existing Risk Management Policy and Framework in July 2017.

The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost–effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.

1.3   The objective of this decision relevant to the purpose of Local Government is to provide a robust framework that promotes effective and efficient management of risks in core business processes.

1.4   This report concludes by recommending to Council that the updated Enterprise Risk Management Policy and Framework be adopted.

2.0   BACKGROUND

2.1   Council adopted the Risk Management Policy and Framework on 13th of July 2017. The annual review required under this policy is now due.

2.2   Feedback from application of the current policy has identified areas for improvement, particularly relating to the risk matrix and associated impact classification table.

3.0   CURRENT SITUATION

3.1   The Risk Management Policy and Framework has been reviewed in light of the feedback received and an update version has been drafted that incorporates relevant improvements **(refer Attachment 1),** which is tabled for consideration.

3.2   The changes to the policy and framework include:

- Addition of an Architecture section describing the risk reporting structure, and roles and responsibilities.

- The risk principles have been updated to match those included in the recently updated ISO31000:2018 Risk Management standard.

- Updated wording relating to risk appetite and tolerance.

- The risk impact classification table and risk matrix has been revised, including a more even distribution of low, medium, high and extreme zones on the risk matrix and incorporation of a calculated risk score.

- Minor amendments to the risk analysis and evaluation sections of the risk process.

3.3 Due to the proposed changes to the risk matrix an updated strategic risk register has also been included **(refer Attachments 2 - 4)** so the effect of the revised matrix can be seen. The updated register includes the following changes:

- Inherent and Current risk score recalculated based on the new matrix.

- Numerical risk value included with each risk score.

- Proposed KRI measure included for Health and Safety, Inadequate Funds Available and Economic Downturn risks. Updated one page summaries have also been included for these risks, which include additional measures and an amended list of critical controls with an associated status indicator.

4.0   OPTIONS

4.1 The options are to either accept the proposed update to the Enterprise Risk Management Policy and Framework, or request officers consider further changes to the policy.

5.0   SIGNIFICANCE AND ENGAGEMENT

5.1 While risk management is a significant administrative practice, the Risk Management Policy and Framework does not trigger Council's Significance and Engagement Policy and no consultation is required

6.0   ASSESSMENT OF OPTIONS (INCLUDING FINANCIAL IMPLICATIONS)

6.1 Adopting the updated Enterprise Risk Management Policy and Framework facilitates implementation of improved risk management practices to achieve effective and efficient management of risk within Council.

6.2 Requesting further development on the policy or framework will delay the adoption of the updated policy, but as the current policy is still in place there is no significant financial or service impact from such a delay.

7.0   PREFERRED OPTION/S AND REASONS

7.1 The preferred option is to recommend that the draft Enterprise Risk Management Policy and Framework be adopted.

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7.2 The reason for this being that the updates to the policy are relatively minor and implement improvement recommendations received during application of the current policy.

8.0 RECOMMENDATIONS AND REASONS

A) **That the report of the Risk and Corporate Services Manager titled** "**Enterprise Risk Management Update**" **dated 3/09/2018 be received.**

B) **That the Risk and Audit Subcommittee recommend to Council to adopt that the updated Enterprise Risk Management Policy and Framework.**

With the reasons for this decision being that the objective of the decision will contribute to meeting the current and future needs of communities for good quality local infrastructure, local public services and performance of regulatory functions in a way that is most cost-effective for households and business by:

i) **Providing a robust framework that promotes effective and efficient management of risks in core business processes.**

Attachments:

1	DRAFT Hastings District Council Risk Management Policy and Framework V3.2	PMD-03-81-18-159
2	Proposed Governance Tier 1 Strategic Risk Register and Measures	PMD-03-81-18-160
3	Inadequate Funds Available Strategic Risk One Page Summary with Proposed Metrics	PMD-03-81-18-162
4	Economic Downturn Strategic Risk One Page Summary with Proposed Metrics	PMD-03-81-18-161

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Enterprise Risk Management
Policy & Framework

Policy expert	Risk and Corporate Services Manager
Policy owner	Council
Owner Department	Economic Growth and Organisation Improvement
Approval date	[Date this version was approved]
Version	DRAFT 3.2
Review date	[Date the next review of the policy is needed]

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Change history

Amendment (s)	Date	Updated by and authority
First Release	12 Sep 2012	Updated by Business Service Manager. Authorised by Leadership Management Team
Annual Review V1.1 Minor changes to text for clarification	16 Sep 2013	Updated by Business Service Manager.
Full Review V2.0 Overview of risk management updated to reflect ISO 31000 standard. Roles and responsibilities, and conflict of interested included in Policy section. Guiding principles from the ISO 31000 standard included in risk framework. Need for risk management to be integrated in to all business activities reinforced throughout.	9 Feb 2017	Updated by Business Service Manager.
Audit & Risk V2.1 Protection of personal safety added to policy objectives. Risk matrix included as Appendix 1.	28 Feb 2017	Updated by Business Service Manager. Confirmed by Audit & Risk Subcommittee.
PWC feedback incorporated V2.2 CE commitment statement added Reference to Risk Handbook included. Enhancements include; - Annual policy review, - principles moved to Policy section, - risk process overview included, - Additional guidance relating to consultation and treatment plans. - Risk register management and monitoring - Glossary of Terms added.	11 May 2017	Updated by Business Service Manager.
Purpose amended to include community outcomes	21 Jun 2017	Updated by Business Service Manager. Confirmed by Council
Draft removed. Version published	13 Jul 2017	Updated by Business Service Manager. Approved by Council 13 July
Annual review. Moved to new policy template: - Add Architecture section. - Updated risk principles to match ISO31000:2018 - Updated Risk Appetite and Tolerance. - Risk Impact and matrix revised. - Minor amendments to Risk Process Analysis and Evaluation sections.	3 Aug 18	Updated Risk and Corporate Services Manager.

Ref: PMD-03-81-18-137   V3.2 / Aug 2018   Page 3 of 18

1. Purpose

The purpose of this document is to describe the Hasting District Council (HDC) Enterprise Risk Management (ERM) framework, including the architecture, strategy and protocols, and how the ERM is used to manage risks that affect successful achievement of Council's objectives.

A Risk Management Handbook that includes a summary of the strategy and protocols described in this document is provided as a quick reference for staff.

1.1. Background

"Organisations of any kind face internal and external factors and influences that make it uncertain whether, when and the extent to which they will achieve or exceed their objectives[1]". The effect this uncertainty has on the organisation's objectives is 'risk'.

Risk management provides a structured approach that can be applied to any discipline or undertaking to reduce uncertainty and enhance value.

Risk management achieves this by creating visibility of operational risk (including assumptions and uncertainties), and by describing consequences to be avoided or opportunities to be pursued.

Successful implementation of risk management relies on informed and engaged staff, and incorporation of risk management into 'business as usual' activities. Risk management within HDC is supported by senior leadership in a 'no blame' reporting culture. All staff are expected to engage in identifying and communicating risks associated with their work.

1.2. Chief Executive Commitment

To ensure we can deliver the Council's long term plan and work programme safely and effectively, it is important we understand and address the potential risks we may face in our daily operations. Through the application of good risk management we can minimise the possibility of harm and loss, whilst taking advantage of opportunities to innovate. I am committed to ensuring all activities and staff in Council develop and maintain good risk management practices. This is particularly important when it comes to protecting our people, our community and our environment.

Risk management enhances our service culture and should be engrained in our DNA. Risk management is a continuous journey of learning and its application underpins our ability to deliver positive outcomes for our community

Neil Taylor, Acting Chief Executive

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[1] ISO 31000:2018 Risk Management –Guidelines, Introduction, Page v.

2. Architecture

2.1. Reporting Structure

The overarching responsibilities for managing risk within Council are as follows:

- Overall responsibility for ensuring risks are mitigated resides with the Council as the governing body.
- The responsibility for ensuring robust risk management practices are in place is delegated to the Risk and Audit Subcommittee.
- The Executive Leadership Management Team (LMT) is ultimately responsible for ensuring risk are effectively managed.

Risk information flows down from the Council and is reported up from Groups and business teams as shown in the diagram below:
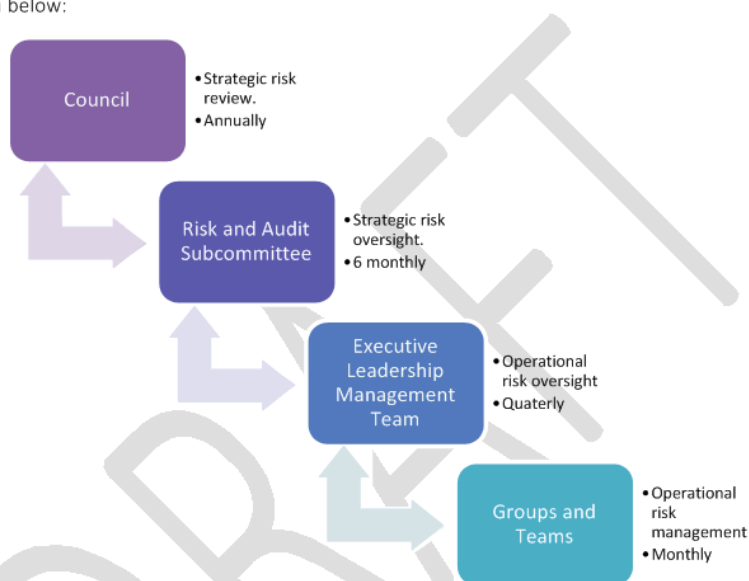
Business units and underlying teams may adopt or adapt this framework to meet their needs as deemed appropriate by the line manager. However, in any case all high risk issues identified by these teams must be escalated to the LMT level as described in this framework.

2.2. Roles and Responsibilities

Role	Responsibility
All Staff	Actively involved in managing risk. Consult with and keep line managers informed about risk as appropriate.
Risk Owners	Accountable for management of assigned risks. Consult with and keep LMT informed about risk as appropriate.
Group Manager	Have practices in place within their Group to: - Identify, assess and monitor risks. - Assign responsibility for managing risks. - Develop and implement treatment plans to reduce risk exposure. - Regularly review risk controls and treatments. - Appropriately communicate and escalate risks as required. - Consider new, emerging and changing risks. - Support and encourage staff to engage in risk identification and response actions.

LMT	Assess and monitor the organisation wide risk profile. Regularly review risk controls and treatments. Set priorities and allocate resources for risk mitigation.

2.3. Conflict of Interest

Any conflicts of interest identified through the risk management process shall be handled in accordance with the Conflict of Interest and Gifts policy in the HDC Operations Manual.

3. Strategy

HDC is committed to managing risk to the organisation and community in an on-going and proactive manner.

Effective risk management enhances the ability of HDC to achieve the strategic objectives defined in the Long Term Plan (LTP) and meet its statutory obligations.

Council manages risks in order to:

- Improve decision making.
- Identify innovations.
- Clearly document risk exposure.
- Appropriately communicate and report on risks.
- Integrate risk management culture into our business.

This framework and policy, supported by the HDC Risk Management Handbook, outlines the organisational risk management objectives and commitment in order to achieve proactive identification and mitigation of risks that arise as part of Council activities.
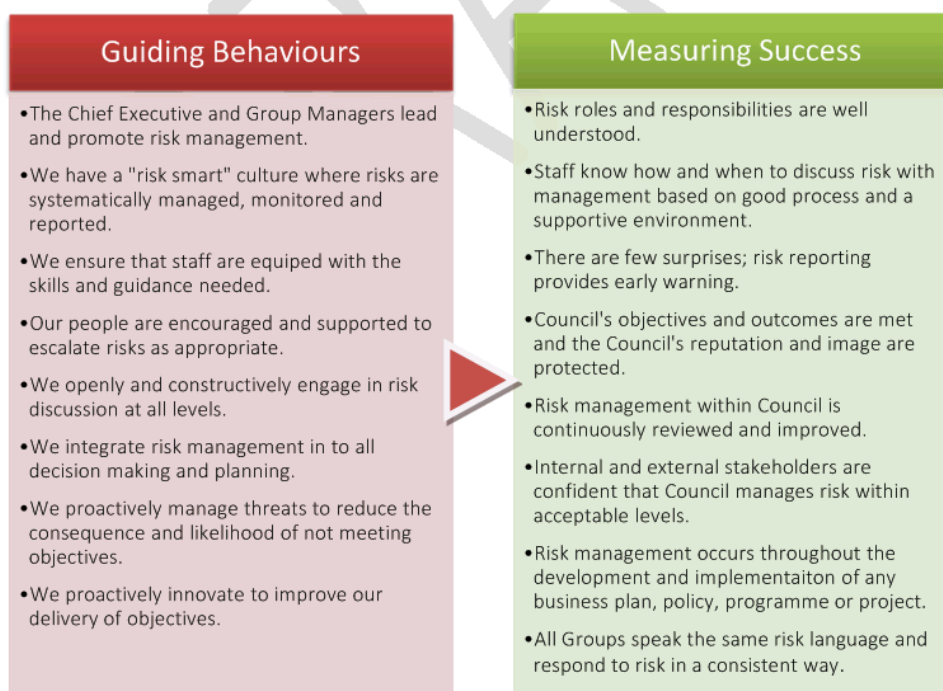
3.1. Scope and Applications

The scope of the Risk Management framework and policy is organisation wide and will be fully integrated into the Council's strategic, operational and project planning activities. The development of the framework and process has been informed by the approaches used in these activity and planning areas.

3.2. Guiding Behaviours and Measures

In line with Council's risk management principles and industry best practice, the framework guides staff to:

- Identify, assess, treat and monitor risks.
- Appropriately communicate and escalate risks.
- Consider new and emerging risks.

Guiding Behaviours

- The Chief Executive and Group Managers lead and promote risk management.
- We have a "risk smart" culture where risks are systematically managed, monitored and reported.
- We ensure that staff are equiped with the skills and guidance needed.
- Our people are encouraged and supported to escalate risks as appropriate.
- We openly and constructively engage in risk discussion at all levels.
- We integrate risk management in to all decision making and planning.
- We proactively manage threats to reduce the consequence and likelihood of not meeting objectives.
- We proactively innovate to improve our delivery of objectives.

Measuring Success

- Risk roles and responsibilities are well understood.
- Staff know how and when to discuss risk with management based on good process and a supportive environment.
- There are few surprises; risk reporting provides early warning.
- Council's objectives and outcomes are met and the Council's reputation and image are protected.
- Risk management within Council is continuously reviewed and improved.
- Internal and external stakeholders are confident that Council manages risk within acceptable levels.
- Risk management occurs throughout the development and implementaiton of any business plan, policy, programme or project.
- All Groups speak the same risk language and respond to risk in a consistent way.

4.   Policy Statement

In setting our objectives HDC will consider and take into account the risks associated with achieving those objectives.

HDC recognises that it is prudent to systematically manage and regularly review its risk profile at a strategic, operational and project level. The Council does this by applying this risk management policy and protocols, which defines the management practices required to support the realisation of Council objectives. Not only does the Council wish to minimise its threats, but also to maximise its opportunities through innovation.

4.1.   Mandate and Commitment

Elected members and senior leadership support the use of risk management as a key management tool, and expect risk management to be an integral part of decision making. Managers and staff in roles responsible for managing risk will be provided with adequate training and systems to support the open and honest communication of risk information.

The risk management system will be monitored on a frequency considered appropriate by elected members and senior leadership.

4.2.   Objectives

The Council's risk management objectives are:

- Protection of personal safety is ensured in all undertakings.
- HDC has a current comprehensive understanding of its risks.
- All sources of risk are assessed before undertaking any activity.
- The Council's risks are managed within the risk criteria that have been established for the particular activity.

4.3.   Principles

For risk management to be effective, the following principles should be applied at all levels within Council:

a)   Integral part of all organisation activities.
b)   Structured and comprehensive approach.
c)   Customised and proportionate to the organisation's needs.
d)   Inclusive to achieve timely involvement of stakeholders.
e)   Dynamic so that appropriate changes are made in a timely fashion.
f)   Best available information applied to risk analysis.
g)   Human and cultural factors are considered at each stage.
h)   Continual improvement achieved through learning and experience.

4.4.   Risk Appetite and Tolerance

Risk appetite refers to the amount of risk Council is willing to accept in pursuit of its goals. Depending on the nature of the activity there will be a range of outcomes that Council could accept, this range in outcomes is Council's risk tolerance.

In this sense risk management is about finding an acceptable balance between the impact on Council should a risk be realised and the implications of treating the risk (i.e. financial cost, potential service level impacts and other consequential risks associated with a different approach must be considered). It should be recognised that all actions and approaches come with their own risks which should be considered throughout the risk management process.

Some risk is unavoidable and it is not always within the ability of Council to completely manage a risk to within a tolerable level (e.g. flu pandemic). In such cases Council will ensure that a robust contingency plan is in place to respond to the risk event in an organised manner. In most cases this will be achieved through implementation of a Business Continuity Plan.

However, there will also be risks such as harm to people that Council views as particularly important to avoid and every effort should be made to prevent an occurrence. In particular, Council has a particularly low tolerance for risks to personal safety and this must be carefully considered before undertaking any activity.

Any other issues of low risk tolerance will be identified by the Council or leadership team and suitable guidance will be provided on how to avoid undesirable outcomes.

5. Risk Process

Risk management at Council is based on each team, business unit and all levels of management identifying, recording and assessing risks to their area of work.

5.1. Integrated Risk Management

Each team must integrate the following risk assessment process in to existing planning and decision making processes so that risk management principles can be applied. This will normally involve undertaking risk assessments as early as possible in a business process so that the greatest opportunity exists to mitigate potentially negative outcomes, or take advantage of innovations (e.g. all Asset Management Plans should contain a robust risk assessment).

The type of risk assessment used should be matched to the potential consequences. So where risk of failure is high a structured risk assessment process should be applied (i.e. bow tie), whereas for low risk activities a simple register could be sufficient.

5.2. Risk Process Overview

The following diagram provides an overview of the risk management process. The risk management process should be a logical progression from establishing context, risk identification and assessment through to treatment of these risks. Communication and consultation, and regular monitoring and reviews are required throughout the process.

5.3. Risk Process Map

To support the risk process shown in 5.2 a process map has been developed to provide step-by-step guidance. The diagram below shows the high-level activities that form this process. For further detail refer to the Promapp process or the HDC Risk Management Handbook.

5.3.1. Communication and Consultation

Effective risk management is based on continuous communication between internal and external stakeholders, and should include open two-way communication at all levels. This will help to ensure that individual risks are well understood so that robust risk ratings, risk treatment plans and monitoring requirements are established to increase confidence in successfully achieving Council goals

5.3.2. Establish Context

An important part of the risk management process is to consider the context for the activity being undertaken. Most importantly this involves developing a clear understanding of the key goals and objectives, and that the performance measures for these outcomes are considered.

When defining the context for a risk assessment, it is important to consider:

- The nature and type of hazards and consequences that might arise.
- How likelihood and impact are defined.
  IMPORTANT: By default the corporate standard definitions should be applied. However, in special cases it might be appropriate to define a tailored approach (e.g. for a major strategic project). If this is required the Risk & Corporate Services Manager or Strategic Projects Manager must be consulted.
- Whether combinations of risk should be taken in to account, and if so, how they should be considered.
- The level at which risk becomes acceptable or tolerable.
  IMPORTANT: By default the Tolerance statement in this framework should be applied. Any variation form this should be approved by LMT.

At this stage of the process communication and consultation is important. To fully understand the context consideration should be given to consulting other affected parties or stakeholders and wider management.

5.3.3. Risk Identification

Risk workshops are considered an effective way to initially identify risks associated with Council's business and operations. Workshops should include a wide range of internal and external stakeholders to uncover the full scope of risks that may exist.

When considering the source of risk each of the factors on the impact scale (People Safety, Financial, Service Level, Compliance, Reputation and Environment) should be considered for potential threats or opportunities.

Risks are recorded in a risk register held by each group. Risk details will record an accurate description of the risk, cause and effect to provide clarity for analysis and preparation of treatment plans. Ownership for each Risk should be allocated to a member of the team responsible for the Risk Register on which the risk is recorded

5.3.4. Risk Analysis

Risk score is based on the likelihood and impact of an identified risk occurring. An inherent assessment of the risk should be made based on the assumption that no measures are in place to control the risk. This establishes the raw risk to which Council is exposed. A subsequent risk analysis should then be performed to understand the current risk considering all the controls in place to mitigate the issue. The difference between these two assessments provides an indication of the degree of risk mitigation achieved.

To determine the impact rating for a risk analysis the normal practice is to use the impact category (i.e. personal safety, financial, service level, compliance, reputation or environment) that has the greatest/highest level of impact to combine with the likelihood assessment.

As any risk analysis is subject to the state of knowledge at a specific point in time it is good practice to regularly update the assessment as the environment and state of knowledge changes.

The default Council wide impact and likelihood definitions are included in Appendix 1. These definitions provide a consistent language to encourage consistent assessment of risk. However, they are not absolute and should be used as a guide to validate the intuitive assessment of risk.

Approved Council likelihood, impact and risk levels are also defined in the following documents:

- HDC Risk Management Handbook.
- HDC Project Management Framework.
- HDC Health & Safety Manual.

Note: *There may be slight differences between the descriptions used in each area. This is intended so that the risk management tool is appropriately matched with the activity.*

5.3.5. Risk Evaluation

The current risk score established during the risk analysis is then used to determine whether the risk is tolerable by comparison with the Council risk appetite. Any risks that are not tolerable should then be prioritise based on the risks score in order to identify the most important issues for treatment. This allows for effective allocation of resources to achieve the greatest benefit.

Risks classified as High or Extreme cannot be tolerated and treatments must be put in place to reduce the risk. In those situation where there is a low risk tolerance, all effort should be made to ensure there is an insignificant residual chance of the risk event occurring. Refer to the Risk Tolerance statement and Escalation section for further guidance on tolerable risk and risk treatment requirements.

5.3.6. Risk Treatment

Development of risk treatments and action plans is key to the success of risk management, as this is how an increase in confidence for achieving key objectives is delivered.

When choosing a treatment option it is important to recognise that a new approach is likely to introduce new risks that need to be considered. The aim should be to achieve a balanced outcome for Council and the customer/community using the service (e.g. the decision to require specific technical information for a type of consent may unduly slow the decision making process for all consents, and cause unnecessary frustration for the applicant for little overall reduction in risk).

In general there are four options to consider when treating a risk known as the 4Ts (refer to the Risk Management Handbook for further guidance):

- Tolerate (accept or retain the risk and its likely impact).
- Treat (take action to control or reduce the risk).
- Transfer (move the risk to another party, for example through insurance).
- Terminate (stop performing the activity to avoid or eliminate the source of risk).

To determine the most appropriate risk treatment option(s) the following factors should be assessed;

- impact on service levels,
- cost,
- feasibility, and
- effectiveness.

Treatment and action plans should include;

- Description of the proposed actions and due date for implementation,
- When appropriate, include reasons for selecting the treatment options,
- Identify who is responsible for completing the action and any other resources needed,
- When appropriate, identify performance measures for the control, and
- The reporting and monitoring requirements.

However, allocation of the treatment actions does not imply ownership of the risk itself. Risk ownership remains with the manager responsible for the risk. Treatment plans are to be updated on a regular basis and a note on current progress of treatment actions recorded as well as any changes in detail.

5.3.7. Risk Escalation

Risk owners are responsible for ensuring that risks are escalated to the appropriate level of management or to Council when necessary. Risks scored as High or Extreme according to the appropriate Risk Matrix must be reported to the next level of management and/or Council, whichever is appropriate.

The management team receiving an escalated risk shall review the issue and decide which level of the organisation is best placed to own, and be responsible for treating the risk. Based on this decision the risk may be:

1. Accepted onto that management team's risk register, or
2. Escalated further, or
3. Referred back to the team or business unit for action.

The following table outlines the risk action and escalation requirements:

Risk Descriptors	Impact	Action
Extreme Urgent and active management is required. Must identify treatments and implement action plans.	Would stop a number of key objectives being achieved. May cause widespread financial loss, or loss of reputation and confidence in Council.	Immediate escalation to relevant Group Manager and/or LMT. Consider escalation to relevant Council committee or sponsor. Include in LMT strategic risk register.
High Senior management attention is needed. Must identify treatments and implement action plans.	Would interrupt the quality or timeliness of Council's business objectives or outcomes. May result in significant financial loss, capability reduction or impact on the reputation of Council.	Escalation to Group Manager. As applicable may need escalation to Council committee, sponsor or LMT. Include in Group risk register.
Medium Risks require effective internal controls and monitoring. Management responsibility must be specified.	Would interfere with the quality, quantity or timeliness of Council's business objectives. May have minor loss, capability reduction or impact on the reputation of Council.	A strategy must be in place focusing on monitoring and reviewing existing controls. Include in Group risk register.
Low Routine procedures are sufficient to deal with the impacts.	Minimal impact on Council's business objectives. Minimal financial loss, capability reduction or impact on the reputation of Council.	A strategy should be in place focusing on monitoring and reviewing existing controls. Include in Group risk register.

5.3.8. Risk Monitoring and Review

Risk monitoring provides for ongoing tracking of risk trends and treatment actions. Regular risk monitoring maintains visibility of risk activity and provides oversight for managers of the risks within business. Risk monitoring provides a common communication mechanism for maintaining awareness.

To facilitate this, management needs to provide feedback to relevant groups on risks accepted onto their risk register so staff are kept informed of progress on significant risks.

Risk monitoring is achieved by including Risk Management as an agenda item for all team and management meetings and is referred to in regular management reports. During management meetings risk reviews should monitor:

-   Whether each risk still exists,
-   Whether new risks have arisen,
-   Whether the likelihood and/or impact of risks have changed,
-   Report significant changes which affect risk priorities, and
-   Deliver assurance on the effectiveness of risk controls.

Having risk as an agenda item at all scheduled meetings (e.g. monthly team meetings) enables risk registers to be reviewed and risk actions to be tracked on a regular basis. This approach supports the involvement of staff and integrates risk management into business as usual activities. Risks, risk treatments and actions inform planning and everyday business activities.

5.4. Risk Recording

Risks are recorded in Risk Registers based on a standard template and are stored in HPRM. Using a standard template for risk registers enables risks to be collated across business units and between levels of management. The registers also provide for monitoring of risk trends and logging actions in response to identified risks.

6. References

The primary reference and guidance document for the development of the risk management framework is the ISO 31000:2018 Risk Management – Guidelines.

Other relevant risk management publications will be used to aid application of standards and other related techniques to particular business situations. These publications include but are not limited to HB 436 Risk Management Handbook.

7. Review

The risk management policy and framework will be regularly reviewed to ensure it remains relevant to the organisation culture and needs. Reviews shall be performed at least annually, and submitted to Risk and Audit Committee for comment before being approved by Council.

8. Definitions

Term	Definition
Consequence	The effect on strategy or operational processes as a result of a risk event occurring. Note: The consequences that an event will have on the organisation will only be evident after impact has occurred.
Current Risk	Existing level of risk taking in to account the controls in place. Note: Previously called Residual Risk.
Impact	The effect on People, Finances, Service Levels, Compliance or Reputation when a risk event occurs. This is the direct and measureable impact. Standard terms for rating Impact are: Severe, Major, Moderate, Minor & Insignificant.
Inherent Risk	Level of risk before any control activities are applied.
Likelihood	An evaluation or judgement regarding the chances of a risk even occurring. Often described as a 'probability' or 'frequency'. Standard terms for rating Likelihood are: Almost Certain, Probable, Likely, Possible and Rare.
Mitigation Controls	Any measure or system that is intended to reduce the impact (consequence) of an event should it occur.
Prevention Controls	Any measure or system that is put in place to stop a threat causing loss.
Risk	The effect that uncertainty about internal or external factors has on achieving Council's objectives.
Risk Assessment	The process of risk identification and analysis.
Risk Analysis	A systematic use of available information to determine the likelihood of specific events occurring and the magnitude of their consequence.
Risk Appetite	The amount and type of risk an organisation is prepared to pursue or retain to achieve its strategic goals.
Risk Management	Management activities to deliver the most favourable outcome and reduce the volatility or variability of outcomes.
Risk Register	Document used to record risks, including the associated risk score and treatment plan.
Risk Score	The combination of consequence and likelihood assessments for a risk to derive an overall rating or priority for the risk.
Risk Tolerance	The degree of variability in attainment of goals, or capacity to withstand loss that an organisation is prepared to accept to achieve strategic goals.
Risk Treatment Plan	Actions aimed at reducing the likelihood and/or consequence of a risk.

9. Appendix 1: Likelihood, Impact and Risk Matrix Tables

9.1. Likelihood Assessment Table

Likelihood	Probability (*per annum*)	Time Based Descriptor
Rare	<10%	Unlikely to occur within a 10 year period, or in exceptional circumstances.
Possible	10% - 40%	May occur within a 10 year period.
Likely	40% - 70%	Likely to occur within a 5 year period.
Probable	70% - 90%	Likely to occur within a 1 year timeframe
Almost Certain	>90%	Likely to occur immediately or within a short period of time.

9.2. Impact Assessment Table

Impact	Harm to People (*Assess first*)	Financial	Service level	Compliance	Reputation	Environment
Severe	Fatality or permanent disability involving 1 or more people. OR Health impacts to >100 people.	Difference in budget >50% OR >$4M impact.	Service delivery time affected by >50%	Fine or prosecution for failing to meet multiple core legal requirements	National/ International media attention	Adverse effects resulting in permanent/ irreversible change to the environment.
Major	Serious injury/ illness, temporary disability involving 1 or more people. OR Health impacts to <100 people.	Difference in budget 25 - 50% OR $1M-$4M impact.	Service delivery time affected by 25-50%	Fine or prosecution for failing to meet a single core legal requirement.	High public interest or national media attention	Long term or significant adverse environmental effects where remediation is possible
Moderate	Medical attention required for 1 or more people. OR Medium term health impact to 1-10 people	Difference in budget 10 - 25% OR $200k-$1M impact	Service delivery time affected by 10-25%	Warning about, /or adverse public exposure for a non-compliance.	Significant regional public interest or media attention	Medium term change or scale of environment impact
Minor	First aid needed. Short term health impacts to a few people.	difference in budget <10% OR $10k-$200k impact	Service delivery time affected by <10%	Self-detected non-compliance.	Attention of group / local community or media	Short term or minor effect on ecosystem functions
Insignificant	No treatment required. No noticeable physical impact.	Insignificant budget impact OR <$10k impact	Insignificant impact on service delivery.	Non-compliance of no consequence	Individual interest or no media attention	Little or no change to environment

9.3. Risk Matrix and Heat Map

Likelihood	Impact				
	Insignificant 5	Minor 20	Moderate 40	Major 80	Severe 100
Almost Certain 0.7	Low 3.5	Medium 14	High 28	Extreme 56	Extreme 70
Probable 0.45	Low 2.25	Medium 9	High 18	Extreme 36	Extreme 45
Likely 0.3	Low 1.5	Low 6	Medium 12	High 24	Extreme 30
Possible 0.2	Low 1	Low 4	Medium 8	Medium 16	High 20
Rare 0.17	Low 0.85	Low 3.4	Low 6.8	Medium 13.6	High 17

Notes on matrix heat map:
- An event with Severe impact is considered High risk even if the chance of occurrence is Rare.
- Similarly, a Severe event that is likely to occur is considered Extreme risk.
- An event with Insignificant impact is considered Low risk even if it is Almost Certain to occur.

9.4. Calculated Risk Score Ranges

Risk Descriptors	Low	High
Extreme	>28	<=70
High	>16	<=28
Medium	>7	<=16
Low	>0	<=7

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Attachment 1

HDC Tier 1 Strategic Risk Register as at 21/8/2018

This risk register provides a summary of the top strategic risks facing Hastings District Council.

The table includes a brief description of the problem (risk description) and an assessment of the inherent risk before any action to mitigate the impact of the problem, followed by a brief description of the treatments in place to control the risk and an assessment of the current risk now faced by Council.

Refer to the risk summary pages for more detail on each risk.

Updated risk matrix

Likelihood	Impact				
	Insignificant	Minor	Moderate	Major	Severe
Almost Certain	Low	Medium	High	Extreme	Extreme
Probable	Low	Medium	High	Extreme	Extreme
Likely	Low	Low	Medium	High	Extreme
Possible	Low	Low	Medium	Medium	High
Rare	Low	Low	Low	Medium	High

Numeric risk score to show movement within a risk band.

Colour bands indicate general performance: Good (green), concerned (yellow) and out of bounds (white)

Arrow indicates current status of primary risk metric

No arrow indicates no metric defined

Rnk	Ref	Risk Description	Category	Severity of risk BEFORE treatment			Summary of treatment to mitigate the risk	Severity of risk AFTER treatment			Indicator
				Likelihood	Impact	Inherent Risk	Treatment	Likelihood2	Impact2	Current Risk	
1	SR01	**Water Supply Contamination** Potential for water supply to carry source or network contamination to water users.	People Safety	Probable	Severe	Extreme (45)	Council manages the risk associated with water contamination through a focus on preventative activity designed to reduce the potential for contamination to enter the system. This includes catchment management and robust Asset Management Planning based on multi-barrier philosophy which is industry good practice, and utilising expert advice when necessary.	Rare	Severe	High (17)	
2	SR02	**Civil Defence Emergency** Major disaster or emergency due to a natural hazard or other cause affecting community safety or damaging Council assets.	People Safety	Probable	Severe	Extreme (45)	Due to the nature of these events little can be done to reduce the chance of an event occurring. As a result Council's focus is on preparedness and ensuring an effective response can be mounted. This is achieved through integration with the Hawkes Bay Group CDEM team and training Council staff to manage the response and recovery for a major disaster.	Likely	Severe	Extreme (30)	
3	SR03	**Health & Safety Incident** Health and safety incident or exposure that has a permanent health impact on one or more people.	People Safety	Probable	Severe	Extreme (45)	Council has a proactive health and safety team actively supported by senior management that is focused on driving proactive health and safety processes based on industry best practice tailored to Council's activities. Managers and staff have received externally delivered training to ensure understanding of their personal responsibilities for achieving safe working environments across the diverse services undertaken by Council. However, despite these measures, the risk of an adverse health and safety event remains high so continued focus is needed in this area.	Possible	Major	Medium (16)	
4	SR04	**Infrastructure Service Failure** Infrastructure service failure resulting in loss, or compromised operation, of essential services causing harm to the community.	People Safety	Probable	Severe	Extreme (45)	The probability of a significant event is reduced through application of high service levels to all infrastructure services. These service levels are achieved through robust asset management planning based on international standards, which are monitored by external audits and 3 yearly external peer reviews.	Possible	Severe	High (20)	
5	SR05	**Ineffective Regulatory Oversight** Adverse impact on the public due to poor regulatory oversight of land use, construction standards or food preparation.	People Safety	Probable	Severe	Extreme (45)	Effective regulatory oversight is achieved through a structured processes for receiving and evaluating applications relating to legislated activities, and active monitoring of actual works undertaken in the district. This work is undertaken by appropriately trained and competent staff that have suitable authority delegated from Council.	Possible	Major	Medium (16)	
6	SR06	**Adverse Environmental Change** Climate change effects impacting community wellbeing and land value affecting Council rating capability.	People Safety	Probable	Severe	Extreme (45)	Council's main role in responding to climate change is to assist with strengthening the resilience of communities in the district. This is achieved by managing the exposure to environmental change threats through district planning and consenting, and improving preparedness through civil defence activities. Council also has a role to play in interagency collaboration for the development of regional policy and pathway option generation to respond to the effects of climate change.	Probable	Major	Extreme (36)	
7	SR07	**Demographic Change** Change in community demographics or population size that impacts community or Council service demand, support required or capacity to afford services.	Financial Viability	Probable	Severe	Extreme (45)	Through application of robust demographic forecasts and community consultation in long term planning Council strives to match service investment with anticipated community needs and aspirations.	Possible	Major	Medium (16)	
8	SR08	**Information Security Failure** Loss of control over Council information assets due to failure of Information Services security to protect against; system failure, cyber attack or staff actions.	Service Delivery	Probable	Severe	Extreme (45)	Council runs a replicated server environment with a robust firewall, backed up to cloud storage. Training and regular reminders are provided to staff about cyber security measures on a regular basis to reduce risk to a tolerable level.	Possible	Severe	High (20)	
9	SR09	**Inadequate Available Funds** Loss of access to sufficient funds to meet Council's current financial commitments.	Financial Viability	Probable	Severe	Extreme (45)	Strong treasury controls and oversight supported by robust budgeting and forecasting, including obtaining expert advice when necessary, significantly reduce the chance that Council will commit to financial obligations that exceed the funds to which Council has access.	Rare	Major	Medium (13.6)	

Ref: PMD-03-81-17-64

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HDC Tier 1 Strategic Risk Register as at 21/8/2018

This risk register provides a summary of the top strategic risks facing Hastings District Council.

The table includes a brief description of the problem (risk description) and an assessment of the inherent risk before any action to mitigate the impact of the problem, followed by a brief description of the treatments in place to control the risk and an assessment of the current risk now faced by Council.

Refer to the risk summary pages for more detail on each risk.

Likelihood	Impact				
	Insignificant	Minor	Moderate	Major	Severe
Almost Certain	Low	Medium	High	Extreme	Extreme
Probable	Low	Medium	High	Extreme	Extreme
Likely	Low	Low	Medium	High	Extreme
Possible	Low	Low	Medium	Medium	High
Rare	Low	Low	Low	Medium	High

Item 9

Attachment 2

				Severity of risk **BEFORE** treatment			Summary of **treatment** to mitigate the risk	Severity of risk **AFTER** treatment			
Rnk	Ref	Risk Description	Category	Likelihood	Impact	Inherent Risk	Treatment	Likelihood2	Impact2	Current Risk	Indicator
10	SR10	**Economic Downturn** Changes in global economic conditions or political stability that adversely affect the local community, resulting in reduced demand and ability to pay for services.	Financial Viability	Possible	Severe	High (20)	Through a combination of well informed land use and infrastructure planning, and an economic development initiative designed to promote economic diversity in the district, Council aims to minimise the impact of an economic downturn should it occur.	Possible	Major	Medium (16)	
12	SR12	**Procurement Failure** Poor procurement practices resulting in poor expenditure decisions.	Financial Viability	Probable	Major	Extreme (36)	Procurement policies and practices following government best practice are documented in the Council Procurement Manual, which is supported by robust templates and overseen by Council's Procurement Manager and Procurement Steering Group. Standing practices are in place for tender publication, opening and approval to ensure adequate separation of duties and control over decision making.	Possible	Major	Medium (16)	
13	SR13	**Corruption and Fraud Incidents** Deliberate misuse of position or authority that results in loss of funds, loss of assets or reputation damage.	Financial Viability	Probable	Major	Extreme (36)	The chance and magnitude of potential fraud is mitigated through clear separation of duties and monitoring of spending activities, while corruption is minimised through robust organisation culture and declaration of gifts and conflicts of interest.	Likely	Moderate	Medium (12)	
14	SR14	**Business Interruption** Business interruption caused by some unexpected event impacting service delivery.	Service Delivery	Probable	Major	Extreme (36)	Council has a Business Continuity Framework that sets out the crisis management and business continuity planning principles to achieve efficient containment and recovery from disruptions. Supporting plans have been established for services that are highly sensitivity to disruption; such as water supply and customer services. Further development of these plans to improve operational application is underway.	Likely	Moderate	Medium (12)	
15	SR15	**Loss of Key Staff** Loss of key staff impacting service delivery.	Service Delivery	Probable	Major	Extreme (36)	The impact of a loss of knowledge or skills from staff leaving Council is managed by retention strategies for key staff and/or embedding the knowledge in organisation practices through cross training and documenting business process.	Likely	Moderate	Medium (12)	
16	SR16	**Officer Error/Omission** Council Officer (staff or elected member) error or omission leading to poor decisions that casues harm to people, litigation or reputation damage.	Legal Compliance	Probable	Major	Extreme (36)	To avoid poor decision making a range of measures are used to ensure staff have the required knowledge to undertake allocated duties, and execution of activities are monitored to detect issues.	Possible	Major	Medium (16)	
17	SR17	**Failure to Meet Regulatory Requirements** Failure to meet legislative/regulatory requirements resulting in suspension of Council services.	Legal Compliance	Likely	Major	High (24)	The potential for failing to meet regulatory requirements is managed through a system of defined accountabilities delegated to staff for meeting regulatory obligations, which drives oversight, monitoring of the legislative landscape and documentation of require practices. This is also support by an open reporting culture to identify and address any issues found.	Rare	Major	Medium (13.6)	
18	SR18	**Legislative Change** Legislation change that places additional demand on the community or Council resources.	Legal Compliance	Probable	Moderate	High (18)	Through a combination of participation in professional bodies, working with other local authorities and various avenues for monitoring the legislative environment, Council staff obtain early warning of pending legislative change to enable forward planning to avoid shocks.	Possible	Moderate	Medium (8)	
19	SR19	**Facility Failure** Facility failure resulting in loss of community service.	Service Delivery	Probable	Moderate	High (18)	Due to the fact that facilities are duplicate across Hastings, Flaxmere and Havelock North there is an inherent level of resilience within the delivery of community services. However, redirecting communities to an alternative site does still cause impacts on the community. Council also applies Asset Management Planning practices to the management of the buildings to implement renewals and undertakes scheduled maintenance to minimise disruption. Management of the programmes are overseen by a central team to improve coordination. As a result the risk of service interruption is reduced to possible.	Possible	Moderate	Medium (8)	
20	SR20	**Failure to Achieve Business as Usual Performance** Failure to deliver Council strategic objectives, projects or normal business service levels resulting in community dissatisfaction.	Service Delivery	Probable	Moderate	High (18)	Reliable delivery of business services is achieved through assigning clear accountability for outcomes combined with performance planning and KPI monitoring.	Possible	Minor	Low (4)	

Ref: PMD-03-81-17-64

Page 2 of 2

Risk SR09: Inadequate Available Funds

Updated risk matrix
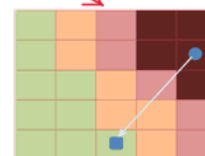
Owner: Chief Financial Officer
Stakeholders: HDC and rate payers

Risk Description

Loss of access to sufficient funds to meet Council's current financial commitments. Inadequate funds risk covers failure of loan facilities, or unforeseen global financial market failure, or level of debt reaching our loan cap, resulting in Council not having enough cash on hand to pay immediate financial commitments, including payroll.

Risk Type: Hazard (can only have negative impacts)   **Timescale:** Short term

Consequences: Projects deferred, Loss of reputation, Contract Liabilities, Failure of Contractor, Economic downturn, Shutdown of Core services, Statutory Management installed, Loss of staff, Increased borrowing costs, Loss of supplies, Loss of Insurance Cover

Previous Event: *No previous event*

Inherent Risk ●   **Probable** x **Severe** = Extreme (45)

Considering the breadth of Council services provided it is probable that without appropriate controls on purchasing, contract management and budgeting that financial obligations could exceed Council's available funds.

Threats: Loss of NZTA funding, Governance strategies unsustainable, Poor procurement, Significant number of rate payers default, Loss of access to Loan funding, Timing of cash flow, LGFA guarantee liability, Poor Budgeting Planning, Fraud, Economic downturn / crisis, Natural disasters / significant events, Unexpected gaps in insurance cover, Reaching Loan cap.
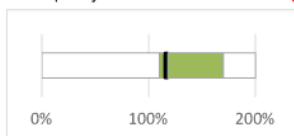
Different risk metric styles.

Metrics:

Liquidity: 113%   Net Debt as % Equity: 4%   Net Debt as % Income: 64%

0%   100%   200%

Current Risk ■   **Rare** x **Moderate** = Low (6.8)

Strong treasury controls and oversight supported by robust budgeting and forecasting, including obtaining expert advice when necessary, significantly reduce the chance that Council will commit to financial obligations that exceed the funds to which Council has access.

Critical Controls			
Treasury policy	TBC	🟢	
Maintain sustainable rating increases through LTP & Annual Plan process	TBC	🟡	
Three yearly forecasts	TBC	🟢	
Good budget management	TBC	⚫	
Internal audits	TBC	🟢	
External reviews (Audit NZ)	TBC	🟢	
Regulator Risk and Audit Subcommittee reporting	TBC	🟢	
Qualified staff	TBC	⚫	
Internal finance support	TBC	⚫	
Independent expert advice obtained	TBC	🟢	
Draw on Westpac facility	TBC	🟢	
Adequate insurance	TBC	⚫	
NZTA Contrat agreement in place	TBC	🟢	

Assessed as:
🟢 Good
🟡 Average
🟢 Poor
⚫ Not assessed

Traffic light indicator for status of each critical control.

V1.0

HASTINGS
DISTRICT COUNCIL

Risk SR10: Economic Downturn
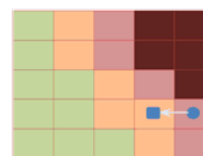
Owner: Council
Stakeholders: HDC and residents.

Risk Description

Changes in global economic conditions or political stability that adversely affect the local community, resulting in reduced demand and ability to pay for services.

Risk Type: Hazard (can only have negative impacts)   **Timescale:** Medium to long term

Consequences: Bank tolerance, Inability for businesses and public to pay Council rates and fees, Social decline, increased crime, homelessness, detrimental health impacts, increased emigration, Empty CBD/derelict buildings, Decreased usage of community facilities.

Previous Event: Impacts of global financial crisis 2008

## Inherent Risk ●   Possible   x   Severe   =   High (20)

Instability in geo-politics, economic markets or terrorism creates economic volatility that can have an impact on local economic prosperity (e.g. housing crash) affecting the community and Council socially and financially.

Threats: Food exporters excluded from markets, Closure of major employer within the district, Lack of skilled labour, Limitations of infrastructure - Airport, Port, transport network, Biosecurity failure, Climate change resulting in failure in agricultural area, Cyclic nature of agriculture, CDEM event.
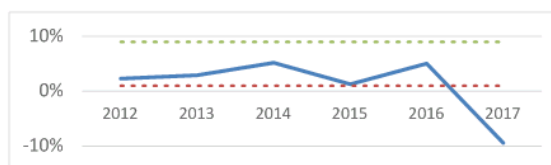
Metrics

Change in Retail Sales: 7.8%
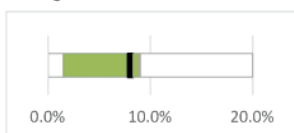
GDP % Change:

Mar 2017: $6.006B

Current Risk ■   Possible   x   Major   =   Medium (16)

Through a combination of well informed land use and infrastructure planning, and an economic development initiative designed to promote economic diversity in the district, Council aims to minimise the impact of an economic downturn should it occur.

Critical Controls		
District Planning - Land usage	TBC	🟢
Asset planning for projected changes	TBC	🟢
Water supply qantity	TBC	🟡
Roading investment	TBC	🟢
Biosecurity compliance activities	TBC	⚫
Practive marketing - GTGH	TBC	🟢
Youth programmes (Youth Futures)	TBC	🟢
Food innovation hub	TBC	⚫

Assessed as:	
🟢	Good
🟡	Average
🟢	Poor
⚫	Not assessed

V1.0

REPORT TO: **RISK AND AUDIT SUBCOMMITTEE**

MEETING DATE: **MONDAY 3 SEPTEMBER 2018**

FROM: **MANAGER STRATEGIC FINANCE**
                    BRENT CHAMBERLAIN
                    CHIEF FINANCIAL OFFICER
                    BRUCE ALLAN

SUBJECT: **GENERAL UPDATE REPORT AND STATUS OF ACTIONS**

1.0   SUMMARY

1.1   The purpose of this report is to update the Subcommittee on various matters including actions raised at previous meetings.

1.2   The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost–effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.

1.3   This report concludes by recommending that the report titled "General Update Report and Status of Actions" from the Manager Strategic Finance be received.

2.0   BACKGROUND

2.1   The Risk & Audit Subcommittee members requested that officer's report back at each meeting with progress that has been made on actions that have arisen from the Risk & Audit Subcommittee meetings. Attached as **Attachment 1** is the Risk & Audit Subcommittee Action Schedule as at 31 July 2018.

3.0   CURRENT SITUATION

3.1   Internal Audit

3.1.1   The first review of the financial year has been undertaken by Crowe Horwath which was a repeat of the data analytics review over payroll and accounts payable transactions and masterfiles. While the report notes that there are no significant concerns arising from the testing, staff are yet to check the results and recommendations made to confirm that there are no significant areas for concern.

3.1.2   The results of this audit and any other internal work that has been completed will be reported to the November Risk & Audit Subcommittee meeting.

4.0   SIGNIFICANCE AND ENGAGEMENT

4.1.1   This report does not trigger Council's Significance and Engagement Policy and no consultation is required.

5.0   RECOMMENDATIONS AND REASONS

That the report of the Manager Strategic Finance titled "General Update Report and Status of Actions" dated 3/09/2018 be received.

Attachments:

1   Risk & Audit - Status of Actions 31 August 2018   FIN-09-01-18-156

Item 10

Attachment 1

Hastings District Council
Risk and Audit Subcommittee
Status of Actions Sheet – 31 August 2018

Item No.	Meeting Date	Action	Reporting Officer	Progress as at 27 August 2018
1	6/9/16	**Local Authority Protection Programme** • Officers to keep a watching brief on the matter of the Local Government/Central Government split of LAPP premiums.	CFO	Announcement by Treasury delayed No further announcements since change of Government
2	19/6/17	**Building Control Liability Issues** • The Subcommittee would take a watching brief and Officers would report back regularly in order to update the Subcommittee.	Building Control Manager	No further update available at this stage
3	28/11/17	**Treasury Management Advisory Service** • Review the terms of the existing PWC treasury management advisory service contract	MSF	No action taken to-date
4	01/05/18	**Asset Management Plan** • Group Manager Assets Management to commission an independent review of 2018-2028 Management Plans	GMAM	To be commissioned
5	25/06/18	**Hastings Economic Update**	Bill Murdoch	To be included on the Finance and Monitoring Agenda 11 September 2018

		• Provide update/KPI's for how the Hastings Economy is doing against the rest of NZ		
6	25/06/18	**HR KPI's for HDC** • Provide KPI's for HDC Staff in relation to HR measures	HR	Councillors have been provided an informal update by Bronwyn

Item 10

Attachment 1