



# *Hastings District Council*

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## OPEN A G E N D A

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### RISK AND AUDIT SUBCOMMITTEE MEETING

Meeting Date: **Monday, 5 November 2018**

Time: **10.00am**

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

<b>Subcommittee Members</b>	Chair: Mr J Nichols <i>Ex Officio: Mayor Hazlehurst</i> Deputy Mayor Kerr (Deputy Chair) Councillors Nixon and Travers <i>(Quorum=3)</i>
<b>Officer Responsible</b>	Chief Financial Officer, Bruce Allan
<b>Committee Secretary</b>	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, 5 NOVEMBER 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 do have a conflict of interest, they should publicly declare that at the start of the relevant item of business and withdraw from participating in the meeting. If a Member thinks they may have a conflict of interest, they can seek advice from the General Counsel or the 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 3 September 2018.  
(Previously circulated)

**4. Audit Report for the Financial Year ended 30 June 2018**

<b>5.</b>	<b>Risk Assurance Update</b>	<b>11</b>
<b>6.</b>	<b>Treasury Activity and Funding</b>	<b>15</b>
<b>7.</b>	<b>Annual Review of Treasury Management Policy and Treasury Performance</b>	<b>25</b>
<b>8.</b>	<b>General Update Report and Status of Actions</b>	<b>33</b>
<b>9.</b>	<b>Internal Audit Update</b>	<b>37</b>
<b>10.</b>	<b>Funding of Depreciation</b>	<b>41</b>
<b>11.</b>	<b>Riskpool Call for 1 July 2019</b>	<b>45</b>
<b>12.</b>	<b>Health &amp; Safety Risk Management Update</b>	<b>51</b>
<b>13.</b>	<b>Additional Business Items</b>	
<b>14.</b>	<b>Extraordinary Business Items</b>	

**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 5 NOVEMBER 2018

**FROM:** FINANCIAL CONTROLLER  
AARON WILSON

**SUBJECT:** AUDIT REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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## **1.0 SUMMARY**

- 1.1 The purpose of this report is to inform the Subcommittee about the Audit Management Letter for the year ended 30 June 2018.
- 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 Report for the year ended 30 June 2018 be received.

## **2.0 BACKGROUND**

- 2.1 An audit of the financial statements of the Council was completed for the year ended 30 June 2018 by Audit New Zealand. An audit is undertaken every year on the financial statements and working papers of the Council.
- 2.2 On completion of the audit, an audit report is produced to highlight any issues identified during the audit and suggested improvements.
- 2.3 Stephen Lucy (Audit NZ Audit Director) will be in attendance at the Subcommittee.

## **3.0 CURRENT SITUATION**

- 3.1 The report to Council from Audit New Zealand on the audit of Hastings District Council and the group for the year ended 30 June 2018 has been received and is attached as **Attachment 1**.
- 3.2 There were significant improvements made to the end of the financial year and audit processes this year. However there is still room for improvement and officers will be working on an improvement plan and having further discussions with Audit to ensure further efficiencies can be gained.

## **4.0 The report from Audit New Zealand is broken into 4 sections which are covered off below:**

#### 4.1 Audit Opinion

4.2 Audit issued an unmodified audit opinion dated October 25<sup>th</sup> 2018 which ultimately means they were satisfied that the financial statements and statement of service performance fairly reflected the activity for the year and the financial position at the end of the year.

#### 4.3 Matters identified during the audit

4.4 This year end it was the turn of the Water Infrastructure Assets (storm water, wastewater and water supply networks), Land & Buildings, along with Heritage & Cultural assets to be revalued and the report from Audit New Zealand noted that Council has correctly accounted for the revaluation of these assets.

4.5 The report also notes that there has been an improvement in the delivery of the draft Annual Report and the supporting work papers in the current year, noting also that there is still room for improvement, particularly in relation to accessing information for some performance measures and the revaluations of the water assets.

#### 4.6 Uncorrected Misstatements

4.7 The financial statements are free from material misstatements, including omissions

#### 4.8 Mandatory Disclosures

4.9 The report also covers off a number of Mandatory Disclosures that Audit New Zealand are required to make and it is noted that there are no matters arising from those disclosures.

### 5.0 RECOMMENDATIONS AND REASONS

**A) That the report of the Financial Controller titled “Audit Report for the Financial Year ended 30 June 2018” dated 5/11/2018 be received.**

#### **Attachments:**

- |   |   |                |
|---|---|----------------|
| 1 | Report to Council on the audit of Hastings District Council and group for the year ended 30 June 2018 | CG-14-25-00065 |
|---|---|----------------|



AUDIT NEW ZEALAND  
Mana Arotake Aotearoa

25 October 2018

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

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

Dear Jon

## Report to Council: Audit of Hastings District Council for the year ended 30 June 2018

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

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

We will be providing 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.

### Audit opinion

We will be issuing an unmodified audit opinion dated 25 October 2018.

### Matters identified during the audit

The following significant issues were considered during the audit.

- We reviewed, and are satisfied with, the robustness of the District Council's revaluations undertaken this year. Given their significance, the focus of our work was on the revaluations of:
  - water infrastructure assets (stormwater, wastewater and water supply networks);
  - land and buildings.

We reviewed, and are satisfied with, the robustness of management's assessments as to why there is no material difference between the fair value and the carrying value of roading assets (the major asset class that was not revalued this year).

▲ business unit of the Controller and Auditor-General | [www.auditnz.govt.nz](http://www.auditnz.govt.nz)

#### Water infrastructure assets

The water assets have been revalued by the District Council's engineers in compliance with the District Council's accounting policy on revaluations. We examined the revaluations and ensured the following:

- The underlying assumptions are consistent with the District Council's management and knowledge of the assets. This included discussions with the District Council's engineers;
- Relevant valuation and accounting standards have been complied with (in particular PBE IPSAS 17 *Property, Plant and Equipment*);
- An appropriate peer review was undertaken (by Jennifer Fox of Waugh Infrastructure Management Limited). We reviewed the peer reviewer's findings, discussed those findings with the peer reviewer and obtained a representation from them; and
- The appropriate accounting entries have been made.

The revaluation resulted in a \$114 million increase for water infrastructure assets. This was a 23% increase since the last valuation in 2016, mainly driven by an increase in the replacement costs of mains.

We note that unit rate prices used in the valuations were determined using information obtained from a desktop review of unit rates and useful lives by OPUS. The District Council has not used all of these rates in the revaluation of the assets as it was considered that some of the rates were not appropriate for the local market knowledge/experience and likely criticality and renewal methodology for their assets.

#### Land and buildings

Land and buildings have been revalued by an independence valuer (John Reid of Added Valuation Limited) in compliance with the District Council's accounting policy on revaluations. We examined the revaluation and ensured the following:

- The underlying assumptions are consistent with the Council's management and knowledge of the assets;
- Relevant valuation and accounting standards have been complied with (in particular PBE IPSAS 17 *Property, Plant and Equipment*);
- An appropriate valuation was undertaken by the independent valuer. This included discussing the valuer's report with them and also obtaining a representation from them; and
- The appropriate accounting entries have been made.

The revaluation resulted in a \$47 million increase for land and buildings, largely due to an increase in the value of land (\$38 million).



- We are satisfied that the reporting of mandatory measures, as required by the Non-Financial Performance Rules 2013 (the rules), fairly represented the District Council's performance and complied with the intentions of the rules. We were also satisfied with the explanations and commentary that were included in the Annual Report in relation to measures that had not been achieved.

We were pleased to note that the District Council has started implementing changes to increase the robustness of review (e.g. more regular reporting of response and resolution times to review for appropriateness).

- We note that the level of carry forward of capital expenditure has decreased from the prior year.

We are pleased to note that there has been an improvement in the delivery of the draft Annual Report and the supporting work papers in the current year. There is still some room for improvement as there were delays obtaining information for the performance measures and the revaluation of assets from the Water area due to their high workloads. The required information was delivered to us two weeks after the audit team had finished the on-site part of the audit.

### Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial.

### Mandatory disclosures

We have set out a number of mandatory disclosures in the Appendix to this letter. There are no matters arising from those disclosures that we need to highlight for your attention

### Thank you

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

Yours sincerely



Stephen Lucy  
Director

## Appendix 1: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	<p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>
Auditing standards	<p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect every instance of misstatement, fraud, irregularity or inefficiency that is immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>
Auditor independence	<p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): <i>Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to our audit of the audited information and our report on the disclosure requirements, we have audited the District Council's 2018-28 long term plan, and performed a limited assurance engagement related to the District Council's debenture trust deed. Other than these engagements, we have no relationship with, or interests in, the District Council or its subsidiaries and controlled entities.</p>
Fees	<p>The audit fee for the year is \$109,700, as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period were \$71,000, for the audit of the long term plan and \$4,100 for the review of the debenture trust deed.</p>
Other relationships	<p>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 or its subsidiaries that is significant to the audit.</p> <p>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 or its subsidiaries during or since the end of the financial year.</p>

**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 5 NOVEMBER 2018

**FROM:** RISK AND CORPORATE SERVICES MANAGER  
REGAN SMITH  
RISK ASSURANCE ADVISOR  
DEAN FERGUSON

**SUBJECT:** RISK ASSURANCE UPDATE

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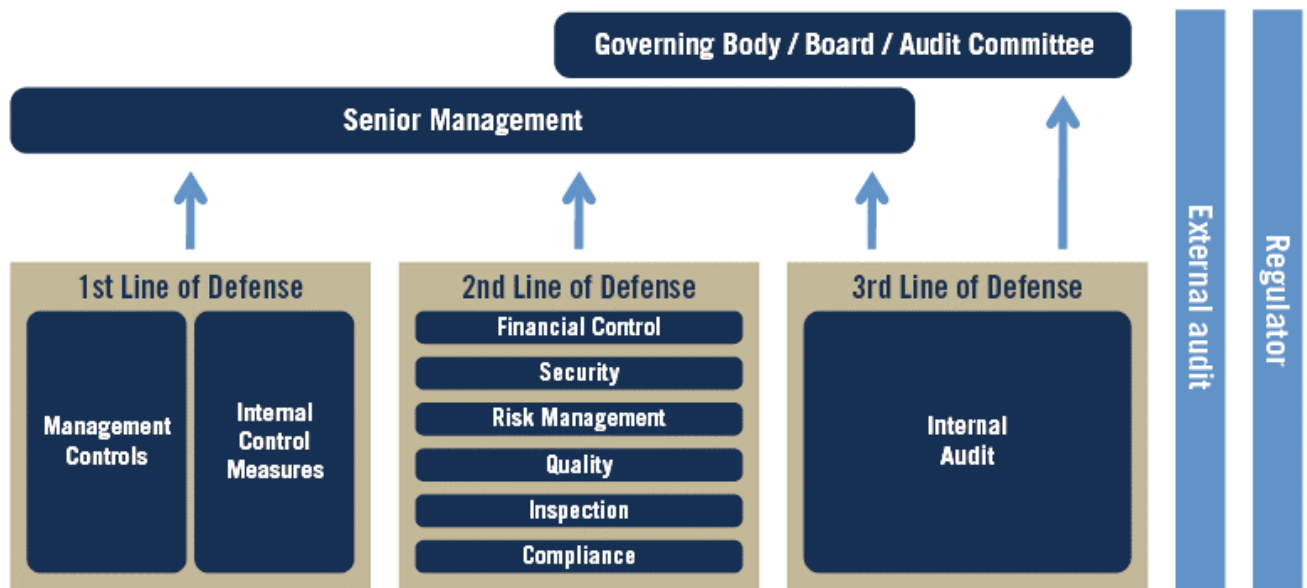
## **1.0 SUMMARY**

- 1.1 The purpose of this report is to inform the Sub-Committee of the establishment of a Risk Assurance Charter and associated review programme to undertake assessment of strategic risk critical controls.
- 1.2 This issue arises from adoption of the Enterprise Risk Management Framework and strategic risk register.
- 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 This report concludes by recommending that the report be received.

## **2.0 BACKGROUND**

- 2.1 Risk assessments for the 20 strategic risks adopted by Council have been completed. In order to determine the effectiveness of critical controls identified by these risk assessments a series of risk assurance reviews are planned.
- 2.2 The purpose of these reviews are to provide confidence that the assessed level of risk mitigation is likely to be achieved in practice. This is considered best practice as set out by the 3 lines of defence model below, taken from The Institute of Internal Auditors positioning paper: The Three Lines of Defence in Effective Risk Management and Control (January 2013).

## The Three Lines of Defense Model



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

### 3.0 CURRENT SITUATION

- 3.1 A Risk Assurance Charter has been approved (refer attached) that establishes the purpose and intended practices that will be followed by the Risk Assurance function when acting in a 3<sup>rd</sup> line of defence role.
- 3.2 With the Charter in place a programme of reviews have been developed in consultation with the Chief Financial Officer and Health and Safety team (refer attached). The review programme has been developed to focus on the areas of strategic risk and complement the other audit work being undertaken across the organisation.
- 3.3 As a result of this programme future reporting on strategic risks will include an indication of the confidence in critical controls.

### 4.0 SIGNIFICANCE AND ENGAGEMENT

- 4.1 While risk management is a significant administrative practice, the Risk Assurance practices are internal practices that do not trigger Council's Significance and Engagement Policy and no consultation is required.

### 5.0 RECOMMENDATIONS AND REASONS

- A) That the report of the Risk and Corporate Services Manager titled "Risk Assurance Update" dated 5/11/2018 be received.

**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 and local public services 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 | HDC Risk Assurance Charter - FINAL     | PMD-9-1-18-12    | Separate Doc |
| 2 | Risk Assurance Review Plan 2018 - 2021 | PMD-03-81-18-167 | Separate Doc |



**REPORT TO: RISK AND AUDIT SUBCOMMITTEE**

**MEETING DATE: MONDAY 5 NOVEMBER 2018**

**FROM: MANAGER STRATEGIC FINANCE  
BRENT CHAMBERLAIN**

**SUBJECT: TREASURY ACTIVITY AND FUNDING**

## **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 October 2018:

Measure	Compliance	Actual	Min	Max
<b>Liquidity</b>	✓	131%	110%	170%
<b>Fixed debt</b>	✓	59%	55%	95%
<b>Funding profile:</b>				
<b>0 – 3 years</b>	✓	41%	10%	50%
<b>3 – 5 years</b>	✓	26%	20%	60%
<b>5 years +</b>	✓	33%	10%	60%
<b>Net Debt as % Equity</b>	✓	5%	0%	20%
<b>Net Debt as % Income</b>	✓	71%	0%	150%
<b>Net Interest as % Income</b>	✓	3%	0%	15%
<b>Net Interest as % Rates</b>	✓	5%	0%	20%

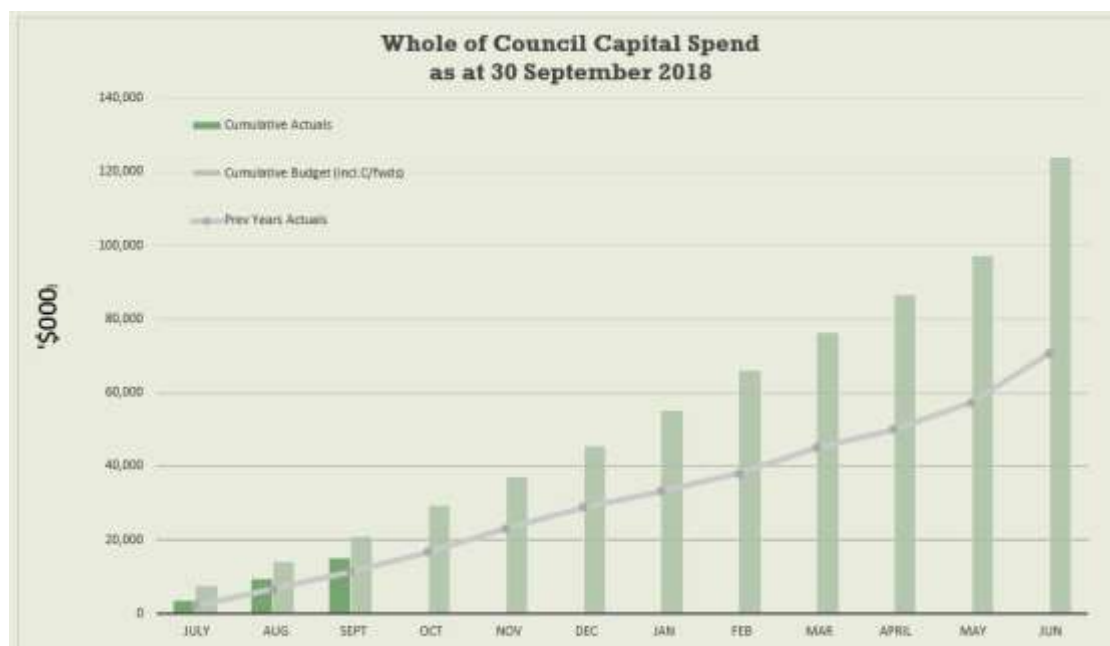
Council is currently compliant with Treasury Management Policy.

- 3.3 The current total core net external debt is \$95.2m as at 31 October 2018. This is supported by the Debt Status Report as at 31 October 2018 (**Attachment 1**). This report shows the net debt at \$115.2m which includes the \$20m loan with a March 2019 maturity and its associated term deposit.
- 3.4 The additional \$10m of borrowing in October 2018 was required to fund the current capital spend program being undertaken. The terms of new debt were:

Bank	Amount	Start Date	Finish Date	Interest Rate
LGFA	\$5m	08-Oct-2018	15-Apr-2026	BKBM + 0.595%
LGFA	\$5m	08-Oct-2018	15-Apr-2027	BKBM + 0.67%

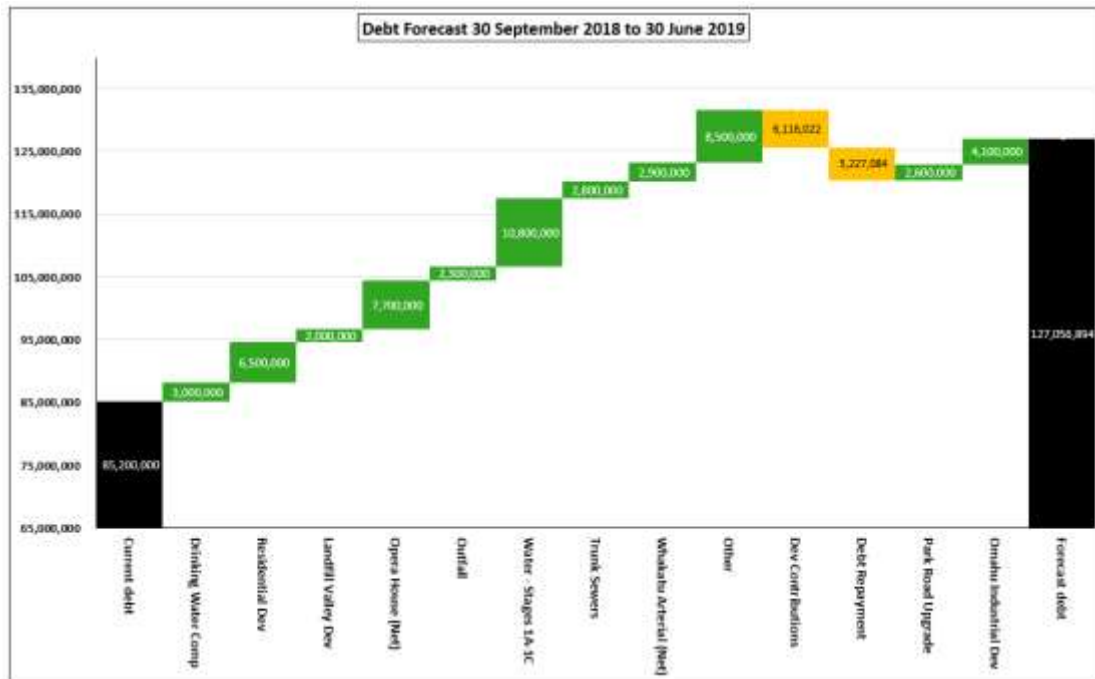
The BKBM rate (or more commonly known as the 90 day Bank Bill rate) at 30<sup>th</sup> September 2018 was 1.89% making the current all in interest rate 2.485% pa for the 2026 loan, and 2.56% pa for the 2027 loan.

- 3.5 The graph below shows the final position for the Council's budgeted capital spend program for the 2018-19 year and what it has managed to deliver to date:



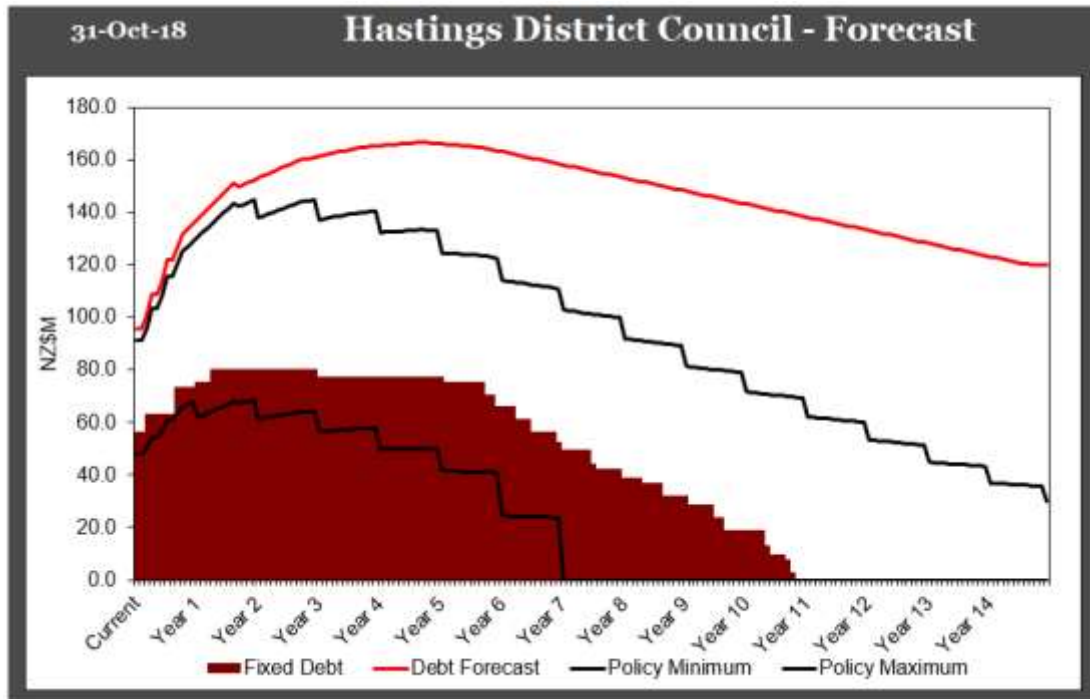


- 3.6 The chart below shows the key drivers of the expected movement in borrowings over the next year. This is based on projects that have started already, or are highly likely to commence before 30 June 2019 and indicates a forecast debt position of \$127m.

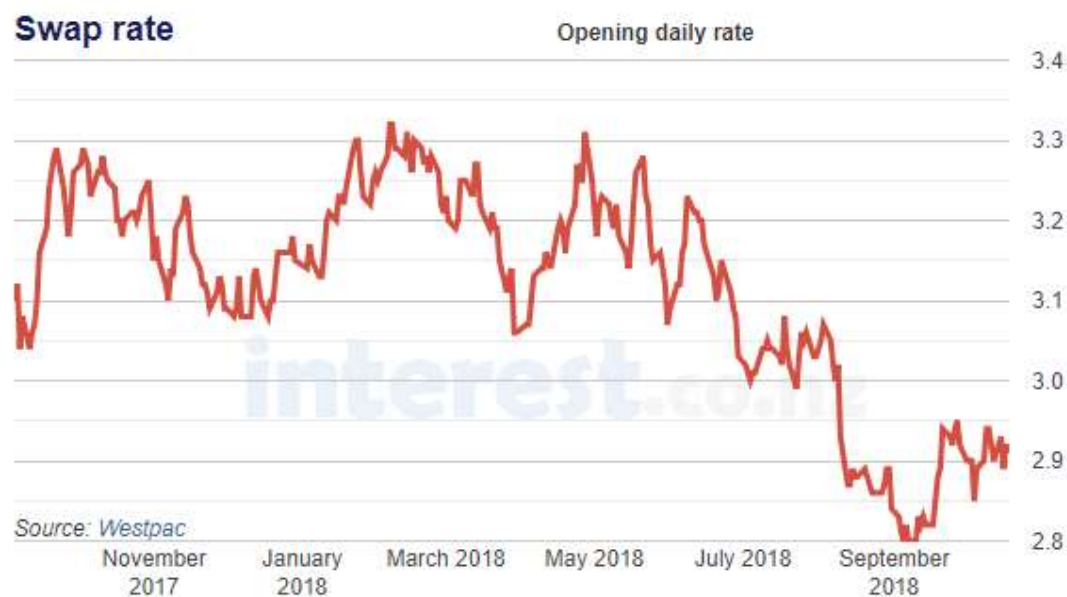


The chart identifies the major projects underway, however the smaller debt funded renewal projects have been aggregated into the “Other” heading.

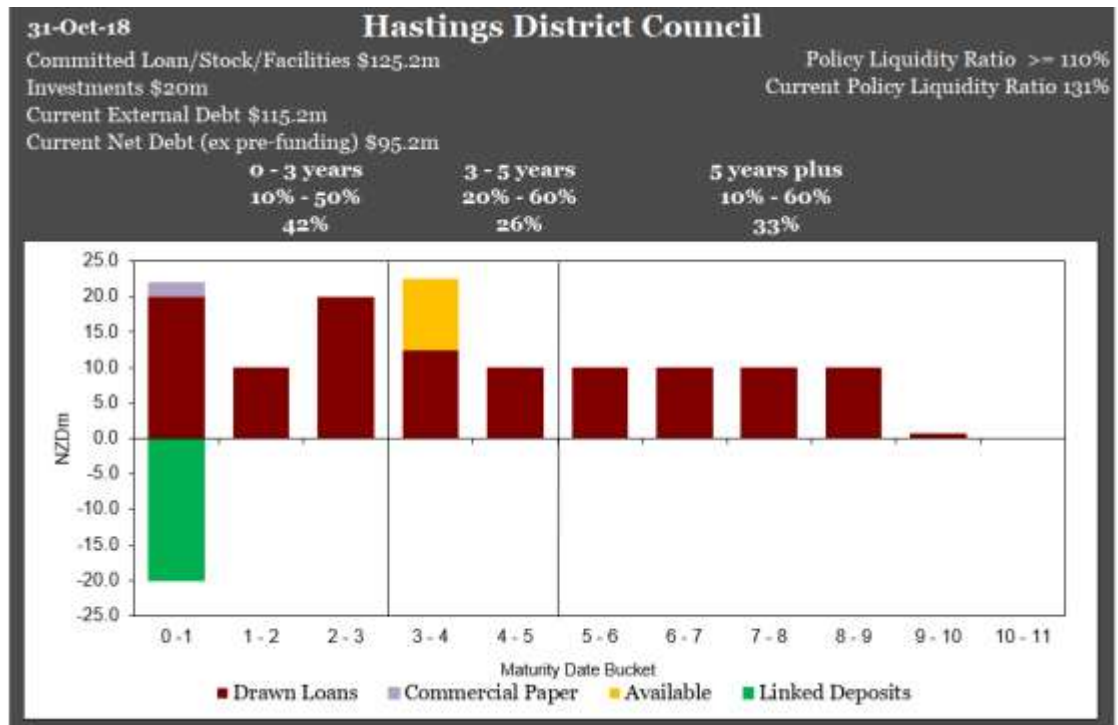
- 3.7 The following graph shows Council’s fixed debt is within the policy minimum and policy maximum set out in Council’s Treasury Management Policy. This graph also incorporates Council’s forecast debt over the long term (based on the LTP adjusted to reflect the current level of activity). The projected 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. This is through replacing older “non-rated” debt with newer “rated” debt, and replacing older higher interest rate swaps with newer lower interest rate swaps.



- 3.8 The interest rate swap cover is near the Council's lower limit for the next 12 months (which aligns with the Reserves Bank's policy of keeping the OCR rate on hold till 2020), and then moves to policy midpoint as the levels of uncertainty increases further out into the future. Council is currently able to take advantage of the BKBM rate of 1.89% plus margin, providing opportunities for cheaper floating rate loans in the short term, with the knowledge that if market indicators suggest increases to the short term rates, officers can respond quickly and put interest rate swaps in place.
- 3.9 Officers and PWC advisors are currently comfortable with the level of interest rate cover in place. Officers continue to monitor the situation as Council brings on new debt. PWC are currently recommending a target level of below 3.25% for retail swaps at the longer end of the yield curve.
- 3.10 The graph below shows the movement in 10 year wholesale interest rate swaps over recent months:



- 3.11 Following the recent borrowing of \$10m in October the Council debt maturity has the following profile:



- 3.12 This shows a liquidity ratio of 131% (thanks to the linked term deposits), and all debt maturity ratios are maintained within policy.
- 3.13 Any new debt will be considered along with Council's working capital requirements and liquidity ratios.

#### 4.0 MARKET COMMENTARY

- 4.1 The Reserve Bank of New Zealand (RBNZ) has held the Official Cash Rate at 1.75% on 27 September 2018. The RBNZ stated;

*"The Official Cash Rate (OCR) remains at 1.75 percent.*

*We expect to keep the OCR at this level through 2019 and into 2020. The direction of our next OCR move could be up or down.*

*Employment is around its sustainable level and consumer price inflation remains below the 2 percent mid-point of our target, necessitating continued supportive monetary policy. Our outlook for the OCR assumes the pace of growth will pick up over the coming year, assisting inflation to return to the target mid-point".*

- 4.2 Nick Tuffley (ASB Chief Economist) expects:

*"The RBNZ will keep the OCR on hold, and eventually lift the OCR in early 2020. However, the risks through to mid-2019 are tilted to a lower OCR due to low levels of business confidence. The RBNZ showed a slightly greater degree of caution about the path forward: continued wariness over the domestic growth outlook (as we expected), but also noting trade tensions more prominently than in the August Monetary Policy Statement.*

*We remain of the view that inflation pressures will pick up sooner than what the RBNZ has been forecasting to date. In particular, we expect a greater degree of wage inflation and subsequent flow-through to consumer prices. That is why we expect that when the OCR eventually rises, it will occur sooner than the late-2020 indication from the RBNZ.”*

## 5.0 FUNDING FACILITIES

- 5.1 **Attachment 2** shows details of Council's current debt facilities together with details of expiry dates and margins.
- 5.2 Council's liquidity ratio of 131% at 31 October 2018 (based on net external debt of \$95.2m and total debt facilities of \$125.2m) is within policy (policy 110% - 170%). This includes the impact of the linked term deposit. Excluding this the ratio is 111% which is still in policy.
- 5.3 Both PwC and Officers are comfortable with this ratio, and note that Council has the ability to increase debt from the LGFA at relatively short notice.

## 6.0 RECOMMENDATIONS

**That the report of the Manager Strategic Finance titled Treasury Activity and Funding dated 5/11/2018 be received.**

### Attachments:

- |   |                                      |                  |
|---|--------------------------------------|------------------|
| 1 | Debt Status October 2018             | FIN-09-01-18-162 |
| 2 | Funding & Interest Risk October 2018 | FIN-09-01-18-160 |

### Status Report on Council Debt As at 31 October 2018

#### 1. Loan Funding Requirement 2018/19

	<u>Carry Forwards</u>	<u>Budget Annual Plan</u>	<u>Actual to 31-Oct-2018</u>
		\$	\$
Proposed New Loans		47,013,964	20,234,794
Less Debt repayment		-6,294,606	-1,573,652
Total Required	0	40,719,358	18,661,142

#### 2. External Borrowing (Net Debt)

Bank Facilities	0
Term Funding	115,240,565
<b>Total External Borrowing at 31 October 2018</b>	<b>115,240,565</b>

#### 3. Summary of Internal Borrowings

Balance 1 July 2018	42,838,798
Plus: Requirement to date	18,661,142
Less: Movement in bank facilities	-37,500,000
<b>Internal Borrowings at 31 October 2018</b>	<b>23,999,940</b>

#### Funding of internal borrowings

Total Internal Borrowings	23,999,940
Funded from Special Fund Reserves (interest bearing)	10,514,811
Funded from Special Fund Reserves (non interest)	17,884,516
<b>General Funds used for internal borrowings</b>	<b>-4,399,387</b>

#### 4. Gross Council Debt allocated to activities

Actual External Debt on Issue	115,240,565
Plus: Internal Borrowings	23,999,940
<b>Gross Debt at 31 October 2018</b>	<b>139,240,505</b>

#### 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%	0	0.00%	3.10%
2019/20	15,000,000	26.21%	20,000,000	26.94%	4.37%
2020/21	12,000,000	20.96%	15,000,000	20.20%	5.27%
2021/22	12,500,000	21.84%	12,500,000	16.84%	4.97%
2022/23	0	0.00%	0	0.00%	0.00%
2023/24	2,000,000	3.49%	2,000,000	2.69%	4.91%
2024/25	5,000,000	8.74%	10,000,000	13.47%	3.99%
2025/26	0	0.00%	0	0.00%	0.00%
2026/27	0	0.00%	0	0.00%	0.00%
2027/28	740,565	1.29%	8,740,565	11.77%	3.08%
Beyond 2029	0	0.00%	6,000,000	8.08%	4.03%
<b>Totals</b>	<b>57,240,565</b>	<b>100%</b>	<b>74,240,565</b>	<b>0</b>	<b>4.46%</b>

Average Term (years)

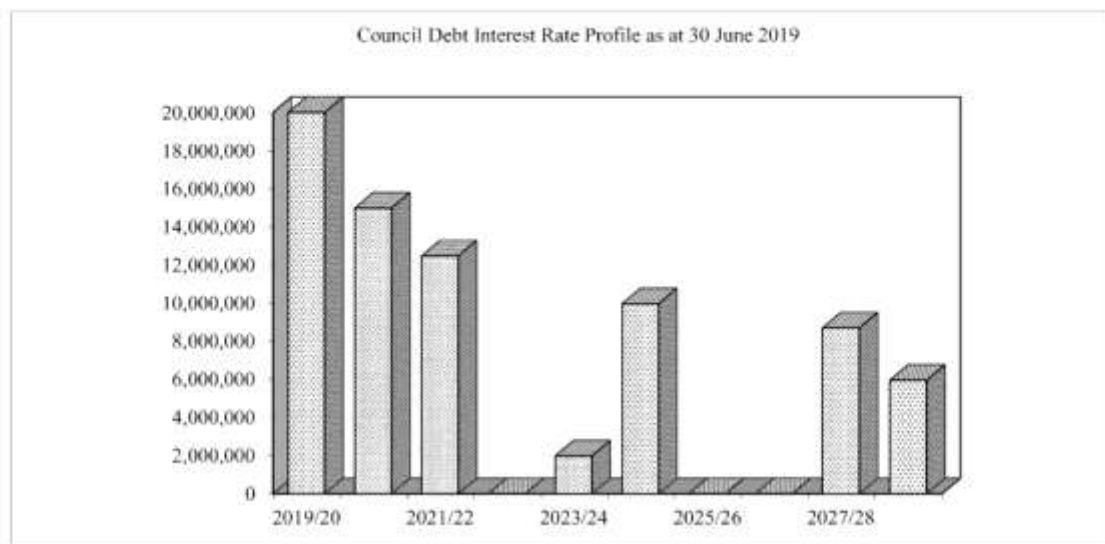
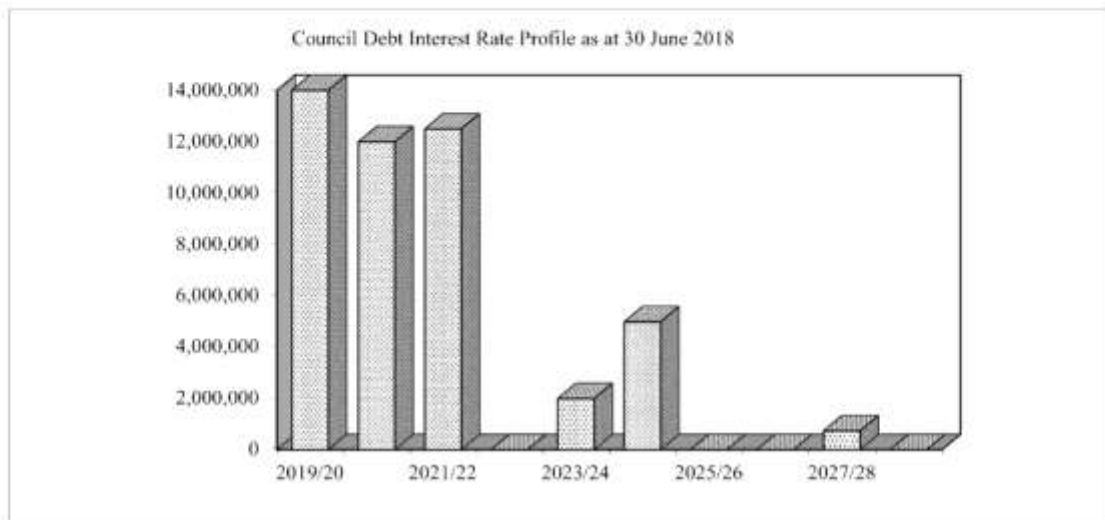
4.99

Average Interest Rate (excl margins)

4.5%

Swaps	0 **	0	**
Bank Facility		0	
External Debt	57,240,565	115,240,565	
<b>Total</b>	<b>57,240,565</b>	<b>115,240,565</b>	

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



## Funding and Interest Rate Risk 31 October 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	10.00	15-Apr-2020	0.19%	0.00%	0.19%
	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	7.50	15-Apr-2022	0.33%	0.00%	0.33%
	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-2026	0.60%	0.00%	0.60%
	LGFA	5.00	15-Apr-2027	0.65%	0.00%	0.65%
	LGFA	5.00	15-Apr-2027	0.67%	0.00%	0.67%
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 5 NOVEMBER 2018**

**FROM: MANAGER STRATEGIC FINANCE  
BRENT CHAMBERLAIN**

**SUBJECT: ANNUAL REVIEW OF TREASURY MANAGEMENT POLICY  
AND TREASURY PERFORMANCE**

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## **1.0 SUMMARY**

- 1.1 The purpose of this report is to update the Subcommittee on the outcome of the annual review of the Treasury Management Policy and Treasury Performance.
- 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 the Annual Review of Treasury Management Policy and Treasury Performance be received and that the Subcommittee recommend to the Finance and Monitoring Committee changes to the Treasury Management Policy.

## **2.0 BACKGROUND**

- 2.1 The Treasury Management Policy requires that an annual review be conducted which includes a review of Treasury Performance as set in Section 6 of the Treasury Management Policy.

## **3.0 CURRENT SITUATION**

- 3.1 In accordance with Council's Treasury Management Policy, an annual review of the Treasury Policy has been conducted in conjunction with Alex Wondergem of PricewaterhouseCoopers New Zealand (PwC), Council's Independent Treasury Advisor.
- 3.2 The current policy has been converted to the current Hastings District Council Policy template, and names of sub-committees updated. This version is **Attachment 1**.
- 3.3 Officers have discussed with PwC a number of possible changes to the existing policy.

#### 4.0 OPTIONS

##### 4.1 Proposal One: 3.1 External Debt Ratios and Limits

4.2 Currently Hastings District Council has limited its maximum debt level to be no more than 150% of income.

4.3 Officers investigated lifting its policy to be 175% of revenue, which would give a larger buffer for unforeseen circumstances.

4.4 **Option 1:** The Risk and Audit Subcommittee recommend to the Finance and Risk Subcommittee that clause 3.1 External Debt Ratios and Limits of the Treasury Management Policy changed so the first Macro Limit: Net External debt as a percentage of income to be 175%.

4.5 **Option 2:** The Risk and Audit Subcommittee recommend to the Finance and Risk Subcommittee that clause 3.1 External Debt Ratios and Limits of the Treasury Management Policy remain unchanged so the first Macro Limit: Net External debt as a percentage of income remain at 150%.

##### 4.6 Proposal Two: 5.1.3 Interest Rate Risk Control Limits

4.7 The Council's Treasury Policy sets out minimum and maximum levels of fixed versus floating interest rate loans the Council is permitted to hold at any point in time. The policy is to guide officers of to the Council's risk tolerance to interest rate rises, and equally interest rate falls.

Debt Ending	Period	Minimum Fixed	Maximum Fixed
Current		50%	95%
Year 1		45%	95%
Year 2		40%	90%
Year 3		35%	85%
Year 4		30%	80%
Year 5		25%	75%
Year 6		15%	70%
Year 7		0%	65%
Year 8		0%	60%
Year 9		0%	55%
Year 10		0%	50%
Year 11		0%	45%
Year 12		0%	40%
Year 13		0%	35%
Year 14		0%	30%
Year 15		0%	25%
Year 16		0%	20%

4.8 Officers proposed the change in 4.9 which would give the Council a higher level of flexibility to take advantage of the cheaper floating interest rates for years 1-3 when all market signals are that the risk of significant interest rate rises in this period will be minimal:

- 4.9 **Option 1:** The Risk and Audit Subcommittee recommend to the Finance and Risk Subcommittee that clause 5.1.3 Interest Rate Risk Control Limits of the Treasury Management Policy be altered to so the table of limits be altered as follows:

Debt Ending	Period	Minimum Fixed	Maximum Fixed
Current		50% 40.0%	95%
Year 1		45% 37.5%	95%
Year 2		40% 35.0%	90%
Year 3		35% 32.5%	85%
Year 4		30%	80%
Year 5		25%	75%
Year 6		15%	70%
Year 7		0%	65%
Year 8		0%	60%
Year 9		0%	55%
Year 10		0%	50%
Year 11		0%	45%
Year 12		0%	40%
Year 13		0%	35%
Year 14		0%	30%
Year 15		0%	25%
Year 16		0%	20%

- 4.10 **Option 2:** The Risk and Audit Subcommittee recommend to the Finance and Risk Subcommittee that clause 5.1.3 Interest Rate Risk Control Limits of the Treasury Management Policy remain unchanged.

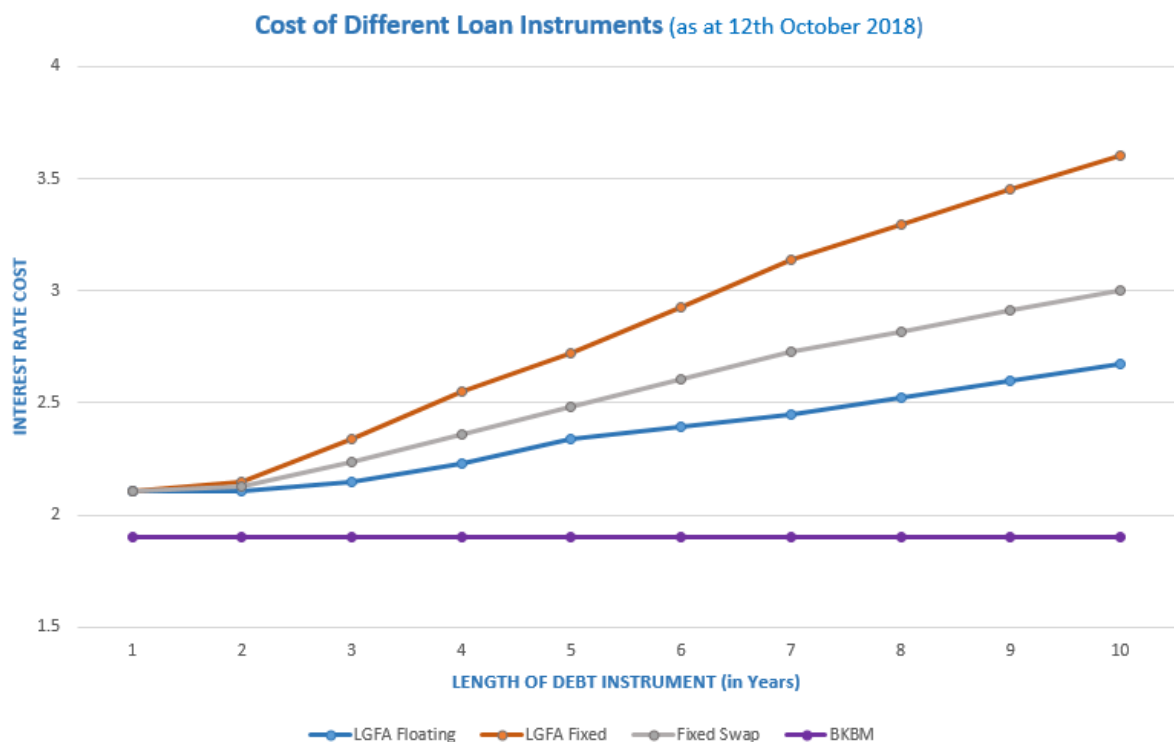
## 5.0 ASSESSMENT OF OPTIONS

### 5.1 Proposal One: 3.1 External Debt Ratios and Limits

- 5.2 Based on the 2018-2028 LTP Hastings District Council external debt peaks at \$169.1m in 2021-22 which is 122% of that years projected revenue. This leaves Council with the head room of 28% of revenue, or the ability to borrow an additional \$38m in unforeseen circumstances such as a natural disaster.
- 5.3 Currently the LGFA will lend up to a maximum of 250% of revenue for rated Councils which is a much higher threshold.
- 5.4 Officers are investigating a lift to the policy to be 175% of revenue, which would give a larger buffer for unforeseen circumstances. While this change will allow Council to borrow more than at present, Officers don't foresee the need to utilise this increase unless circumstances change. It simply provides for more headroom if required in the future.
- 5.5 PwC's response was: *"these are determined according to Council's own risk tolerances. That said, given Council's expected debt level increases and our observations of peers in the sector, an increase to 175% is not unreasonable, particularly given the LGFA's lending covenant is set at 250% for rated Councils."*

## 5.6 Proposal Two: 5.1.3 Interest Rate Risk Control Limits

- 5.7 Hastings District Council currently borrows debt through the LGFA on a floating interest rate basis. The LGFA can also lend on a fixed rate interest basis, however Council traditionally has used Interest Rate Hedge Derivatives to achieve its fixing.
- 5.8 Under an Interest Rate Hedge the Council agrees to pay the other party (typically a Bank) a fixed interest rate on an sum of money, and in return the other party will pay the Council the current BKBM rate (the 90 day bill rate) which is essentially a floating rate (this gets reset every three months). If the fixed rate is higher than the current floating rate then the interest rate swap costs the Council the difference between the two rates, however if on the other hand the current floating rate exceeds the fixed rate then the Council receives the difference.
- 5.9 The Council chooses to use these instruments because it offers additional flexibility. A traditional fixed rate term loan would see the Council agreeing to fix 100% of the loan for 100% of the loans term (or length). However using an interest rate swap the Council might choose to only fix a percentage of loan and leave some floating, or it might choose to fix only a percentage of the term (or length) of the loan i.e. only fix the last 5 years of a 7 year loan.



- 5.10 The table above demonstrates the interest rate yield curve (the premium you pay for adding in extra risk) and the cost for each type of financial instrument.
- 5.11 The purple line is BKBM which is currently 1.9% pa – this is the banks floating rate (or cost of funds).
- 5.12 The blue line is the cost of taking out a floating rate loan with the LGFA (at today's BKBM rate). The margin you pay over the banks cost of funds reflects

the higher perceived level of risk to the bank for Council borrowing for a longer term rather than a shorter one.

- 5.13 The grey line is the cost of buying an interest rate swap. Remembering that the bank will pay you the BKBM rate, and the Council will pay the amount shown on the grey line. So really it is the margin (or gap) between the two lines.
- 5.14 The orange line is the cost to borrow from the LGFA using a traditional fixed interest rate loan.
- 5.15 Let's work through an example:

The Council needs to borrow \$5m for 7 years, what are some of its options:

	LGFA Floating	LGFA Floating with 100% Interest Rate Swaps	LGFA Floating with 50% Interest Rate Swaps	LGFA Fixed
<b>LGFA Interest</b>	2.45%	2.45%	2.45%	2.73%
<b>Swap Interest - HDC Pays</b>		3.14%	3.14% x 50%	
<b>Swap Interest - HDC Receives</b>		(1.90%)	(1.90%) x 50%	
<b>Total Interest Cost</b>	2.45%	3.69%	3.07%	2.73%

Assuming interest rates don't change for the next 7 years the floating rate would be the cheapest option. However if rates did go up by more than 0.3% then the fixed rate becomes cheaper.

- 5.16 While the Interest Rate Swaps give you more flexibility, they are currently the most expensive way of avoiding interest rate volatility risk.
- 5.17 Currently the Hastings District Council has the following interest rate swaps in place:

	Active Swaps Amount	Active Swaps Avg Interest Rates	Future Swaps Amount	Future Swaps Avg Interest Rates
<b>ANZ</b>	\$22.5m	4.8%	\$39.0m	3.6%
<b>ASB</b>	\$6.0m	5.3%	\$16.0m	4.2%
<b>BNZ</b>	\$3.0m	5.1%	Nil	N/A
<b>Kiwibank</b>	\$6.0m	4.0%	\$30.5m	3.6%
<b>WBC</b>	\$19.0m	5.5%	\$8.0m	3.3%
<b>TOTAL</b>	<b>\$56.5m</b>	<b>5.0%</b>	<b>\$93.5m</b>	<b>3.7%</b>

- 5.18 The Council's Treasury Policy sets out minimum and maximum levels of fixed versus floating interest rate loans the Council is permitted to hold at any point in time. The policy is to guide officers within the Council's risk tolerance to interest rate rises, and equally interest rate falls.

Debt Ending	Period	Minimum Fixed	Maximum Fixed
Current		50%	95%
Year 1		45%	95%
Year 2		40%	90%
Year 3		35%	85%
Year 4		30%	80%
Year 5		25%	75%
Year 6		15%	70%
Year 7		0%	65%
Year 8		0%	60%
Year 9		0%	55%
Year 10		0%	50%
Year 11		0%	45%
Year 12		0%	40%
Year 13		0%	35%
Year 14		0%	30%
Year 15		0%	25%
Year 16		0%	20%

- 5.19 In recent times New Zealand has enjoyed a period of benign interest rates, with interest rates remaining low for a long period.
- 5.20 While there are signs internationally that interest rates are starting to rise (particularly in the USA), the New Zealand Reserve Bank Governor has signalled that it expects that the New Zealand OCR will remain at 1.75% through 2019 and into 2020.
- 5.21 As is clearly demonstrated in the line graph above entitled “cost of different loan instruments”, fixed interest rate loans come at a cost premium to reflect that you are essentially passing the interest rate risk to another entity.
- 5.22 Officers have asked PwC whether in this period of benign interest rates whether Council should be holding 50% of its short term debt as fixed, or whether there is an opportunity to soften this level of interest rate cover and save the rate payer some money.
- 5.23 Officers investigated the following change which could give the Council a higher level of flexibility to take advantage of the cheaper floating rates for years 1-3 when all market signals are that the risk of significant interest rate rises in this period will be minimal:

Debt Ending	Period	Minimum Fixed	Maximum Fixed
Current		50% 40.0%	95%
Year 1		45% 37.5%	95%
Year 2		40% 35.0%	90%
Year 3		35% 32.5%	85%
Year 4		30%	80%
Year 5		25%	75%

Year 6	15%	70%
Year 7	0%	65%
Year 8	0%	60%
Year 9	0%	55%
Year 10	0%	50%
Year 11	0%	45%
Year 12	0%	40%
Year 13	0%	35%
Year 14	0%	30%
Year 15	0%	25%
Year 16	0%	20%

- 5.24 PwC's response to the proposal was *"our preference would be to maintain the minimum parameters, supporting Council's continued prudent stewardship of financial risks and delivery of interest costs which met expected budgets and plans.*

*Despite the view that the interest rate market in NZ will remain reasonably benign over the next few years, we'd see this as informing the strategy of where to be positioned within the risk control limits, rather than indicating a need to change the parameters themselves.*

*The current risk control limits remain very consistent with the sector and continue to allow significant flexibility and participation in the low floating interest rate environment without exposing Council to undue risk should interest rates not match currently expectations (especially against the backdrop of anticipated debt level increases)."*

- 5.25 Officers have also had informal discussions' with another treasury advisor who also advises New Zealand Councils. Their clients also have fixed interest minimum and maximum exposures but have grouped their banding into Years 0-2, 2-4, 4-7, and 7-10.
- 5.26 They are currently advising clients to be at or just below minimums in years 0-2, and not to have any cover in years 7-10. They believe there is little risk of interest rate rises at the short end, and the risk premiums being charged at the longer end outweigh, in their view, the risk of possible interest rate rises being in excess of those premiums.
- 5.27 Both advisors take is that policies are a guide of what an average prudent Council would have as interest rate cover on an average day. Councils should then monitor economic data, take advice, and form a view on where they think interest rates are likely to go, what is likely to happen to their Councils debt levels in the future, and from this set an interest rate strategy that takes all this (including their policy) into account.

## **6.0 PREFERRED OPTION/S AND REASONS**

### **6.1 Proposal One: 3.1 External Debt Ratios and Limits**

- 6.2 After much deliberation by Officers, while the proposed ratio of 175% isn't unreasonable, based on the 2018-2028 LTP the minimum headroom being available being \$38m is considered more than enough in normal conditions.

- 6.3 Increasing the limit to 175% would contradict the Financial Strategy contained in the LTP where the goal is to repay debt as quickly as possible recreating the necessary headroom and utilising rating surpluses where possible.
- 6.4 It is also acknowledged that while our policy sets Councils limit at 150% of revenue, this doesn't preclude Council from breaching policy and utilising LGFA's higher limit of 250% in the case of an emergency such as a natural disaster.
- 6.5 Therefore on balance Officers are recommending Option 2, that the current limit of 150% remain unchanged.
- 6.6 Proposal Two: 5.1.3 Interest Rate Risk Control Limits
- 6.7 After considering the advice of both treasury advisors Officers are of the opinion that Interest Rate Risk Control Limits only provides a guiding framework for a prudent Council. It's the Council's Interest Rate strategy that guides what it does within this framework that gives the Council its flexibility.
- 6.8 Therefore on balance Officers are recommending Option 2, that the current interest rate risk control limits remain unchanged.

## 7.0 RECOMMENDATIONS AND REASONS

- A) That the report of the Manager Strategic Finance titled "Annual Review of Treasury Management Policy and Treasury Performance" dated 5/11/2018 be received.
- B) That the Risk and Audit Subcommittee recommend that Council approves the attached Treasury Management Policy (PMD-02-06-03-18-37) as written.

### Attachments:

- |   |                                    |                    |              |
|---|------------------------------------|--------------------|--------------|
| 1 | Treasury Policy Draft October 2018 | PMD-02-06-03-18-37 | Separate dOC |
|---|------------------------------------|--------------------|--------------|



**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 5 NOVEMBER 2018

**FROM:** MANAGER STRATEGIC FINANCE  
BRENT CHAMBERLAIN

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

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## 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 Audit & Risk Subcommittee members requested that officer's report back at each meeting with progress that has been made on actions that have arisen from the Audit & Risk Subcommittee meetings. Attached as **Attachment 1** is the Audit & Risk Subcommittee Action Schedule as at 5 November 2018.

## 3.0 CURRENT SITUATION

### Credit Rating

- 3.1 Standard & Poor's will be on-site on 13 November 2018 to undertake their annual review of our credit rating.

### Monthly Financial Reporting to Council

- 3.2 Following recommendations from Risk & Audit to increase the frequency of financial reporting to Council, staff have developed a high level financial report that was presented to Council for the first time at the October 25 Council meeting. It is expected that this report will evolve over time but provides Officers with the opportunity to update Council on risks that the organisation is facing in the delivery of programmes of work that the Council has approved through the Long Term Plan and subsequent Annual Plans.

### Bridge Insurance Cover

- 3.3 Council currently insures its bridges through AON and as part of the MWHBLASS Infrastructure Insurance Group. At the time of writing Council

had been advised that the overall increase in premiums for the group will be 26% with 10% from increased asset values and with a 16% increase in the overall premium rate.

- 3.4 Advice from AON is that this level of increase is not unreasonable due to the continued hardening market post Kaikoura and natural disasters globally in 2017 and a slight increase in values. The situation has not been helped by less insurers providing capacity with some withdrawing completely.
- 3.5 The final allocation of premiums to the participating Councils has yet to be provided.

#### **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**

**That the report of the Manager Strategic Finance titled "General Update Report and Status of Actions" dated 5/11/2018 be received.**

##### **Attachments:**

1 Status of Actions 31 October 2018

FIN-09-01-18-159



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

Item No.	Meeting Date	Action	Reporting Officer	Progress as at 31 October 2018
1	6/9/16	<u>Local Authority Protection Programme</u> <ul style="list-style-type: none"> <li>Officers to keep a watching brief on the matter of the Local Government/Central Government split of LAPP premiums.</li> </ul>	CFO	Announcement by Treasury delayed  No further announcements since change of Government
2	19/6/17	<u>Building Control Liability Issues</u> <ul style="list-style-type: none"> <li>The Subcommittee would take a watching brief and Officers would report back regularly in order to update the Subcommittee.</li> </ul>	Building Control Manager	No further update available at this stage
3	28/11/17	<u>Treasury Management Advisory Service</u> <ul style="list-style-type: none"> <li>Review the terms of the existing PWC treasury management advisory service contract</li> </ul>	MSF	Officers to report back at Feb-19 Meeting
4	01/05/18	<u>Asset Management Plan</u> <ul style="list-style-type: none"> <li>Group Manager Assets Management to commission an independent review of 2018-2028 Management Plans</li> </ul>	GMAM	To be commissioned
5	25/06/18	<u>Hastings Economic Update</u>	Bill Murdoch	To be included on the Finance and Risk Agenda 13 November 2018



		<ul style="list-style-type: none"> <li>• Provide update/KPI's for how the Hastings Economy is doing against the rest of NZ</li> </ul>		
6	03/09/18	<u>Governance Risk</u> <ul style="list-style-type: none"> <li>• Risk and Audit recommends to Council that a workshop on Governance Risk to be Held</li> </ul>	Risk & Corporate Services Manager	Workshop scheduled for the 15/11/18
7	03/09/18	<u>Enterprise Risk Management Policy &amp; Framework</u> <ul style="list-style-type: none"> <li>• Risk and Audit recommends to Council that the Enterprise Risk Management Policy &amp; Framework document be adopted</li> </ul>	Risk & Corporate Services Manager	Workshop scheduled for the 15/11/18 for Council to review document before it is formally represented for adoption
8	03/09/18	<u>Status of Actions Report</u> <ul style="list-style-type: none"> <li>• Risk and Audit recommends to the CEO that the "Status of Actions" reported be adopted for all Council Committee agendas</li> </ul>	CEO	Adpoted for use
9	03/09/18	<u>Valuations Review</u> <ul style="list-style-type: none"> <li>• Risk and Audit recommends that the Risk and Audit Chair review the executive summaries and methodology used in preparing the valuations used for the annual report of the Hastings District Council</li> </ul>	Chair	Completed
10	03/09/18	<u>Monthly Reporting to Council</u> <ul style="list-style-type: none"> <li>• Develop monthly financial reports for Council including the tracking of major project spend</li> </ul>	CFO	1 <sup>st</sup> report tabled for the 25/10/18 Council meeting

**REPORT TO: RISK AND AUDIT SUBCOMMITTEE**

**MEETING DATE: MONDAY 5 NOVEMBER 2018**

**FROM: CHIEF FINANCIAL OFFICER  
BRUCE ALLAN**

**SUBJECT: INTERNAL AUDIT UPDATE**

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## **1.0 SUMMARY**

- 1.1 The purpose of this report is to update the Subcommittee about progress being made with the Internal Audit 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 Internal Audit update be received.

## **2.0 CURRENT SITUATION**

### Data Analytics

- 2.1 This is the second year that we have had Crowe Horwath undertake the data analytic assessment across the Accounts Payable and Payroll masterfiles and the years transactional data, this time from 1 July 2017 to 30 June 2018. The objective of the data analytics was to perform a data analysis review that involved an analysis of master file data and transaction data for payroll and vendor (accounts payable) payments. The data analysis work did not include assessment of the respective internal controls within the business processing areas and was limited to factual reporting of identified data anomalies as per the specified tests undertaken.
- 2.2 The testing outcomes were achieved by the extraction, validation and analysis of the relevant data files from the payroll and finance application systems. This data was then imported into data analysis software where the specified tests are performed upon the logical structure and reasonableness of the data, to identify any anomalies.
- 2.3 Crowe Horwath have provided workbooks of the high level summary findings of the testing, associated risks and where appropriate recommendations for further investigation of transactions or masterfile data should be undertaken and noted that there were no significant concerns that arose from the testing.
- 2.4 The analysis provided 45 recommendations or comments on the outcomes of the analysis on the tests for the payroll and vendor masterfile and transactional data. Officers are reviewing the recommendations and have not

found any suspicious transactions. Officers will also review the outcomes of the results from the tests undertaken and consider if there are opportunities for making improvements to current practices.

2.5 Contract Management Review

2.6 Crowe Horwath have recently completed a review of Council's contract management practices, a copy of the report is attached as **Attachment 1**. As part of that review, Crowe Horwath reviewed a large amount of documentation, interviewed staff and reviewed three contracts currently in place. The three contracts chosen for review involved three different parts of Council and three different types of contracts:

- MCL – Heretaunga Street Laneway (construction)
- Technology One – Software Licencing (service)
- Fulton Hogan – Roading Maintenance (maintenance contract)

2.7 Crowe Horwath have separated their findings into four sections:

- Policies and Procedures;
- Roles and Responsibilities;
- Contract Risk Management; and
- Contract Management Performance

2.8 A key part of their recommendations they have identified that there is a lack of council wide contract management policies, procedures, templates and manuals. While these exist in places, they have been developed for particular areas of Council or by specific staff to meet their own needs.

2.9 This review has highlighted for Council that while work has been done to improve the robustness of council's contract management, it has often been done at a group or team level and not with the wider organisations needs in consideration. There is significant opportunity to improve these practices.

2.10 There are 14 recommendations made with the majority of those recommendations assessed as having moderate risk to the organisation.

Area Audited	Findings summary		
	High	Medium	Low
Policies and Procedures	-	2	-
Roles and Responsibilities	-	3	1
Contract Risk Management	1	1	-
Contract Performance	1	4	1
<b>TOTAL</b>	<b>2</b>	<b>10</b>	<b>2</b>

2.11 With the draft report only received on October 18<sup>th</sup>, and the final report on 26<sup>th</sup> October, Officers have yet to work through how the recommendations can be implemented, over what time frame and what resources will be required to deliver on those recommendations. It is expected that an updated report on this review along with an action plan for the recommended improvements will be prepared and provided to the next Risk & Audit Subcommittee meeting.

## 2.12 Audit Action Plan

2.12.1 Attached as **Attachment 2** is an updated Audit Action sheet providing the Subcommittee with a view of the status of recommendations made from previous internal and external audits. Good progress has been made on addressing recommendations. Note that at this stage the most recent contract management audit has yet to be added to this schedule as there is some work required to understand how those recommendations can be delivered, the resources required and the time needed to do so.

## 3.0 RECOMMENDATIONS AND REASONS

**A) That the report of the Chief Financial Officer titled “Internal Audit Update” dated 5/11/2018 be received.**

### **Attachments:**

- |   |   |                |              |
|---|---|----------------|--------------|
| 1 | Crowe Horwath - Contract Management Review - October 2018 | CG-14-25-00067 | Separate Doc |
| 2 | Audit Action Sheet - October 2018                         | CG-14-71-00011 |              |

Auditor	Audit Action Sheet as at 30/10/18						FIN-07-02-18-99	30 Oct 2018
	Recommendation	Officer Responsible	Priority	Start Date	By When	Comment	Completed pending Audit signoff	
	Audit New Zealand Recommendations							
Audit NZ	Review IT Policies and Procedures	Andrew Smith	medium	1/07/2017	Dec-18	Information services has undertaken a 3 stafe process of reviewing and bringing up to date its ICT prolicies. These are ICT policies targeted at: - Users - Management - Technical staff The first phase has been completed and updating all user policies has been completed. Only two phases remain. Upon completion, these will be uploaded onto Council's intranet policy site for staff to reference.	⚠	
Audit NZ Interim Audit	Implement Contract Management System	Sharon O'Toole	low	1/07/2017	Apr-19	A spreadsheet based contract management system has been established with ongoing refinement.	⚠	
Audit NZ Interim Audit	Need to review number of users and the \$ limit for their DFA is appropriate	Aaron Wilson	medium	1/07/2017	Dec-18	Council has reviewed the \$ limit and the number of users	✓	
Audit NZ Interim Audit	Instances of expenditure that had not been approved on a one up basis	Aaron Wilson	medium		Dec-18	An exception report is now generated monthly and reviewed by the CFO and Financial Controller with instances of "one - up" no compliance escalated to Group Managers. Super users have been advised this practice must discontinue.	✓	
Audit NZ Interim Audit	Reduce number of Staff have Local Administration Rights	Kevin Dresser	medium	1/07/2017	Dec-18	Council has adopted and compled with this recommendation, removing all users from the local PC admin group.	✓	
Audit NZ Interim Audit	Purchase Card Use	Aaron Wilson	medium	1/05/2017	Sep-18	The management and oversight of Council's pCards has been allocated to a new staff member that will allow for greater oversight and compliance with policies. Staff have been reminded about what is appropriate pCard expenditure. The purchase of the Chief Executive's Koru Club membership is deemed to be a valid business expense and the operational policy is being updated to reflect this.	✓	
	PWC Accounts Payable & Electronic Bank Transfer Internal Audit							
PwC Accounts Payable & Electronic Bank Transfers May 2017	Electronic Purchase Order (EPO) System Implementation	Bruce Allan	medium	23/05/2017	2019	Business Case is now approved, focus groups have been run across Council, approval has been given to engage Tech1 with planning and scoping now underway.	⚠	
PwC Accounts Payable & Electronic Bank Transfers May 2017	Goods Receipted not Recorded when received (requires EPO)	Bruce Allan	low	23/05/2017	2019	Business Case is now approved, focus groups have been run across Council, approval has been given to engage Tech1 with planning and scoping now underway.	⚠	
PwC Accounts Payable & Electronic Bank Transfers May 2017	Review PO / Invoice approval DFAs (requires EPO)	Bruce Allan	medium	23/05/2017	2019	Business Case is now approved, focus groups have been run across Council, approval has been given to engage Tech1 with planning and scoping now underway.	⚠	
PwC Accounts Payable & Electronic Bank Transfers May 2017	Restrict changes to files imported into Westpac Corporate Online	Aaron Wilson / Gabrielle Ryan	high	23/05/2017	Mar-18	This has now been completed with the Westpac hash total formula integrated into Tech1.	✓	
	Crowe Horwath Fraud Risk Management Review							
PwC Accounts Payable & Electronic Bank Transfers May 2017	Create communication plan for organisational policies and procedures and oimplement including conde of conduct	Regan Smith	medium	23/05/2017	Dec-18	A communication plan will be developed to reinforce information on organisational policies and procedures including the Council's code of conduct expectations. GM HR undertaking an initiative to provide support for ongoing staff training. UPDATE 25/11/18: Get Risk Fit monthly communication programme being run by the Risk Assurance Advisor established and will be used to regularly promote organisation policies. Consider this issue closed.	✓	
	Develop in house training programme for fraud and corruption awareness and line manager responsibility for invoice approvals	Bruce Allan	high		Dec-18	Training programme to be developed	✗	
	Implement use of credit checks for new staff where there are significant financial risks	Bronwyn Bayliss	low		Dec-18	To be investigated for senior roles where Council's exposure to risk is high	✗	
PwC Accounts Payable & Electronic Bank Transfers May 2017	Review Protected Disclosures Policy	Regan Smith	high	23/05/2017	Dec-18	The Protected Disclosures Policy is to be separated from the Staff Policy and be established as a standalone policy that is better aligned with the Fraud Reporting Procedure and Fraud Awareness Policy. TBC. UPDATE 25/11/18: Policy revision with CFO.	✗	
PwC Accounts Payable & Electronic Bank Transfers May 2017	Internal Control - review cash collection method from remote sites	Regan Smith	medium	23/05/2017	Jun-18	An RFQ is currently being prepared and will be released to the market shortly to have all cash collection and transport undertaken by external security companies. UPDATE 25/11/18: Quoted prices from RFQ process made outsourcing the current pickup schedule uneconomic so that option was discounted. A review of cash handling now with Finance to establish if a reduced pick up schedule can be established that could be outsourced economically.	✗	



**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 5 NOVEMBER 2018

**FROM:** CHIEF FINANCIAL OFFICER  
BRUCE ALLAN

**SUBJECT:** FUNDING OF DEPRECIATION

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## **1.0 SUMMARY**

- 1.1 The purpose of this report is to inform the Subcommittee about the appropriateness of Council's approach to funding depreciation.
- 1.2 This issue arises from request a from the Risk & Audit Subcommittee for assurance that Council is appropriately considering the need to adequately fund the renewal of its infrastructure assets.
- 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 This report concludes by recommending that the report be received.

## **2.0 BACKGROUND**

- 2.1 Council's Financial Strategy included in the 2018-28 Long Term Plan includes an overview of how depreciation is treated and how it relates to the level of asset renewals budgeted for. The following is an excerpt taken from the current Financial Strategy:

### *"2.2.2 Funding Depreciation*

#### *Depreciation Overview*

*Depreciation reflects the use or consumption of the service potential implicit in an asset.*

*As depreciation reflects the consumption of the asset over its useful life, there are two critical factors in determining this expense. The first is the asset cost or revalued amount, and the second is the asset's useful life. It is therefore not related to the physical wearing out of the asset.*

*The purpose of depreciation is not to provide for the replacement of the asset(s); however this may be an intended or unintended consequence.*

*Depreciation is especially important as it ensures that today's ratepayers pay their fair share (and only their fair share) of consumption of the assets. Depreciation is therefore a vital component in the process of setting rates and charges.*

*As depreciation is a non-cash item of expenditure, the inclusion of the depreciation expense within total operational expenditure will result in a funding surplus from operations. It is then a council's decision as to how that surplus funding should be allocated. Broadly, there are four options:*

- 1) Repay debt*
- 2) Pay for renewal expenditure*
- 3) Acquire new assets*
- 4) Transfer to a reserve for the replacement or future renewal of an asset.*

*There is no direct legal requirement to "fund depreciation" in a way where there is the transfer of the depreciation expense to a specific reserve or accumulation of cash to be used either for the replacement of an asset or for the loan repayment associated with the acquisition of that asset. However, there is a requirement to be prudent in the setting of funding levels.*

#### *Balanced Budget Overview*

*Section 100(1) of the Local Government Act 2002 (the 2002 Act) requires local authorities to set each year's operating revenue at a level sufficient to meet operating expenses, i.e. "balance the budget". However, section 100(2) of the 2002 Act allows a local authority to set projected operating revenues at a different level from that which would be necessary to meet operating expenses, in certain circumstances where it is financially prudent to do so.*

*Council's overarching principal is that it will operate a balanced budget and take an approach to fully funding depreciation where it is appropriate to do so given the intergenerational nature of infrastructure assets. Where assets are young and renewals are not currently required, the approach is to ensure that the current generation only pays its share through the repayment of debt associated with the new infrastructure in place and any future provision for its replacement in the future.*

*Depreciation is important because it is designed to ensure that today's ratepayers pay their "fair share" for the amount of the council's assets that they consume, essentially through wear and tear. So what we describe as a depreciation expense is essentially the cost of undertaking necessary maintenance and renewal to ensure council assets continue to perform as expected: something that reflects good governance and stewardship of our community's built up investments.*

*Depreciation is the key driver that council uses to ensure sufficient investment in asset renewals is being undertaken, it creates the bottom line and provides a consistency of approach, assuming the depreciation calculations are correct.*

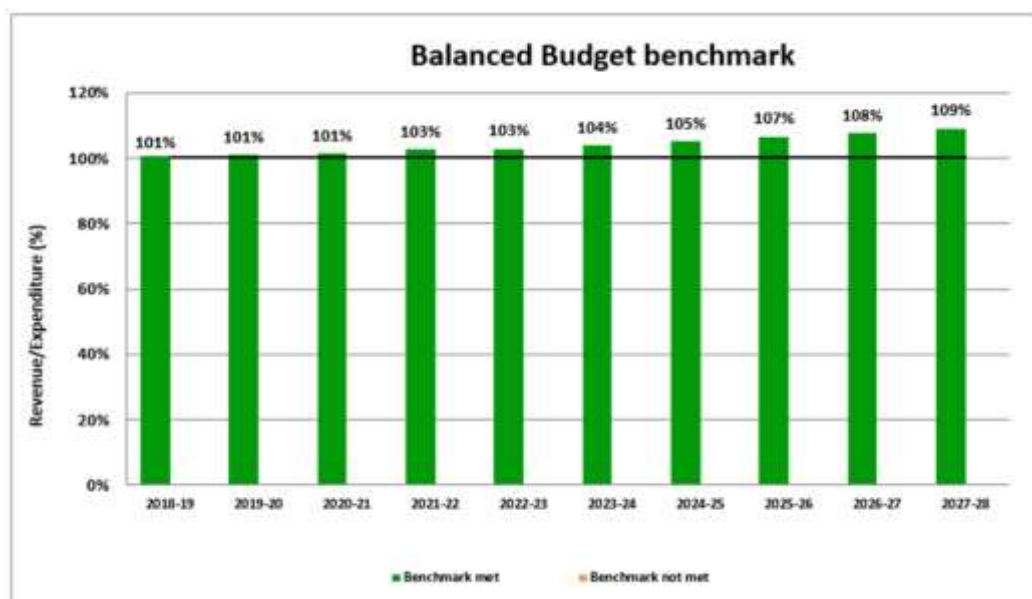
*While the overarching principal is to fund depreciation, there are some*

asset classes where this is not necessary or sustainable at the current time.

#### *Council's Balanced budget 2018-28 Long Term Plan*

*Council's overarching policy is to run a balanced budget. There are however pressures on Council to achieve this in the early years of the 2018-28 LTP with significant increases in operational expenditure for the water services delivery activity. There is expected to be a period of time where Council will struggle to achieve the balanced budget while it adjusts the water supply targeted rate to meet the new expenditure profile for water.*

*However, under the defined benchmark calculation in the Local Government Act 2002 Council is running a balanced budget despite the large increase in operational expenditure required for the Water Supply activity and the Council approach of introducing a staged programme of water supply targeted rate increases which will require some short term borrowing to fund the water supply operating account deficit while this programme of targeted rate increases take effect.*



#### *Depreciation funding by activity*

*In summary the approach to funding depreciation in this plan is as follows:*

- 1) *Roading*
  - a) *Policy of fully funding depreciation dependent upon New Zealand Transport Agency funding*
  - b) *The forecast plan shows depreciation fully funded*
- 2) *Wastewater*
  - a) *Policy adopted to fully funding depreciation*
  - b) *From year 5 of the LTP, escalations commence introducing*

*additional rates funding to fund the depreciation gap*

- c) A strategy needs to be developed to fund waste water treatment plant replacement in the future (about 30 years)*

3) *Stormwater*

- a) The uninflated 30 year Infrastructure Strategy renewal programme is aligned with current rates funding policy of \$625,000 per annum*
- b) Within this plan the \$625,000 funding provision has been inflation adjusted*

4) *Water Supply*

- a) Depreciation is fully funded. A proposal to combine the rating areas water supplies is included in this plan*

5) *Parks*

- a) Depreciation is fully funded"*

2.2 Attached as **Attachment 1** is the work paper prepared to inform the policy position included in the 2018-28 Long Term Plan. The work paper highlights some areas where further clarification is required and highlighted some areas where changes were required to the current funding arrangements. The Long Term Plan has put in place changes for Wastewater in particular where an increase in rates funding is to be provided to meet the ongoing renewal requirements, some of which have historically been loan funded.

2.3 While it is acknowledged that depreciation is a method of calculating the expected value of asset renewals, it is by no means an accurate assessment and in some asset classes, Stormwater for example, applying the depreciation value as a default for asset renewals would be inappropriate given the young age of these assets and the very low level of asset renewals required.

2.4 Council's Asset Management Plans should be the most appropriate way of determining the level of asset renewals required and it is these Plans that have informed the 2018-28 Long Term Plan and Infrastructure Strategy.

### 3.0 RECOMMENDATIONS AND REASONS

- A) **That the report of the Chief Financial Officer titled "Funding of Depreciation " dated 5/11/2018 be received.**

#### Attachments:

1	Depreciation Funding Policy 2018-28 Long Term Plan Financial Strategy	CP-10-1-18-217	Separate Doc
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**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 5 NOVEMBER 2018

**FROM:** CHIEF FINANCIAL OFFICER  
BRUCE ALLAN

**SUBJECT:** RISKPOOL CALL FOR 1 JULY 2019

## 1.0 PURPOSE

- 1.1 The purpose of this report is to inform the Committee about the advice received from the Board of RiskPool that they will be making a call on Council for a shortfall in the mutual pool's funds.
- 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 RiskPool was a mutual liability fund owned by its member Councils giving cover previously provided by commercial liability insurers. It provided Public Liability and Professional Indemnity cover for its members from 1997 to 2017.
- 2.2 It operated on the basis that all members made an annual contribution, part of which was used to purchase reinsurance and this along with the fund provided cover for claims made against members. The Trust Deed provided that if in any year claims exceed reinsurance resources and member's contributions the Board may make a call on the members of the fund for that particular year.
- 2.3 The following table outlines the premiums paid and the calls made during the time HDC was a member of Riskpool:

**Riskpool Premiums & Calls History (excl GST)**

Membership Year	Premium	Call
15/16 year	94,740	
14/15 year	78,950	
13/14 year	75,190	
12/13 year	73,000	
Jul-12		88,299
11/12 year	64,000	
Jul-11		88,300

Membership Year	Premium	Call
10/11 year	59,000	
Jul-10		88,300
Sep-09		40,360
09/10 year	51,000	
08/09 year	61,000	
07/08 year	66,400	
06/07 year	73,796	
05/06 year	71,997	
04/05 year	70,241	

- 2.4 When a local authority withdraws from the fund the liability to respond to subsequent calls remains for the years that it was a member. Council last participated in the fund in 2015/16.

### 3.0 CURRENT SITUATION

- 3.1 Attached as **Attachment 1** is a letter received from Riskpool dated 12 October 2018 outlining the need to make another call on its members. The first since 2012. Also attached as **Attachment 2** is a copy of the Chairman's report from the 2018 Riskpool Annual Report. The Chairman's report provides a bit more context to the current situation for Riskpool.
- 3.2 Riskpool is now in a "runoff" phase with the decision made last year that new covers from Riskpool would not be offered from 1 July 2017. It was acknowledged by the Riskpool Board that it was a difficult decision to make, but support from the sector had dropped, particularly from the larger Council's. Without support from the sector Riskpool could not offer the competitively priced cover it had been able to offer in the past.
- 3.3 Members were advised last year that further additional contributions from members (calls) would be required.
- 3.4 As at 30 June 2018, Riskpool's accounts show a deficit of \$7.4 million. The deteriorating claims experience in 2017-18 means that Riskpool needs to make at least one interim call before a final call is made on wind up. The call will be \$6 million payable on 1 July 2019, split \$3 million each to fund years 7 (2003/04) and 10 (2006/07).
- 3.5 The amount of this call for Hastings District Council will be \$55,805 payable on 1 July 2019.
- 3.6 Another and hopefully final call from Riskpool is likely in 2022 or 2023. It is expected that the amount of that call will be less than this one.

### 4.0 SUMMARY

- 4.1 This report is provided for information purposes and Council is legally obliged to meet this call. Officers will assess whether this call can be met from existing budgets or be incorporated into the 2019/20 Annual Plan.

## **5.0 RECOMMENDATIONS AND REASONS**

- A) That the report of the Chief Financial Officer titled “Riskpool Call for 1 July 2019” dated 5/11/2018 be received.**

### **Attachments:**

- |   |  |                 |
|---|--|-----------------|
| 1 | Letter from Riskpool 12 October 2018                                 | IRB-3-12-18-164 |
| 2 | Chairman's Report from Annual Report for the year ended 30 June 2018 | CG-14-25-00063  |



12 October 2018

Sandra Hazlehurst  
Mayor of Hastings District Council  
Private Bag 9002  
Hastings 4157

Dear Sandra

**Riskpool Call for 1 July 2019**

Riskpool offered public liability and professional indemnity cover for twenty years. The decision was made that new covers from Riskpool would not be offered from 1 July 2017. This was a difficult decision to make, but support from the sector had dropped, particularly from the larger Council's. Without support from the sector Riskpool could not offer the competitively priced cover it had been able to offer in the past.

Members were advised last year that further additional contributions from members (calls) would be required.

As at 30 June 2018, Riskpool's accounts show a deficit of \$7.4 million. The deteriorating claims experience in 2017-18 means that Riskpool needs to make at least one interim call before a final call is made on wind up. The call will be \$6 million payable on 1 July 2019, split \$3million each to fund years 7 and 10.

The amount of this call for Hastings District Council will be \$55,805.56 payable on 1 July 2019 (or earlier if you wish). An invoice from Riskpool for this amount will be sent to the Council in May 2019.

Another and hopefully final call from Riskpool is likely in 2022 or 2023. It is expected that the amount of that call will be less than this one.

Kind regards

A handwritten signature in black ink, appearing to read 'A. Marryatt'.

Tony Marryatt  
Chairman of Riskpool

C/- Civic Financial Services Ltd (Funding and Scheme Manager)  
04 978 1263  
lan.brown@civicfs.co.nz

cc: Neil Taylor, Acting Chief Executive of Hastings District Council



## CHAIRMAN'S REPORT

**RISKPOOL IN RUN OFF**

Riskpool offered public liability and professional indemnity cover to its member councils from 1 July 1997 to 30 June 2017, a total of twenty years. At its peak, Riskpool was providing cover to 82 out of a possible 85 district, unitary and regional councils. Over those twenty years, Riskpool collected \$128.6 million in member contributions (including additional contributions) and as at 30 June 2018 it had paid its member councils \$169.9 million in claims.

Riskpool is now in run off. The Directors decided in February 2017 that new covers from Riskpool would not be offered from 1 July 2017. This was a difficult decision to make, but support from the sector had dropped, particularly from the larger councils, and without good support Riskpool could not offer the competitively priced cover and risk management services it was able to offer in the past.

It is expected that Riskpool will remain in run off for a further 3 to 10 years.

**FINANCE AND MEMBER CALLS**

As at 30 June 2018, Riskpool's accounts show a deficit of \$7.4 million. The comparative figure for 2017 is a deficit of \$3.7 million. Last year, Civic Financial Services Limited agreed to lend Riskpool up to \$6 million at commercial interest rates. As of today (3 October), the loan from Civic is \$5.4 million.

Members were advised last year that further additional contributions from members (calls) would be required. The deteriorating claims experience in 2017–18 means that Riskpool needs to make at least one interim call before it makes a final call (on wind up). The call will be \$6 million payable on 1 July 2019, split \$3 million each to fund years 7 and 10. The call on Riskpool's wind up is expected to be for a lesser amount. Purchasing reinsurance for Riskpool's uninsured risks has to date not been possible.

CLP (Civic Liability Pool) was structured to not require calls. All CLP claims are covered by ground-up reinsurance.

As with last year, this annual report includes the financial statements for both CLP and Riskpool. Riskpool's financial statements by Fund Year are available on request to the Scheme Manager (Civic), as are CLP's Trust Deed and Riskpool's Trust Deed and Scheme Rules.

**CLAIMS**

Riskpool's total number of open claims reduced from 109 at 30 June 2017 to 50 at 30 June 2018, of which 19 related to leaky buildings.

In June 2017, Riskpool had proceedings served on it by Napier City Council in relation to a concurrent liability claim which had been declined. Based on Queen's Council advice, Riskpool sought to have the claim struck out. The action failed, but Riskpool has appealed the decision.

CHAIRMAN'S REPORT *Continued***ACKNOWLEDGMENTS**

I would like to extend my thanks to Civic Financial Services Limited, in particular to Tim Sole, Jane Brown, Ian Brown and Caroline Bedford, as Fund and Scheme Manager. I would also like to thank our Claims Manager Paul Carpenter, our Scheme Solicitors at Heaney & Partners, and Jeremy Holmes of MJW for the actuarial services provided to Riskpool.

Tony Marryatt  
**Chairman**

**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 5 NOVEMBER 2018

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

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

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## **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 an update report to the Risk and Audit Subcommittee on Health and Safety risk management.

## **3.0 CURRENT SITUATION**

### **3.1 Effectiveness of Health and Safety Control Measures**

- 3.2 A report regarding the effectiveness of Health and Safety risk management controls was provided to the Risk and Audit Subcommittee at the September 2018 Meeting. This report identified that Council's current control measures are 'adequate' and that Council is meeting its Health and Safety legal obligations (as deemed through an internal assessment).
- 3.3 During the Risk and Audit Subcommittee meeting in September, committee members queried what would be required to move from 'adequate' controls to 'robust' controls, to be addressed at the November 2018 meeting.
- 3.4 Any assessment of 'robustness' should be undertaken externally via an audit process; it is not something that is appropriate to be assessed internally. External audit verification benchmarks Council's Health and Safety system and performance against a recognised Health and Safety standard and provides an independent view of the effectiveness of Council's Health and Safety system. An external audit also assists Council to better understand the risks and effectiveness of controls and compare how well Council is performing in relation to other organisations.
- 3.5 From February 2019, Council's current external audit certification (ACC WSMP accreditation) lapses, and the scheme is now defunct. This means from March Council will have no external verification of Council's H&S

systems. Given this, officers have been giving consideration to alternative external audit options.

- 3.6 The Chief Executive has now authorised implementation of the international Health and Safety standard ISO 45001:2018 which has been adopted by New Zealand (replacing all previous NZ standards).
- 3.7 Officers are currently working through a procurement process to engage a specialist consultant to develop an implementation plan, this will include a gap analysis of what is required to meet the standard and an initial audit assessment. It is anticipated that the implementation plan will be completed by the end of the first quarter of 2019.
- 3.8 Once this process has been completed, officers will be able to provide an update to the Subcommittee regarding what would be required to move from 'adequate' controls to 'robust' controls,

#### **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 & Safety Risk Management Update" dated 5/11/2018 be received.**

#### **Attachments:**

There are no attachments for this report.