



# *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, 2 September 2019**

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>Democracy &amp; Governance Advisor</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, 2 SEPTEMBER 2019**

**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 Tuesday 2 July 2019.  
*(Previously circulated)*

**4. Treasury Activity and Funding**

<b>5.</b>	<b>Update on HDC Risk Appetite Statement Development</b>	<b>15</b>
<b>6.</b>	<b>Risk Assurance Review Update</b>	<b>19</b>
<b>7.</b>	<b>Health and Safety Risk Management Update</b>	<b>23</b>
<b>8.</b>	<b>Chief Financial Officer Overview and Status of Actions</b>	<b>29</b>
<b>9.</b>	<b>2019 Annual Report Update and Interim Audit</b>	<b>37</b>
<b>10.</b>	<b>Additional Business Items</b>	
<b>11.</b>	<b>Extraordinary Business Items</b>	

**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 2 SEPTEMBER 2019

**FROM:** MANAGER STRATEGIC FINANCE  
BRENT CHAMBERLAIN

**SUBJECT:** TREASURY ACTIVITY AND FUNDING

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**1.0 EXECUTIVE SUMMARY - *TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA***

- 1.1 The purpose of this report is to update the Subcommittee on treasury activity and funding issues.
- 1.2 This report contributes to the purpose of local government by primarily promoting the social, economic, environmental, and cultural well-being of communities and more specifically through the Council's strategic objective of sustainable use of resources and providing resilience to hazards and shocks.
- 1.3 The Council's current total external debt is \$137.7m as at 31 July 2019. Offsetting this are \$22.0m of term deposits, giving a net external debt position of \$115.7m.
- 1.4 During July Hastings District Council borrowed \$31.5m from the Local Government Funding Agency (LGFA), and created \$22.0m of bank term deposits.
- 1.5 Council is currently compliant with Treasury Management Policy.
- 1.6 On the 9<sup>th</sup> of August Standard and Poors (S&P) credit rating agency affirmed Hastings District Council's credit rating as "AA with a stable outlook".
- 1.7 On the 7<sup>th</sup> of August the Reserve Bank of New Zealand cut the Official Cash Rate (OCR) to 1%.

**2.0 RECOMMENDATIONS - *NGĀ TŪTOHUNGA***

- A) That the Committee receives the report titled Treasury Activity and Funding**

### 3.0 BACKGROUND – TE HOROPAKI

- 3.1 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.
- 3.2 Council is provided with independent treasury advice by Miles O'Connor of Bancorp Treasury Services and receives weekly and monthly updates on market conditions.
- 3.3 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.

### 4.0 DISCUSSION - TE MATAPAKITANGA

- 4.1 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.
- 4.2 **Attachment 1** sets out Council's overall compliance with Treasury Management Policy as at 31 July 2019.
- 4.3 The current total external debt is \$137.7m as at 31 July 2019. Offsetting this are \$22.0m of term deposits, giving a net external debt position of \$115.7m. This is supported by the Treasury Position 31 July 2019 Report in **Attachment 1**.
- 4.4 **Recent Borrowing:** On the 22<sup>nd</sup> July 2019 Council borrowed \$31.5m from LGFA at a floating rate of Bank Bill 90 day Benchmark Rate (BKBM) (currently 1.21% pa) plus a margin. Details are as follows:

Amount	Interest Rate (effective 13 August 2019)	Maturity Date
\$7.5m	1.58%	14 <sup>th</sup> April 2022
\$7.0m	1.66%	14 <sup>th</sup> April 2023
\$9.0m	1.69%	15 <sup>th</sup> April 2024
\$8.0m	1.76%	15 <sup>th</sup> April 2025
<b>\$31.5m</b>	<b>1.67% Average</b>	

- 4.5 **Recent Investments:** On the 22<sup>nd</sup> July 2019 Council invested \$22.0m in term deposits as follows:

Amount	Interest Rate	Maturity Date	Bank	Reason for holding
\$4.0m	2.70%	21/10/19	Westpac	Prefunding Capital Program
\$4.0m	3.13%	20/01/20	BNZ	Prefunding Capital Program
\$10.0m	3.10%	14/04/20	BNZ	Prefunding LGFA Loan Maturity
\$4.0m	3.10%	20/04/20	BNZ	Prefunding Capital Program
<b>\$22.0m</b>	<b>3.03%</b>	<b>Average</b>		

- 4.6 **Recent Changes at S&P:** On the 15<sup>th</sup> July 2019 S&P released their new “methodology for rating Local and Regional Governments outside of the U.S.”. As part of this release they retrospectively reviewed their ratings for the 2018/19 year using this new criteria. Hastings District Council was one of 18 Local Governments worldwide, and one of two Councils in New Zealand to be put under criteria observation as a result. Council was warned they were on watch and were given one month to go through a formal review of its current status.
- 4.7 This review took place on the 1<sup>st</sup> August 2019, and the resulting credit rating was released on the 9<sup>th</sup> August 2019, with no change to Council’s AA rating with stable outlook.
- 4.8 The main changes in the methodology was in the importance of having guaranteed credit available for the next 12-24 months of operations (including capital and debt maturity requirements).
- Debt and Interest to operating revenue ratio bands were also adjusted, and the contingent liability criteria was removed and rolled into the overall debt score.
- 4.9 Historically Council has scored poorly in its liquidity metrics because during the 3 years of having a credit rating Council has required significant debt increases due to its capital program, but Council has always relied on the LGFA to supply just in time funding to pay for this program.
- 4.10 Officers have worked to improve Councils liquidity and have increased Council’s line of credit with Westpac from \$10m to \$15m, and prefunded \$22m of capital works and debt maturities. This was received favourably by S&P.
- Officers also did some work to demonstrate to S&P that the interest rate calculations used in the Long Term Plan (LTP) were conservative, and significant savings of between \$1m-\$4m per year will be realised compared to the original LTP projections.
- 4.11 Following the review on the 1<sup>st</sup> of August, armed with updated liquidity metrics and cost of funds calculations, S&P affirmed the Council’s current credit rating of “AA Stable” for another 12 months.
- 4.12 **Recent OCR Changes:** On the 7<sup>th</sup> August, the Reserve Bank of New Zealand, lowered the OCR by 50 basis points to 1.0%.

4.13 The size of this cut surprised the market. Commentators were expecting a 25 basis point cut. This is only the third time the Reserve Bank has moved the rate down by 50 basis points in a single move. The previous times were triggered by the Global Financial Crisis and by Christchurch's earthquake.

4.14 **Why ...** *"A lower OCR is necessary to continue to meet its employment and inflation objectives"*

**Because ...** *"Growth headwinds are rising"*

**And ...** *"Global economic activity continues to weaken, easing demand for New Zealand's goods and services"*

**And ...** *"The balance of risks to achieving its consumer price inflation and maximum sustainable employment objectives was tilted to the downside"*

**And ...** *"In the absence of additional monetary stimulus, employment and inflation would likely ease relative to our targets"*

(Quotes from the Reserve Bank's statement, with emphasis added by Bancorp Treasury)

## 5.0 OPTIONS - NGĀ KŌWHIRINGA

5.1 No Options

## 6.0 NEXT STEPS - TE ANGA WHAKAMUA

6.1 Council Officers will continue to work with Bancorp Treasury Services to keep Council's financing costs to a minimum, maintaining adequate liquidity, while maintaining compliance with Council's Treasury Policy.

### Attachments:

1 [Council's Treasury Charts July 2019](#)

FIN-15-03-19-195

### SUMMARY OF CONSIDERATIONS - HE WHAKARĀPOPOTO WHAIWHAKAARO

#### Fit with purpose of Local Government - E noho hāngai pū ai ki te Rangatōpū-ā-rohe

The Council is required to give effect to the purpose of local government as set out in section 10 of the Local Government Act 2002. That purpose is to enable democratic local decision-making and action by (and on behalf of) communities, and to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future

This report contributes to the purpose of local government by primarily promoting economic wellbeing and more specifically through the Council's strategic



objective sustainable use of resources and providing resilience to hazards and shocks.

**Link to the Council's Community Outcomes - *E noho hāngai pū ai ki te rautaki matua***

This proposal promotes the economic well-being of communities in the present and for the future

**Māori Impact Statement - *Te Tauākī Kaupapa Māori***

There are no known impacts for Tangata Whenua

**Sustainability - *Te Toitūtanga***

This proposal promotes sustainable financing costs ensuring the economic well-being of communities in the present and for the future

**Financial considerations - *Ngā Whaiwhakaaro Ahumoni***

This proposal will ensure that financing costs are kept within Council's existing budgets.

**Significance and Engagement - *Te Hiranga me te Tūhonotanga***

This report has been assessed under the Council's Significance and Engagement Policy as being of minor significance.

**Consultation – internal and/or external - *Whakawhiti Whakaaro-ā-roto, ā-waho***

There has been no external engagement

**Risks: Legal/ Health and Safety - *Ngā Tūrarū: Ngā Ture / Hauora me te Haumarū***

The purpose of this report, and the Treasury Policies it refers to, assist Officers to manage Council's treasury risk.

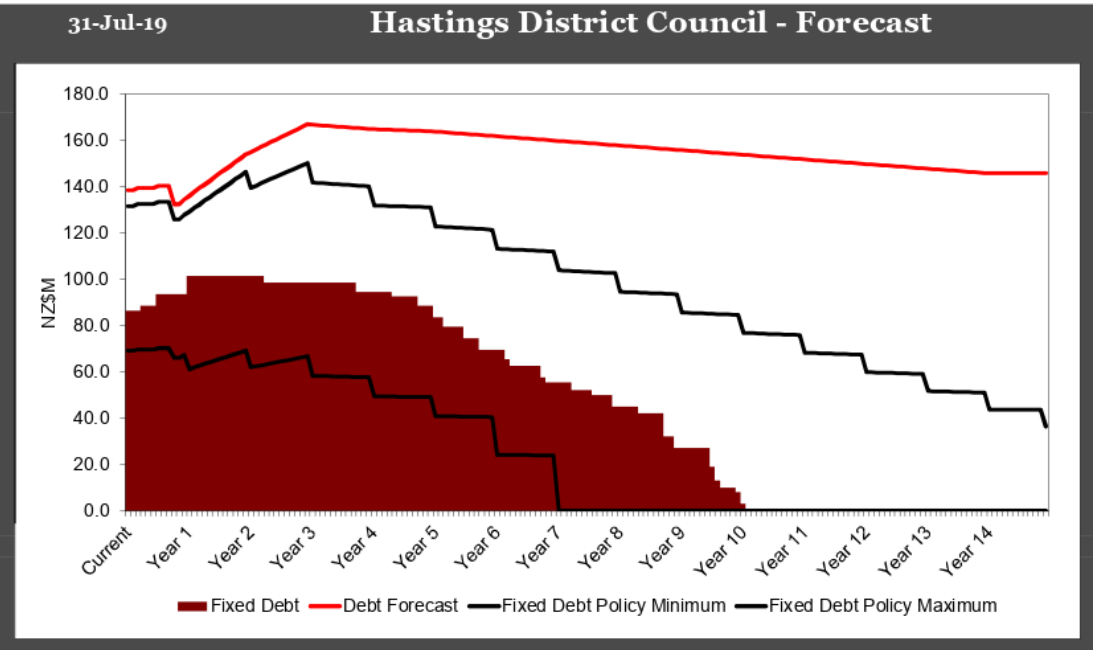
**Rural Community Board - *Ngā Poari-ā-hapori***

There are no implications for Rural Community Board

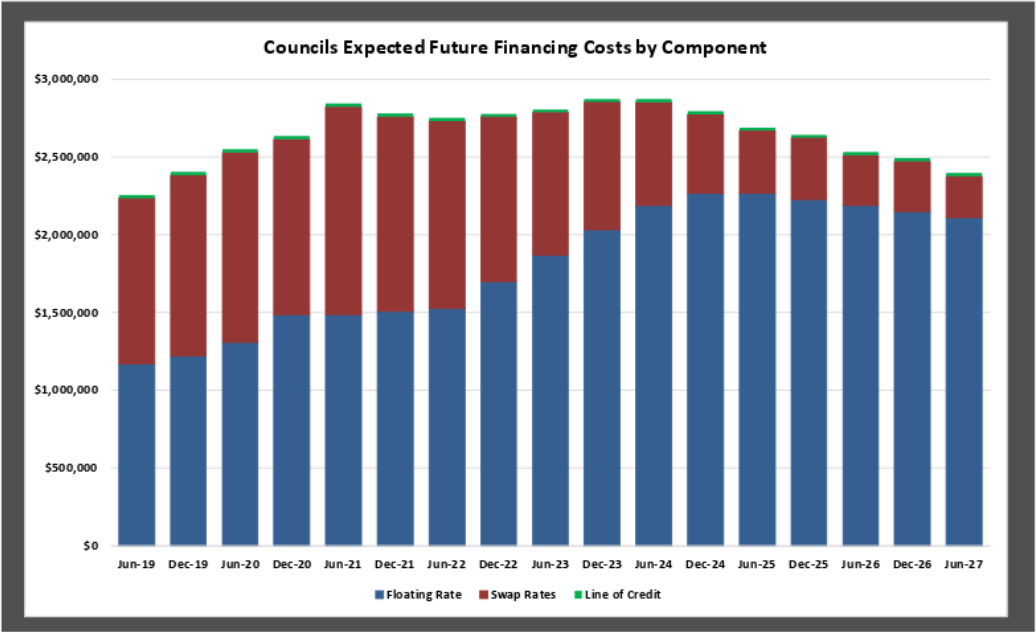
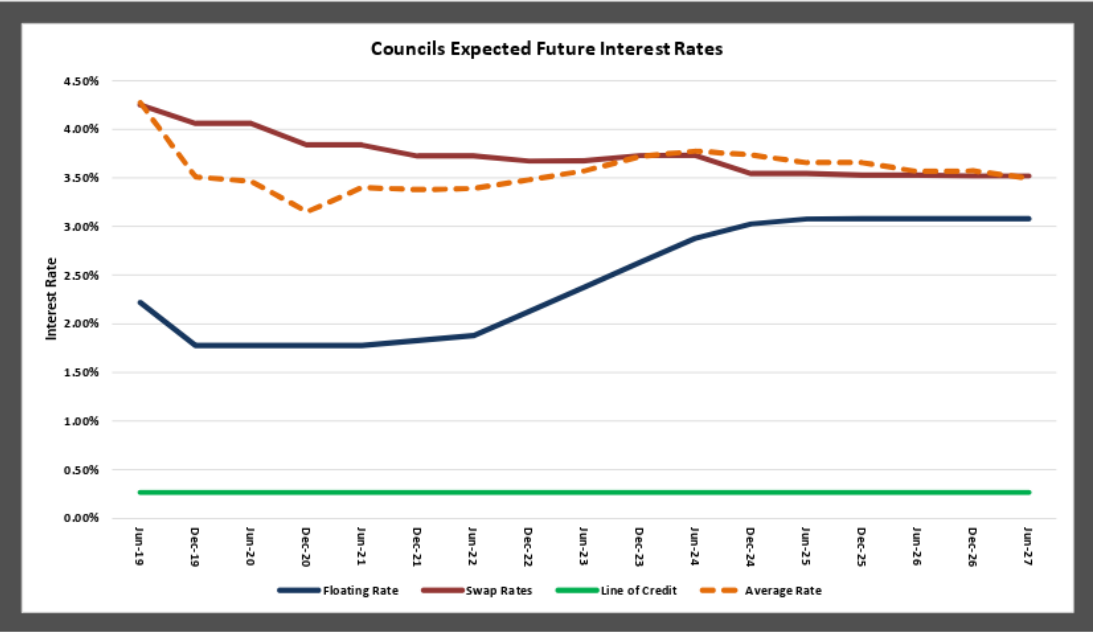


Interest Rate Risk Position

31 July 2019



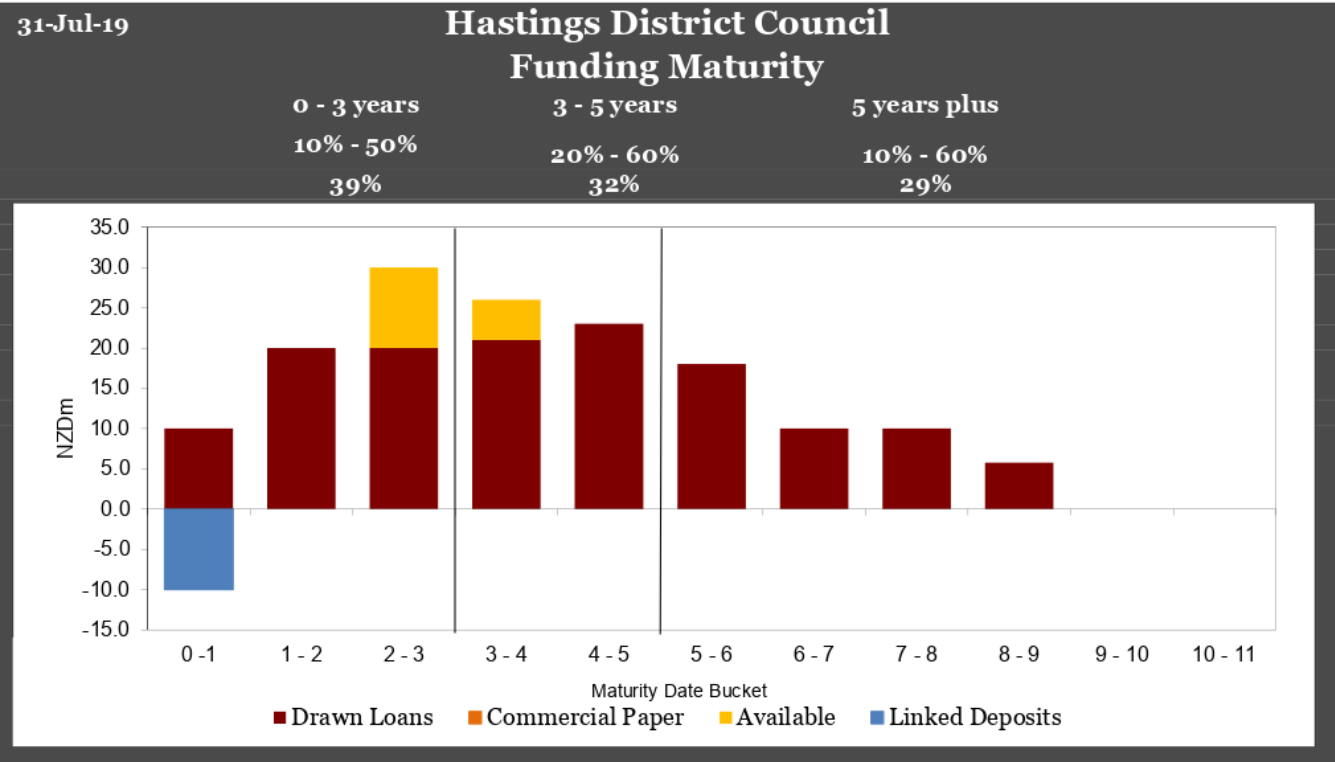
Debt Interest Rate Policy Parameters					
(calculated on rolling monthly basis)					
Debt Period Ending	Debt Forecast	Minimum %	Maximum %	Actual	Compliant (Y/N)
Current	138	50%	95%	59%	Yes
Year 1	136	45%	95%	75%	Yes
Year 2	155	40%	90%	65%	Yes
Year 3	167	35%	85%	59%	Yes
Year 4	165	30%	80%	57%	Yes
Year 5	164	25%	75%	51%	Yes
Year 6	162	15%	70%	43%	Yes
Year 7	160	0%	65%	35%	Yes
Year 8	158	0%	60%	29%	Yes
Year 9	156	0%	55%	17%	Yes
Year 10	154	0%	50%	2%	Yes
Year 11	152	0%	45%	0%	Yes
Year 12	150	0%	40%	0%	Yes
Year 13	148	0%	35%	0%	Yes
Year 14	146	0%	30%	0%	Yes
Year 15	146	0%	25%	0%	Yes
Weighted Avg Cost of Fixed Rate Instruments				4.25%	
Value of Live Fixed Rate Instruments				\$ 81,500,000	
Weighted Avg Length of Fixed Rate Instruments				7.14 Years	



Cost of Holding Fixed Interest Position			31-Jul-19			30-Jun-19			Movement for Year		
Live Interest Rate Swaps	Notional Swap Value	Avg Int Rate	Valuation			Notional Swap Value	Avg Int Rate	Valuation	Notional Swap Value	Avg Int Rate	Valuation
Forward Starting Interest Rate Swaps	76,500,000	4.42%	(6,714,893)			76,500,000	4.42%	(6,562,170)	0	0.00%	(152,723)
Total Interest Rate Swaps	80,500,000	3.78%	(7,571,745)			80,500,000	3.78%	(7,003,501)	0	0.00%	(568,244)
	157,000,000	4.09%	(14,286,638)			157,000,000	4.09%	(13,565,671)	0	0.00%	(720,967)
Average Cost of Funds			31-Jul-19			30-Jun-19			Movement for Year		
Fixed Rate Loans with LGFA	Notional Value	Avg Int Rate				Notional Value	Avg Int Rate		Notional Value	Avg Int Rate	
Floating Rate Loans with LGFA	8,000,000	2.37%				8,000,000	2.37%		0	0.00%	
Live Interest Rate Swaps	129,000,000	1.78%				97,500,000	2.26%		31,500,000	(0.48%)	
Westpac Lines of Credit	76,500,000	4.42%				76,500,000	4.42%		0	0.00%	
Fixed Rate Loans with HNZ	15,000,000	0.27%				15,000,000	0.27%		0	0.00%	
Total External Loans / Average Cost of Borrowing	740,000	0.00%				740,000	0.00%		0	0.00%	
	137,740,000	3.63%				106,240,000	4.29%		31,500,000	(0.67%)	

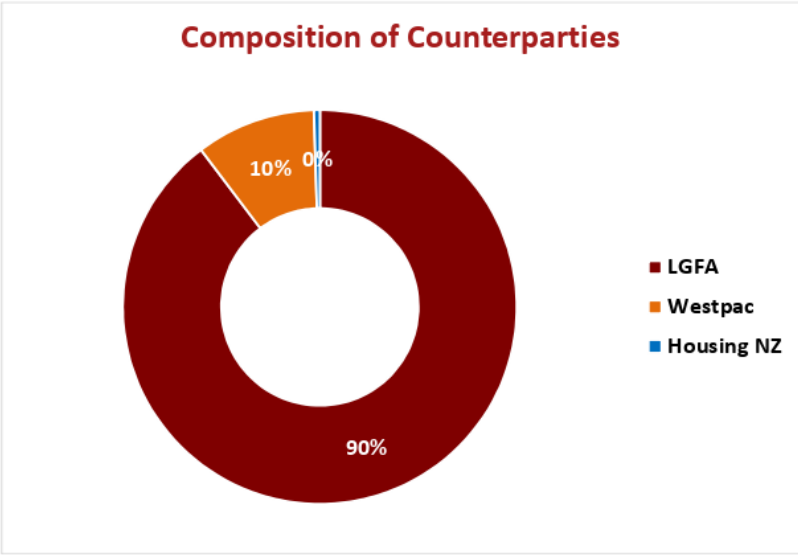
Funding and Liquidity Risk Position

31 July 2019



Funding KPI's

	Minimum %	Maximum %	Actual	Compliant (Y/N)
Liquidity	110%	170%	120%	Yes
Fixed Interest Debt	50%	95%	59%	Yes
Funding Maturity Profile				
0-3 Years	10%	50%	39%	Yes
3-5 Years	20%	60%	32%	Yes
5+ Years	10%	60%	29%	Yes
Net Debt as % Equity	6%	20%	6%	Yes
Net Debt as % Income	93%	150%	93%	Yes
Net Interest as % Income	3%	15%	3%	Yes
Net Interest as % of Rates	5%	20%	5%	Yes

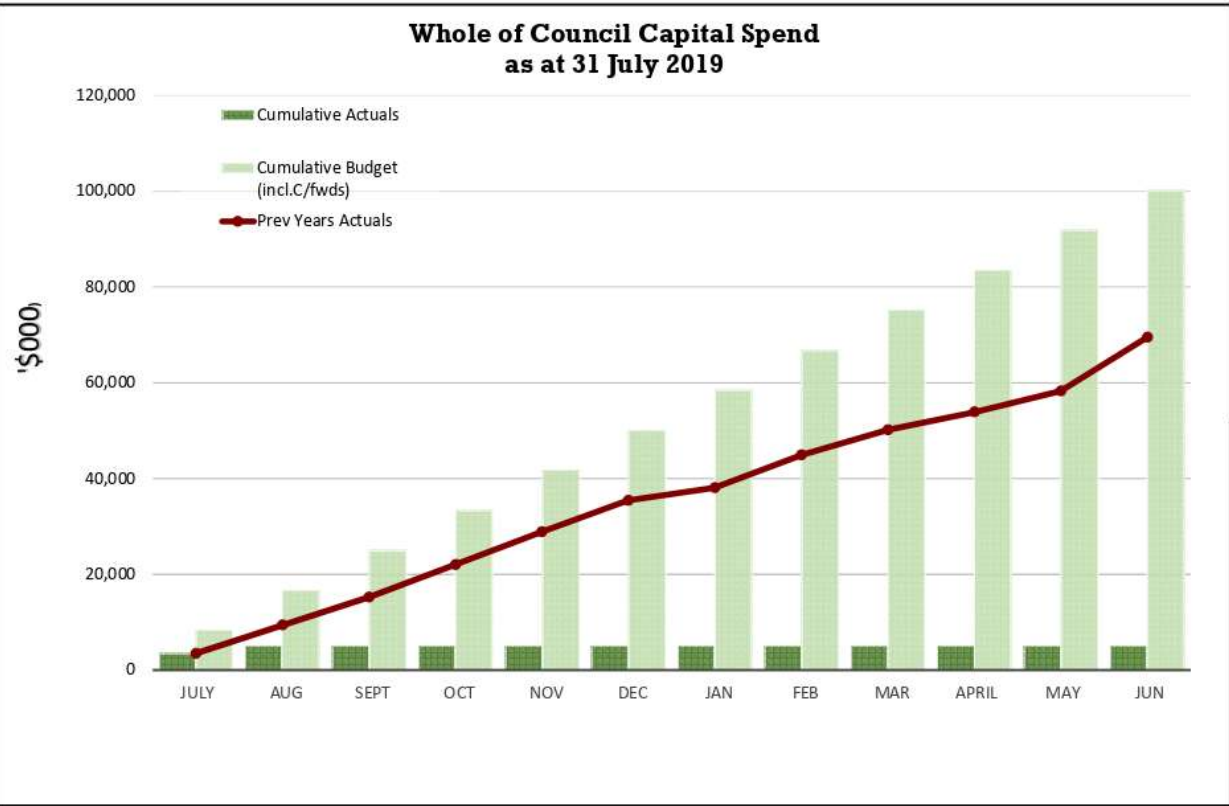


Funding and Liquidity Characteristics

Total External Council Drawn Debt	137,740,000
Funds Drawn from LGFA	137,000,000
Undrawn Bank Facilities	15,000,000
Term Deposits	22,000,000.00
LIQUIDITY RATIO Definition: (Cash Reserves + Lines of Credit + Drawn Debt) / Drawn Debt	120%
Weighted Average Length of Funding	4.72 Years

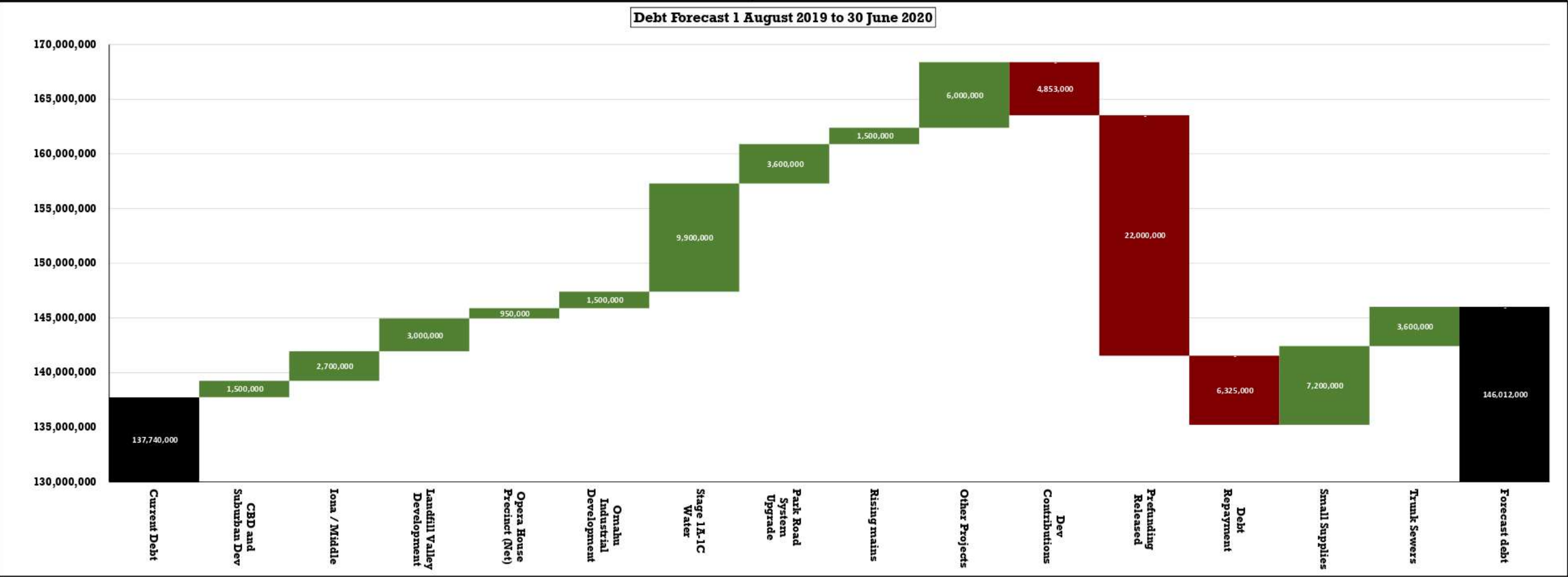
CAPITAL PROGRAM and FORECAST DEBT POSITION

31 July 2019



Major Projects	Actual Ytd (\$'000)	Budget Ytd (\$'000)	Variance Ytd (\$'000)	Total Budget (\$'000)	% Spent
CBD and Suburban Developments	0.3 m	1.3 m	1.0 m	2.6 m	10%
Iona / Middle	0.0 m	1.4 m	1.4 m	2.7 m	0%
Landfill Valley Development	0.0 m	1.5 m	1.5 m	3.0 m	0%
Omahu Industrial Development	0.5 m	1.0 m	0.5 m	2.0 m	25%
Opera House Earthquake Strengthening	1.1 m	3.4 m	2.3 m	6.8 m	16%
Park Road System Upgrade	0.2 m	1.9 m	1.7 m	3.9 m	6%
Planned Renewals	0.0 m	0.8 m	0.8 m	1.7 m	2%
Rising mains	0.0 m	0.8 m	0.8 m	1.5 m	0%
Small Supplies	0.2 m	3.7 m	3.5 m	7.4 m	2%
Trunk Sewers	0.0 m	1.8 m	1.8 m	3.6 m	0%
Stages 1A-C Water	0.2 m	5.0 m	4.8 m	10.1 m	2%
	2.5 m	22.6 m	20.1 m	45.1 m	5%

Capital Expenditure History





**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 2 SEPTEMBER 2019

**FROM:** RISK AND CORPORATE SERVICES MANAGER  
REGAN SMITH

**SUBJECT:** UPDATE ON HDC RISK APPETITE STATEMENT DEVELOPMENT

## 1.0 PURPOSE AND SUMMARY - *TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA*

- 1.1 The purpose of this report is to update the Subcommittee on development of a risk appetite statement for Council.
- Risk appetite development is an ongoing objective associated with the Enterprise Risk Management Programme.
- 1.2 Based on feedback from the last meeting and a subsequent meeting with the Chair of Audit and Risk Subcommittee, a revised approach has been developed for presenting the Councils Risk Appetite.
- 1.3 The revised approach is based on establishing a level of risk appetite and associated tolerances for each of the key focus areas in the Council Long Term Plan.
- 1.4 The attached document presents a draft statement for two of the six key focus areas in the Long Term Plan (LTP) 2018/2028. The two areas being; Water for our future and Homes for our people.
- Feedback is sought on the attached draft risk appetite statements before completion of a statement for all six focus areas.
  - The appetite rating is expressed using the following scale:

Rating	Philosophy	Tolerance for Uncertainty Willingness to accept uncertain outcomes or variations.	Choice Willingness to select an option puts objectives at risk	Trade-off Willingness to trade off against achievement of other objectives.
<b>Open</b>	Will take justified risks	Fully anticipated	Will choose option with highest return; accepting possibility of failure.	Willing
<b>Flexible</b>	Will take strongly justified risks	Expect some	Will choose to put at risk, but will manage impact	Willing under right conditions
<b>Cautious</b>	Preference for delivering expected outcome.	Limited	Will accept if limited and heavily out-weighted by benefits	Prefer to avoid
<b>Minimalist</b>	Extremely conservative	Low	Will accept only if essential, and limited possibility/extent of failure	With extreme reluctance
<b>Averse</b>	Avoidance of risk is a core objective	Extremely low	Will always select the lowest risk option.	Never

- 1.5 Should this approach be considered suitable, the intention is to develop these statements during future LTP process so they agreed at the time the goals are established.

## 2.0 RECOMMENDATIONS - *NGĀ TŪTOHUNGA*

- A) That the Risk and Audit Subcommittee receive the report titled Update on HDC Risk Appetite Statement Development.

### Attachments:

- 1 [↓](#) DRAFT LTP Focus Area Risk Appetite Statement for Risk & Audit Subcommittee Sept 2019.DOCX PMD-03-81-19-195





## Key Areas of Focus and Investment – Long Term Plan 18/28

### 1. Our Environment – Water for Our Future

#### Context

LTP18/19 focus is to invest significantly in drinking water infrastructure as our first priority to meet community expectation and new national standards around safe drinking water.

- Safe drinking water: \$47.5M
- Waste Water Investment: \$14.1M
- Stormwater Investment: \$4.8M



#### Appetite

Council intends to take a **Minimalist** approach to risk in order to achieve this outcome as Council has a statutory obligation to deliver the services, which means it is not possible to limit or cease service provision. This means that risks will be accepted only when essential to the core outcome, and limited possibility/extent of failure exists particularly with regard to Safety or Compliance.

#### Tolerance & Measures

To ensure progress toward the desired outcome remains within an acceptable range the following tolerances and measures will be applied and monitored:

Risk Category	Extremely Low	Low	Limited	Expected	Anticipated
<b>Safety</b>	●				
<i>Performance</i>	< 5 reports of adverse health impact from water per year.				
<b>Financial</b>			●		
<i>Variation</i>	Spend between \$49.8.5M (-25%) and \$73M (+10%) for the entire project.				
<b>Service Delivery</b>		●			
<i>Standard</i>	<10 unplanned supply outages per quarter.				
<b>Compliance</b>		●			
<i>Outcomes</i>	No material non-compliance raised by Water Assessors against a Council water supply.				
<b>Reputation</b>		●			
<i>Outcomes</i>	Regional public interest or media attention is expected, but events should not result in adverse national media coverage. There is support for being recognised as national leaders in water supply.				



## Key Areas of Focus and Investment – Long Term Plan 18/28

### 4. Where We Live – Homes for Our People

#### Context

Ensure a range of housing options are available to meet the needs of changing community while protecting our valuable soils.

- Housing Availability: \$29.7M



#### Appetite

Council is prepared to take a **Cautious** approach to achieving this outcome. This means that the preference is for successful delivery of the outcome, but risks will be accepted if they are limited and heavily outweighed by the benefits.

#### Tolerance & Measures

To ensure progress toward the desired outcome remains within an acceptable range the following tolerances and measures will be applied and monitored:

Risk Category	Extremely Low	Low	Limited	Expected	Anticipated
<b>Safety</b> <i>Performance</i>	●				
	No new houses are constructed in at risk areas (i.e. natural hazard zones) or fail to meet safe and sanitary requirements				
<b>Financial</b> <i>Variation</i>				●	
	Spend between \$14.8M (-50%) and \$37.2M (+25%) for the entire project.				
<b>Service Delivery</b> <i>Standard</i>		●			
	<0.5% of valuable soils used for new housing.				
<b>Compliance</b> <i>Outcomes</i>		●			
	No substantiated claims for issuing Resource Consents or Building Consents that are not legally sound.				
<b>Reputation</b> <i>Outcomes</i>			●		
	Regional public interest or media attention is expected, but events should not result in adverse national media coverage. There is support for national recognition of successful innovation in provision of housing.				

**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 2 SEPTEMBER 2019

**FROM:** RISK ASSURANCE ADVISOR  
DEAN FERGUSON

**SUBJECT:** RISK ASSURANCE REVIEW UPDATE

## 1.0 PURPOSE AND SUMMARY - *TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA*

- 1.1 The purpose of this report is to update the Risk & Audit Subcommittee on the progress of a review and its associated findings raised at the previous meeting.
- 1.2 The Risk & Audit Subcommittee members requested that officer's report back at the next meeting with the progress that has been made on the findings and recommendations that have arisen from a recent Risk Assurance Review.
- 1.3 As previously reported to the Risk & Audit Subcommittee during the July 2019 meeting, Officers conducted a review on the Flaxmere Aquatic Centre (and associated pools) which focussed on the applicable strategic risks and controls. The findings and recommendations were reported to the members along with table detailing the ratings of the findings – see table 1.

## 2.0 Overview of the findings and tracking against progress

- 2.1 As part of the ongoing support provided to the business unit, Risk Assurance have been working with the various key stakeholders and action owners to ensure any controls associated to the Strategic Risks that were identified as being 'substantially effective' to 'none or largely ineffective' are addressed and brought up to the standard of being 'fully effective'.
- 2.2 Table 1 – Overall findings and tracking of control effectiveness.

Strategic Risks	Number of Critical Controls tested				Tracking
	None or largely ineffective	Partially effective	Substantially effective	Fully effective	
Health & Safety	–	2	2	1	↗
Procurement Failure	1	2	–	–	↗
Corruption & Fraud	3	9	1	–	↗
Business Interruption	–	4	–	–	↔
Loss of Key	–	2	2	–	↗
Total	4	19	5	1	

- 2.3 The following controls under the above Strategic Risks have been worked on and mitigations put in place to demonstrate progress and improvement:

## 3.0 Corruption and Fraud

- 3.1 *Policies and Procedures:* **IMPROVING**

- 3.2 A project was established to support the development and creation of a Council-wide policy and guidance procedure on cash handling. The work that was undertaken focussed on developing a set of principles around the following aspects of cash handling:
- Staff security when handling cash.
  - Cash handling/ receipting/ Daily banking & banking reconciliation.
  - Daily record keeping.
  - Transportation of cash.
  - Segregation of duties.
  - Monitoring and measuring.
- 3.3 Key areas of the business all contributed to developing a Council-wide procedure document which will be introduced to the organisation prior to the summer season starting. Training will be delivered to all new and existing staff responsible for handling cash and managers will use the principles to develop their own standard operating procedures.
- 3.4 *Organisational Culture: IMPROVING*
- 3.5 Management have made a number of changes to ensure the pool managers, team leaders and staff are more involved in the decisions and initiatives that are being agreed at Council. Regular meetings have been established between management and staff and staff are given the opportunity to be involved with Council run initiatives such as Te Reo etc. It is important to note that management have been actively engaging key teams across the organisation to support their operations.
- 3.6 *Systems & Technology/ Training: IMPROVING*
- 3.7 Staff have been retrained in the financial accounting system, Centaman. In-house training ran for a period of 5 days and was mandatory for a majority of staff to attend. Further to that, as part of the cash handling roll out, staff will also receive awareness training around other Council policies such as, Fraud and Corruption.
- 4.0 Procurement Failure**
- 4.1 *Contract Management & Skilled Contract Managers: IMPROVING*
- 4.2 Council are currently sourcing Contract Management training to deliver to all contract owners and staff that own critical KPI within a contract. The training will focus around how to manage the life cycle of a contract during its term.
- 4.3 Management have been working with Council's procurement specialist to ensure all contracts are well managed and are fit for purpose.
- 5.0 Loss of Key Staff**
- 5.1 *Avoid single points of knowledge and manageable workloads: IMPROVING*
- 5.2 The facilities have gone through a recruitment drive to fill spaces at the Clive Pool including recruiting a new manager and creating a structure within the teams. There has been an effort to ensure the pool facilities staff are all

trained to the same standards and procedures to allow for staff to work from different sites without additional training.

- 5.3 Management have structured their workloads to ensure they are reaching milestones and meeting their objectives. That has been reflected through the changes in the culture at the facilities.

## **6.0 NEXT STEPS**

- 6.1 Risk Assurance will continue to support the business area to ensure the critical controls achieve and maintain a fully effective rating. The performance will be tracked through the new Risk Management System, Quantate.
- 6.2 The next two reviews on the strategic risks will focus on the controls around policies/ procedures, training & communications, and the Transportation area under Asset Management.

## **7.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA**

- A) That the Council/Committee receives the report titled Risk Assurance Review Update**

### **Attachments:**

There are no attachments for this report.



**REPORT TO: RISK AND AUDIT SUBCOMMITTEE**

**MEETING DATE: MONDAY 2 SEPTEMBER 2019**

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

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

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## **1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA**

- 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.
- 1.3 At its June 2016 meeting, Council accepted the recommendations from the Audit and Risk Subcommittee in relation to Health and Safety reporting.
- 1.4 This report serves as an update report to the Risk and Audit Subcommittee on Health and Safety risk management.

### **1.5 Report Contents**

- 1.6 This report provides information regarding the areas of:
  - Contractor Health and Safety Management
  - Organisation Security Project – Progress Update
  - ISO ISO/NZS 45001:2018 (External Health & Safety Audit) Implementation Update
  - Health and Safety Year End Report 2018-2019

### **1.7 Contractor Health and Safety Management**

- 1.8 Under the Health and Safety at Work Act 2015, Council has a primary duty of care to ensure as far as reasonably practicable, the Health and Safety of workers who work for Council and workers whose activities are influenced or directed by Council. The legal term 'worker' applies to any individual who carries out work in any capacity for Council (this includes Employees, Volunteers, Contractors and the employees of contractors).
- 1.9 Additionally, Council will often share Health and Safety duties with other organisations (in relation to the same matter) when activities form part of a contracting chain or work in a shared workplace. This is usually referred to as 'overlapping duties' and Council has a duty under the Act to consult, cooperate with and coordinate activities with all other organisations that it shares overlapping duties with, so far as is reasonably practicable.

- 1.10 WorkSafe (the Regulator) has set out its expectations for the Principal (this is Council when it contracts others to undertake work) in a contracting chain within its reference document 'Good Practice Guidelines: PCBU's Working Together – Advice When Contracting, June 2019'.
- 1.11 WorkSafe expects the principal in a contracting chain to be a Health and Safety leader and also expects principals to :
- Set clear Health and Safety expectations and incorporate these into contracts with contractors.
  - Work with designers to eliminate risks so far as is reasonably practicable, or minimise risks if they cannot be eliminated (this is a concept commonly known as 'safety in design').
  - Choose the best contractors and site managers for the job using prequalification, not simply choosing them based on cost.
  - Check health and safety records of potential contractors.
  - Put clear and effective reporting procedures in place so they can be confident all duties are being met.
  - Set up a clear framework for information sharing for the duration of the project.
- 1.12 Additionally, where Council staff manage projects, WorkSafe expects that Council staff will:
- Work with Contractors to ensure an appropriate Health and Safety plan is in place.
  - Monitor the work practices of Contractor and subcontractor workers.
  - Put clear and effective reporting procedures in place so they can be confident all duties are being met.
- 1.13 Council manages its Contracts and Contractors in-line with the principles of these good practice guidelines and has done so for the past several years. There are processes in place regarding procurement to ensure that there is a non-price evaluation (including an evaluation of the tenderer's Health and Safety systems and practices) as well as a lowest price evaluation during tenderer selection.
- 1.14 Currently, leading and lagging indicators for Contractor Health and Safety Management performance are reported to Council within the Monthly and Quarterly Reports.
- 1.15 It is proposed that an additional quarterly report be provided to the Risk and Audit Subcommittee relating to the performance of Contractors working under Council's 10 highest risk term contracts. This proposed high level report will include a combined performance indicator score for management of Health and Safety, quality, contract delivery and finances. It is anticipated that this report will begin in quarter two of the 2019-2020 year.
- 1.16 The 10 contractors are:
- Armourguard Ltd, Noise Control.



- City Care Ltd, Water Services Maintenance.
- Downer Ltd, Urban Road Maintenance.
- Fulton Hogan Ltd, Rural Road Maintenance.
- Gemco Ltd, Opera House Redevelopment.
- Greensky Ltd, Recycling Collection.
- HSM Security Ltd, Night Security and Animal Control After hours.
- M.W. Lissette Ltd, Landfill Civil works.
- Recreational Services Ltd, Parks, Open Spaces and Amenities Maintenance.
- Waste Management Ltd, Municipal Waste Collection.

#### 1.17 **Organisation Security Project – Progress Update**

- 1.18 Under the Health and Safety at Work Act 2015, Council is responsible for providing safe secure facilities and environments for all staff to work in, and the public to frequent – given that these are workplaces (such as its libraries, pools, sports centres, and community centres).
- 1.19 In 2018, Council engaged WSP Opus to undertake a review of security measures across all 23 Council facilities. The scope of this review included the review of all Council facilities electronic security services and staff requirements for: Specification of systems, age of systems, quantity / alternatives, cost and efficiencies, staff processes and procedures, perceptions and behaviour, site design / CPTED (Crime Prevention Through Environmental Design), lighting (Security), upgrade recommendations for both physical and electronic systems
- 1.20 The review was completed in late 2018, providing Council with a report addressing each facility and outlining recommendations in order to manage the security requirements for each facility.
- 1.21 There are many recommendations through this report, some were simple and required minimal effort, and others require significant planning and expertise. Therefore an experienced Project Manager has been engaged for 12 months in order to implement the recommendations across the organisation.
- 1.22 As advised at the 6<sup>th</sup> May 2019 meeting, regular progress updates on this project shall be provided to the Risk and Audit subcommittee over the next 12 months.
- 1.23 Good progress towards procurement of security equipment and services for Council's higher risk facilities has been made.
- 1.24 Tenders have recently been released for firstly the supply, installation and maintenance of facility security equipment and secondly for the supply of facility security monitoring and guard call-out services at 10 Council Facilities (Hastings Library, Hastings Art Gallery, Hastings Sports Centre, Henderson Road Transfer Station, Frimley Pool, Flaxmere Pool, Village Pool, Splash

Planet, Camberley Community Centre, Flaxmere Community Centre / Library).

- 1.25 Additionally, Council is currently recruiting for a Security Manager (this was a recommendation from the security review report). This role will report to the Group Manager: Community Facilities and Programmes and will have responsibility for the functional management of organisation-wide security risks across all of Council's offices and facilities, and will also be responsible for the management of Council's Kaitiaki Staff who are tasked with security responsibilities within Council facilities.
- 1.26 **Implementation of ISO/NZ Standard 45001:2018 (Health and Safety Management Systems) Accreditation**
- 1.27 As previously advised to the Risk and Audit Subcommittee, Council's external audit certification (ACC Workplace Safety Management Practices (WSMP) accreditation) lapsed in February 2019. This ACC scheme is now defunct, and therefore Council should undertake an alternative external audit verification of its health and safety system.
- 1.28 To achieve this external verification, in late 2018 the then Acting Chief Executive authorised implementation of the international Health and Safety standard ISO/NZS 45001:2018 which has been adopted by New Zealand (replacing all previous NZ standards).
- 1.29 Telarc have been engaged to undertake an initial assessment of what is required to meet the standard (essentially a 'gap analysis') and this assessment has been scheduled for the 30-31 October 2019. A report will be provided to the Risk and Audit Subcommittee following this assessment.
- 1.30 The delay in undertaking the assessment is due to a large number of other organisations across NZ undertaking similar assessments and a skills shortage and availability of experienced accredited auditors.
- 1.31 **Health and Safety Year-end Report 2018-2019**
- 1.32 A Health and Safety report for Quarter 4 and Year-end for the 2018-2019 year, will be provided to Council at its meeting on the 22nd September 2019.
- 1.33 Post receipt of the Council report, a report detailing an analysis of the management of Council's 12 critical Health and Safety risks will be provided to the Risk and Audit Subcommittee at its next meeting.

## 2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

### A) That the Council/Committee receives the report titled Health and Safety Risk Management Update

#### Attachments:

There are no attachments for this report.





**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 2 SEPTEMBER 2019

**FROM:** CHIEF FINANCIAL OFFICER  
BRUCE ALLAN

**SUBJECT:** CHIEF FINANCIAL OFFICER OVERVIEW AND STATUS OF ACTIONS

## 1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to update the Risk & Audit Subcommittee on various matters including actions raised at previous meetings.
- 1.2 This report contributes to the purpose of local government by primarily promoting social, economic, environmental, and cultural well-being of communities in the present and for the future and more specifically through the Council's strategic objective of sustainable use of resources and providing resilience to hazards and shocks.
- 1.3 The Risk & Audit Subcommittee members requested that officers 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 2019.
- 1.4 Officers will continue to progress the action points recorded on the list and will add any action points arising out of today's subcommittee meeting.
- 1.5 General Overview
- 1.6 The year-end process continues to improve and is becoming a much more streamlined process. However, it is still a monster. Audit NZ arrived on Monday 26 August, about two weeks earlier than usual, and were greeted with a near-completed Annual Report (excluding consolidated accounts).
- 1.7 Risk Management within the organisation has been reviewed and two groups established to monitor risk:
  - Lead Team Risk Assurance – meets bimonthly with a commitment to providing strong leadership and guidance to Hastings District Council in regard to strategic risk management, including Health & Safety.
  - Risk Assurance Management Group - meets monthly and has a more management focus to managing Council's risk.
- 1.8 It is expected that this structure will elevate risk management across the organisation, increasing visibility and awareness.
- 1.9 Council continues to have financial pressures from a number of quarters. The improved economic environment is putting pressure on our Building and Resource consent teams which requires increased funding and resources.

While the improved economic outlook is great for the District, it does create risk for the organisation with increased activity and demand on finite Council resources.

1.10 Insurance

1.11 Since the last meeting Jardine Lloyd Thompson (JLT) have been successful in securing Crime cover after American International Group (AIG) pulled out of the market. It required pulling together the other liability policies (Statutory, Employer and Crime) and our placement is now with QBE. One benefit of making this change is that cover for Resource Management Act (RMA) prosecutions under the Statutory Liability Policy has been reinstated.

1.12 We have been advised by Local Authority Protection Program (LAPP) of a contribution increase of \$76,894 to \$230,578 from 1 November. This new contribution reflects the most recent declared asset valuation plus a 7.5% general market increase. LAPP's membership cover is unchanged with three events at levels of \$60m, \$100m and \$140m which can be used in any order.

1.13 AON have been engaged to undertake a risk modelling funded 50:50 with LAPP. Results of that modelling work are expected in the next couple of weeks and Officers will report this back to the Subcommittee in November.

1.14 Audit Action Sheet

1.15 Attached as **Attachment 2** is the updated Audit Action Sheet. This overview covers recommendations from the external audits (Audit New Zealand) and the internal audits (Crowe Horwath) that have been undertaken. Generally staff have made good progress on implementing recommendation, however there are a few recommendations which require more substantive improvements and they are under development.

1.16 Water safety planning

1.17 Officers are commencing the rewrite of the urban water safety plan, with a due date for completion 1 November. This will need to be in the new Ministry of Health format and incorporate the new understanding developed, current plans, review risks, uncertainties, and critical controls that require monitoring. This process is necessary as the existing WSP no longer represents the full body of knowledge developed, nor the works underway.

1.18 As a reminder to the subcommittee, council will not achieve 100% compliance with drinking water compliance until all of the treatment plant upgrades are completed, and all of the implementation steps are completed and in place for a full year.

1.19 Pre Qualified Contractors Review

1.20 The review of the Prequalification for Physical Works system was completed in 2018. As part of the review, the system was renamed to the Prequalification and Performance Management System for Civil Construction. This change confirms that the system is wider than just prequalification and that a large focus is on managing the performance of contractors undertaking work for HDC. One of the areas of improvement that was identified as part of the review was the need for monthly contract evaluations to be undertaken more consistently on an ongoing basis,

regardless of how the contract is managed. The review identified that monthly evaluations are due on the 10th of each calendar month. Completed evaluations are also to be distributed to the Engineer to the Contract and the HDC Prequalification Champion.

- 1.21 A working group has also reviewed the current evaluation template. Minor tweaks are proposed that will bring it in line with the NZTA Performance Assessment by Coordinated Evaluation (PACE) scoring system. Over the next 6 months these changes will be incorporated into the evaluation database and the changes will be implemented. The database will also be moved to the cloud to enable access by various parties. Access to this information will require users to set up an account. This will make this information available to a wider audience, while still protecting the sensitive nature of the information. This information will be used to inform discussions with contractors, particularly where performance issues are identified.

## 2.0 RECOMMENDATIONS - *NGĀ TŪTOHUNGA*

- A) **That the Committee receives the report titled Chief Financial Officer Overview and Status of Actions**

### Attachments:

- |                     |   |                |
|---------------------|---|----------------|
| 1 <a href="#">↓</a> | Action Sheet 31 July 2019               | CG-14-109      |
| 2 <a href="#">↓</a> | Audit Action Sheet as at 28 August 2019 | CG-14-25-00108 |

**Hastings District Council  
Risk and Audit Subcommittee  
Status of Actions Sheet – 31 July 2019**

Item 8

Attachment 1

Item No.	Meeting Date	Action	Reporting Officer	Progress as at 31 July 2019	Complete
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	Ongoing, last update provided at 2/7/19 meeting	
3	15/11/18	<u>Performance of Contract Post Tender</u> <ul style="list-style-type: none"> <li>Need to develop a mechanism to monitor contract performance post implementation</li> </ul>	Chair/CFO	Chair to supply CFO an example of how this monitored in other industries	
4	15/11/18	<u>Funding of Depreciation</u> <ul style="list-style-type: none"> <li>A one page report to be tabled showing what depreciation was charged, budgeted for, and what asset replacement expenditure occurred for the 2017/18 year.</li> </ul>	CFO	Work in progress	
5	18/02/19	<u>Forecasting</u> <ul style="list-style-type: none"> <li>Budgets need to be dynamic rather than reactive – forecasting and accountability aspects to be developed</li> </ul>	FC	Carry Forwards reviewed pre S&P visit. More work to be done in this space.	
6	06/05/19	<u>Review of Aquatics delivery model</u> <ul style="list-style-type: none"> <li>Mayor asked for a review of service delivery model</li> </ul>	GM CF&P	Review of Resourcing and Management Structure underway.	



7	06/05/19	<u>Electronic Purchase Order Project</u> <ul style="list-style-type: none"><li>FC to take Jon Nichols, Crs Kerr and Travers through the P2P process once it is ready to be implemented</li></ul>	FC	C/fwd	
8	02/07/19	<u>Governance Oversight of Finances</u> <ul style="list-style-type: none"><li>Finance to develop a inhouse training package</li></ul>	CFO	C/fwd	
9	02/07/19	<u>Risk Appetite Statement</u> <ul style="list-style-type: none"><li>Draft Risk Appetite Statement to be modified and circulated to Risk and Audit</li></ul>	CFO/Regan Smith		
10	02/07/19	<u>Internal Audit</u> <ul style="list-style-type: none"><li>Summary of progress to be presented to next Risk and Audit Meeting</li><li>Programed review of grants scope to be expanded to include a review to ensure that the Community Grants Subcommittee is meeting its objectives and working within its policies</li></ul>	FC CFO ?		
11	02/07/19	<u>Procurement</u> <ul style="list-style-type: none"><li>Review of contractor pre-qualification process to ensure consistency of scoring is achieved</li></ul>	GM:AM	An overview has been provided in the CFO overview report	
12	02/07/19	<u>Closed Landfills</u> <ul style="list-style-type: none"><li>A report to be developed to Risk and Audit on the locations and integrity of closed landfills within HDC boundaries</li></ul>	GM:AM	Verbal update to be provided	
13	02/07/19	<u>Insurance</u> <ul style="list-style-type: none"><li>A report to Risk and Audit be developed to compare what a "reasonable person" approach to cover would be compared to what HDC's cover/or non cover is</li><li>A report disclosing the deductibles for each policy type be prepared</li></ul>	Jeff Tieman	A workshop on Insurance has been scheduled for 02/09/19  To be presented at 02/09/19 workshop	

Item 8

Attachment 1

Item 8

Attachment 1

Audit Action Sheet as at		28/08/19		FIN-07-02-18-100		28 Aug 2019
Recommendation	Officer Responsible	Priority	Start Date	By When	Comment	Completed pending Audit signoff
Audit New Zealand Recommendations						
Classification of Fault Response and Resolution Times	Ashley Dunstan	low	Apr-19	Jun-19	Asset management accept and support the comment. This will be sent to City Care as a Notice to Contractor, to further enhance accurate reporting.	✓
Review of invoices approved by Super-users	Aaron Wilson	low	Apr-19	Jun-19	Superusers now no longer have DFA for approving invoices removing the opportunity for this to occur in the future.	✓
Appropriate review of the RIO reconciliation	Aaron Wilson	low	Apr-19	Jun-19	This has occurred due to a change of personnel in the operations manager role. What will happen going forward is that it will be prepared by Richard Elgie (Finance Operations Manager) and reviewed by Aaron Wilson (Financial Controller). This is now in place	✓
Review of suspense accounts	Aaron Wilson	low	Apr-19	Jun-19	This is partly due to a change in personnel preparing this reconciliation. Going forward the correct supporting documentation will be attached and reviewed	✓
Development Contribution invoice review	Richard Elgie	low	Apr-19	Jun-19	Where invoices for DCs are concerned accounts receivable will generate all the transactions for the month, with the operations manager then selecting from that list and checking against the relevant policy.	✓
Rate Masterfile review	Aaron Wilson	low	Apr-19	Jun-19	Management will look into the possibility of a report for all RIO changes; however it is likely that with the checks on the named types, these would be the types more likely to have potential issues. We consider the risk to be very small as it is on an individual basis	✓
Review IT Policies and Procedures	Andrew Smith	medium	1/07/2017	Jun-19	<p>HDC uses the 'Kaon' developed IS Security Policy suite. HDC has a subscription with Kaon to provide annual updates to the security policies and the latest update to the policy framework is expected in the latter part of 2018.</p> <p>During the current period the Council information security policies have been reviewed by the IM Team. When the updated policy framework from Kaon is published it will be considered for potential updates. The target date for completing, approving and publishing the updated policy was 30 June 2018 but was ongoing at the time of our final audit.</p> <p>IT Policies have now been released based on greatest business risk. These policies are now available and accessible online and have been reinforced with strong internal staff communications. Policy awareness and understanding will be progressively communicated over the coming Months via a change communications program.</p> <p>Policies published and communicated to date include:</p> <ul style="list-style-type: none"><li><b>Password Management and Authentication:</b> This Policy describes the authentication requirements for accessing internal computers and networks and includes those working in-house as well as those connecting remotely.</li><li><b>Email:</b> The purpose of the Email Policy is to document how electronic mail systems and services are to be used.</li><li><b>Access Control:</b> The purpose of the Access Control Policy is to ensure that information systems resources and electronic information assets owned or managed by Hastings District Council are available only to authorised personnel. This Policy also deals with the prevention of unauthorised access through managed controls to create a secure computing environment.</li></ul> <p>Additional IT Policies under review and in the process of being finalised include:</p> <ul style="list-style-type: none"><li>• Mobile Phones &amp; BYOD</li><li>• Internet Usage</li><li>• Laptops &amp; Tablets</li><li>• Information Privacy</li></ul> <p>Target completion to have all IT Policies finalised and issued / communicated is June 2019.</p> <p>Management expect this to be concluded at the year end audit.</p>	✓
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.	⚠
Reduce number of Staff have Local Administration Rights	Kevin Dresser	medium	1/07/2017	Mar-19	Council has adopted and complied with this recommendation, removing all users from the local PC admin group. The IM team have been progressively working to remove this capability over the past year. However, the remaining workstations in Marketing and Communications (approximately 10) have experienced difficulties in font availability and are yet to be changed. In order to be able to complete their jobs in relation to fonts changes these 10 workstations continue to have local administration rights.	⚠
Purchase Card Use	Aaron Wilson	medium	1/05/2017	Mar-19	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. Management expect this will not be an issue going forward.	⚠

Audit Action Sheet as at 28/08/19						FIN-07-01-18-100	28 Aug 2019
Recommendation	Officer Responsible	Priority	Start Date	By When	Comment		Completed pending Audit signoff
Bank reconciliations	Aaron Wilson	medium	28/11/2018	Apr-19	A year to date calculation has now been built into the reconciliation process. The system issue has been rectified by a Tech1 consultant. Management expect this issue to be closed at the year end audit.		✓
Improvements to financial systems and processes following Opal Taylor fraud	Aaron Wilson	medium	28/11/2018	Jun-19	The new EPO system has a current 'go live' date scheduled for October/ November 2019		✓
Expenditure approvals not in line with DFA policy	Aaron Wilson	medium			Monthly report is reviewed with any issues addressed. Management expect this to be closed at year end.		✓
Supporting documentation	Aaron Wilson	medium	28/11/2018	Jun-19	Management has confidence in the accuracy of our FMIS information. Throughout the audit process, changes will be made which will create discrepancies. Staff will work more closely with audit to ensure they understand what has changed.		✓
PWC Accounts Payable & Electronic Bank Transfer Internal Audit							
Electronic Purchase Order (EPO) System Implementation	Bruce Allan	medium	23/05/2017	2019	Business case has been approved, with consultation and configuration work underway. It is expected to go live October/ November 2019		✓
Goods Received not Recorded when received (requires EPO)	Bruce Allan	low	23/05/2017	2019	Business case has been approved, with consultation and configuration work underway. It is expected to go live October/ November 2019		✓
Review PO / Invoice approval DFAs (requires EPO)	Bruce Allan	medium	23/05/2017	2019	Business case has been approved, with consultation and configuration work underway. It is expected to go live October/ November 2019 - This is on track		✓
Crowe Horwath Fraud Risk Management Review							
Incomplete contract management policies and procedures	Ange Hirst	Medium		2020	The procurement and contract management framework project has kicked off again. Currently scoping the new procurement manual along with starting to look at what sort of contract management systems are out there being used. - Introduction to procurement and contract management sessions were run in May 2019. - Contract management training is being developed with external providers responding to requests. The Mble contract management plan template was introduced as being an available tool as part of the introduction to procurement and contracts management sessions held in May 2019.		1
Lack of contract management planning	Ange Hirst	Medium		Dec-19	- This will be further reiterated through the contract management training. - To further improve Hastings District Council's contract evaluation processes additional management resources are required.		1
Lack of governance and management oversight	Bruce Allan	Medium		Jun-20	To further improve Hastings District Council's contract evaluation processes additional management resources are required, this will be enhanced with a contract management system		1
Unclear management capabilities	Ange Hirst	Medium		Dec-19	An introduction to procurement and contract management session was run with 29 staff attending. More detailed one on one training is occurring with the procurement staff as required		1
Contracts not assessed for risk	Bruce Allan	Medium		Jun-20	The implementation of a new contract register is being scoped for approval.		1
Contracts register incomplete	Ange Hirst	Medium		Mar-20	There is a working group set up to look at contract management systems out in the market.		1
Lack of records management policies and procedures	Regan Smith	Medium		TBC	A wider review of Council's records management system is being undertaken which could ultimately lead to either a new system being identified or enhancements adopted for the existing systems.		1
Develop in house training programme for fraud and corruption awareness and line manager responsibility for invoice approvals	Bruce Allen	high		Nov-19	Training programme to be developed - With the new onboarding induction for new employees, this is being covered. A wider programme of internal training will be underway with regards approval of invoices with the implementation of the new electronic purchase order system. In addition financial training programme is to be developed in which fraud awareness will be incorporated for managers and team leaders with budget responsibilities.		1
Review Protected Disclosures Policy	Regan Smith	high	23/05/2017	Nov-19	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 The protected disclosures has been separated out from the staff manual and a draft policy has been written. This will now be put formally to the Lead team for adoption.		1
Internal Control - review cash collection method from remote sites	Regan Smith	medium	23/05/2017	Apr-20	Cash handling is now being rolled up into a wider project, where a revenue cash handling policy and procedure are being updated. This will cover all cash handling sites and will help mitigate risk.		1



**REPORT TO:** RISK AND AUDIT SUBCOMMITTEE

**MEETING DATE:** MONDAY 2 SEPTEMBER 2019

**FROM:** FINANCIAL CONTROLLER  
AARON WILSON

**SUBJECT:** 2019 ANNUAL REPORT UPDATE AND INTERIM AUDIT

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**1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA**

- 1.1 The purpose of this report is to provide the Subcommittee with an update on progress being made with the 2018/19 Annual Report, highlight any issues and provide a preliminary pre-audit update on the financial result.
- 1.2 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.
- 1.3 Mr Stephen Lucy, Audit New Zealand Audit Director will be in attendance to speak to the Interim Audit Report and the upcoming 2019 Annual Report Audit.

Interim Audit Status Report

- 1.4 The Interim Audit report has been received and 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."
- 1.5 The report does however identify some issues for improvement particularly around review of invoices approved by super-users along with appropriate review of reconciliations in the suspense and rating areas. Staff have made changes on both these areas to ensure policies are being adhered to and controls are being maintained.
- 1.6 The report notes that of the 11 recommendations made previously, 2 of those recommendations have been addressed with a further 9 remaining outstanding. We expect that 5 of those outstanding recommendations will be closed out with the Final Audit and the remaining 4 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.

Revaluation of Transport and Parks and Reserves

- 1.7 All asset classes are on a revolving revaluation cycle, the Land and Buildings, Water services and Heritage and Cultural assets were revalued last year, this year the revaluation of Transport, and Parks and Reserves assets have been the major revaluation activity.

- 1.8 The Transport revaluation was undertaken by Beca Limited as at 31<sup>st</sup> May 2019. This year the valuation of Transport has seen the depreciated replacement cost assessed at \$1.151b, this is a \$28.4m increase in value. The main drivers in the change in value are unit rate changes along with changes in quantities and types of assets.
- 1.9 The Parks and Reserves assets revaluation was undertaken by Stantec as at the 31st May 2019. This year the valuation of Parks and Reserves has seen the depreciated replacement cost assessed at \$43.7m, this is a \$10m increase in value. The main drivers in the change in value are improvements in data quality along with some change in quantities of assets and unit rates. The 2017 revaluation of this asset class also had a significant uplift in asset values driven primarily by improving data quality. This improvement is reflective of the maturing quality of asset information in this asset class.

#### Impairment

- 1.10 Hastings District Council entered into the Omarunui Landfill Gas Generation partnership with Pioneer Energy in the 2014/2015 financial year. Its purpose was to generate electricity from gas produced by the Omarunui landfill site.
- 1.11 Council has 40% of the equity in the Limited Partnership with Pioneer having the remaining 60%. Due to ongoing operational issues, generation has been well below expected budgeted levels with the limited partnership sustaining losses over recent years.
- 1.12 In consultation with Pioneer Energy management and their auditors it has been agreed that Council's investment of \$744k should be impaired to more accurately reflect the value of that investment in the partnership.
- 1.13 The annual report for the Omarunui Landfill Gas Generation shows an impairment of \$150k. Council's share of this impairment is 40% or \$60k, which has been recognised in Council's accounts.
- 1.14 Should the future performance of the underlying asset improve, the increased value of the asset will be recognised accordingly.

#### Changes to reporting standards

- 1.15 There are no significant changes to Public Benefit Entity (PBE) reporting standards that are likely to materially affect the 2018/19 Annual Report.

#### Reporting Timeframes

- 1.16 Audit NZ arrive on August the 26th to undertake their audit and at the time of writing the Annual Report is on track to be principally completed for their review.
- 1.17 Officers are confident that the adoption date with Council of 10 October 2019 will be achieved.

#### Rating Result

- 1.18 Note that the rating 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.

- 1.19 The unaudited rating result for the 2018/19 year overall is a very small surplus with RA1 being unfavourable and RA2 being a favourable result and is as follows:

Rating Area 1	\$ (103,967)
Rating Area 2	\$ 115,508
<b>Total for the District</b>	<b>\$ 11,541</b>

- 1.20 It will be recommended to Council that the Rating Area 1 deficit will be funded from the Rating Area 1 General Purpose Reserve and the Rating Area 2 surplus to be transferred to the Rating Area 2 Flood Reserve.
- 1.21 This result compares with a \$942,713 rating surplus reported in 2017/18. This will be reported to Council at its Finance and Risk Committee meeting on September 15<sup>th</sup>.

Accounting Result

- 1.22 Set out below is a summary of the **draft unaudited operating accounting result** for the 2018/19 financial year. Please note that this is not the same as the rating result.

<b>Unaudited Operating Accounting Result</b>	<b>Budget Council \$'000</b>	<b>Actual Council \$'000</b>	<b>Variance \$'000</b>
Operating Revenue	126,427	138,110	11,683
Less Operating Expenditure	117,091	135,540	(18,449)
<b>Net Surplus/(Deficit)</b>	<b>9,336</b>	<b>2,570</b>	<b>(6,766)</b>
Gain / (Loss) Revaluations	23,165	38,530	15,365
<b>Net Surplus after accounting gains / losses</b>	<b>32,501</b>	<b>41,100</b>	<b>8,599</b>

- 1.23 The draft unaudited financial result for the year ended 30 June 2019 before gains or losses on revaluations is a surplus of \$2.6m with unfavourable variance to the budget of \$6.8m. The draft unaudited financial statements are attached as **Attachment 1**.
- 1.24 Revenue has a favourable variance of \$11.7m. 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 \$3.4m. Most of this is made up of NZTA subsidies that are reimbursements for capital work done.
  - Fees and Charges are above budget by \$3.2m. 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 \$3.9m

1.25 Expenditure has an unfavourable variance to budget and is a result of the following items:

- Loss on swaps adjustment of \$7.1m
- Depreciation is \$2.7m higher than budget due to higher than budgeted asset values from the 2017/18 revaluations.
- Higher costs in the regulatory areas of consents, where high levels of consent activity has meant a significant increase in expenditure in order to meet the legislative requirements of processing within the required timeframes. This has also lead to higher contracting costs in order to maintain these timeframes.

Going forward into the 2019/20 year with the strong level of economic activity in Hawkes Bay, there is a continued risk of cost overspend in this area to ensure Council meets its regulatory requirements.

There have been a number of operational overspends related to approved but unbudgeted expenditure throughout the year and include Te Mata Peak Track consultation and remediation, Maintenance Group Transition costs, Cape Kidnappers landslides and Hawke's Bay Museum Trust additional funding requests.

## 2.0 RECOMMENDATIONS - *NGĀ TŪTOHUNGA*

**A) That the Committee receives the report titled 2019 Annual Report Update and Interim Audit**

### Attachments:

1 [↓](#) Draft Unaudited Financial Statements 30 June 2019 FIN-09-3-19-327



ACTUAL COUNCIL 2018 \$'000	ACTUAL GROUP 2018 \$'000	Statement of comprehensive revenue and expense for the year ended 30 June 2019	Notes	BUDGET COUNCIL 2019 \$'000	ACTUAL COUNCIL 2019 \$'000
<b>Revenue</b>					
72,674	72,674	Rates, excluding metered water supply charges		77,388	77,347
24,394	24,439	Fees, charges and metered water supply charges (i)		23,209	26,487
24,534	24,702	Subsidies and Grants (ii)		16,699	20,161
4,711	4,711	Development and financial contributions		7,482	7,560
630	630	Donations		3	134
162	169	Interest revenue (iii)		0	534
1,733	1,733	Other revenue (iv)		646	912
5,131	5,131	Vested infrastructural assets (v)		1,000	4,976
<b>133,969</b>	<b>134,189</b>	<b>TOTAL REVENUE</b>		<b>126,427</b>	<b>138,110</b>
<b>Expenses</b>					
81,975	82,095	Operational costs (vi)		80,132	96,851
31,182	31,196	Depreciation and amortisation expense		31,338	34,085
3,680	3,680	Finance Costs (vii)		5,621	4,605
<b>116,837</b>	<b>116,971</b>	<b>TOTAL EXPENSES</b>		<b>117,091</b>	<b>135,540</b>
		121 Share of associate surplus/(deficit)			
<b>17,131</b>	<b>17,339</b>	<b>Surplus/ (deficit) before tax</b>		<b>9,336</b>	<b>2,569</b>
-	-	- Income Tax expense		-	-
<b>17,131</b>	<b>17,339</b>	<b>Surplus/(deficit) after tax</b>		<b>9,336</b>	<b>2,569</b>
<b>Impairment -fixed assets</b>					
113,512	113,533	Gain/loss on infrastructural revaluations		23,165	38,499
46,237	46,237	Gain/Loss on land and building revaluations		-	-
(501)	(501)	Gain/Loss on other revaluations		-	31
-	-	- Financial assets at fair value through other comprehensive revenue		-	-
<b>159,248</b>	<b>159,270</b>			<b>23,165</b>	<b>38,530</b>
<b>176,380</b>	<b>176,609</b>	<b>Total other comprehensive revenue and expense</b>		<b>32,501</b>	<b>41,100</b>
<b>Net Surplus /(Deficit) attributable to:</b>					
17,131	17,339	Hastings District Council		9,336	2,569
-	-	- Minority Interest		-	-
<b>17,131</b>	<b>17,339</b>			<b>9,336</b>	<b>2,569</b>
<b>Total comprehensive revenue and expense attributable to:</b>					
176,380	176,609	Hastings District Council		32,501	41,100
-	-	- Minority Interest		-	-
<b>176,380</b>	<b>176,609</b>			<b>32,501</b>	<b>41,100</b>

ACTUAL COUNCIL 2018 \$'000	ACTUAL GROUP 2018 \$'000		BUDGET COUNCIL 2019 \$'000	ACTUAL COUNCIL 2019 \$'000
		Statement of financial position as at 30 June 2019	Notes	
ASSETS				
Current assets				
1,640	2,045	Cash & cash equivalents	5,554	2,939
12,178	12,409	Receivables (i)	10,114	13,026
108	108	Inventory	114	55
-	-	Non-current assets held for sale	-	-
30	263	Short Term Investments	-	30
13,956	14,825	Total current assets	15,782	16,050
Non-current assets				
-	-	Derivative financial instruments	-	-
1,807	7,775	Investments in associates	1,807	1,807
Other financial assets				
150	(87)	Investments in CCO's and similar entities	558	(44)
1,731	1,731	Investment in other entities	1,491	2,219
Other non-current assets				
3,688	9,419	Total other financial assets	3,856	3,981
227,220	227,575	Plant, property and equipment	203,199	237,623
1,885,573	1,885,573	Infrastructural assets	1,784,644	1,951,011
19	19	Biological Assets	-	60
127	127	Intangible assets	963	155
2,116,627	2,122,713	Total non-current assets	1,992,661	2,192,830
2,130,583	2,137,538	Total assets	2,008,444	2,208,880
LIABILITIES				
Current liabilities				
21,797	22,057	Payables and deferred revenue (ii)	15,225	23,578
2,612	2,612	Employee entitlements	2,467	2,444
93	93	Derivative financial instruments	-	2,186
22,000	22,000	Borrowings and other financial liabilities (iii)	12,516	10,000
46,502	46,762	Total current liabilities	30,208	38,208
Non-current liabilities				
719	719	Provisions & Other Non-current Liabilities	659	800
432	432	Employee entitlements	480	349
6,385	6,385	Derivative financial instruments	3,500	11,380
55,740	55,740	Borrowings and other financial liabilities (iii)	112,644	96,241
63,276	63,276	Total non-current liabilities	117,283	108,769
109,777	110,038	Total liabilities	147,491	146,976
2,020,806	2,027,499	Net assets (assets minus liabilities)	1,860,953	2,061,904
Equity				
1,236,678	1,241,279	Accumulated funds	1,131,801	1,239,171
3,572	3,572	Restricted Reserves	33	3,648
780,555	782,648	Revaluation Reserves	729,119	819,084
2,020,806	2,027,499	Total equity	1,860,953	2,061,904