
Monday, 19 October 2020

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Risk and Assurance Committee Meeting

Kaupapataka

Open Agenda

Te Rā Hui:
Meeting date: **Monday, 19 October 2020**

Te Wā:
Time: **1.00pm**

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

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

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

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HASTINGS DISTRICT COUNCIL
207 Lyndon Road East, Hastings 4122 | Private Bag 9002, Hastings 4156
Phone **06 871 5000** | www.hastingsdc.govt.nz
TE KAUNIHERA Ā-ROHE O HERETAUNGA

Risk and Assurance Subcommittee – Terms of Reference

Fields of Activity

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

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

Membership

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

Quorum – 4 members

Delegated Powers

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

Monday, 19 October 2020

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Hastings District Council

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Open Agenda

	<i>Koromatua</i>
	Chair: Jon Nichols – External Independent Appointee
	<i>Nga Kai Kaunihera</i>
<i>Mematanga:</i>	Councillors: Simon Nixon (Deputy Chair), Alwyn Corban, Tania Kerr, and Geraldine Travers
Membership:	Robin Hape - Heretaunga Takoto Noa Māori Standing Committee appointee
	Vacancy – Independent Externally appointed member
	Mayor Sandra Hazlehurst (ex-officio)

<i>Tokamatua:</i>	
Quorum:	4 members

<i>Kaihokoe mo te Apiha</i>	
Officer Responsible:	Group Manager: Corporate – Bruce Allan

<i>Te Rōpū Manapori me te Kāwanatanga</i>	
Democracy & Governance Services:	Vicki Rusbatch (Extn 5634)

Te Rārangi Take

Order of Business

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

- 1.0** 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.
-

2.0 Conflict of Interest – He Ngākau Kōnatunatu

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

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

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

Confirmation of Minutes – Te Whakamana i Ngā Minitī

- 3.0** Minutes of the Risk and Assurance Committee Meeting held Monday 27 July 2020.
(Previously circulated)
-

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| 4.0 | Quarterly Treasury Update | 7 |
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| 5.0 | Risk Appetite Measures | 13 |
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| 6.0 | Updated Enterprise Risk Management Framework and Revised Strategic Risk Register | 23 |
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| 7.0 | Risk Assurance Update | 53 |
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8.0	Contractor H&S Performance Report	93
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9.0	Insurance Update	99
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10.0	2021-31 Long Term Plan	103
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11.0	Annual Report 2020 Update	111
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12.0	Group Manager: Corporate Update Report	119
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13.0	Minor Items – <i>Ngā Take Iti</i>	
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14.0	Urgent Items – <i>Ngā Take Whakahihir</i>	
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 Monday, 19 October 2020

Item 4

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
**Hastings District Council: Risk and Assurance
Committee Meeting**
Te Rārangi Take

Report to Risk and Assurance Committee

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

Te Take:
Subject: **Quarterly Treasury Update**

1.0 PURPOSE AND 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 The Council's current total external debt is \$165.7m as at 30th September 2020. Offsetting this are \$20m of term deposits, along with an additional \$10m invested early October giving a net external debt position of \$135.74m.
- 1.3 **Recent Borrowings:** Since the last update in March, Council has borrowed a further \$15m from the Local Government Funding Agency (LGFA) as prefunding for the expected upcoming capital spend. This amount was borrowed from the Local Government Funding Agency (LGFA) at a floating rate of Bank Bill 90 day Benchmark Rate (BKBM) (currently 0.30% pa) plus a margin. The details are as follows:

Draw Date	Amount	Margin	Effective Interest Rate	Maturity Date
13/07/2020	\$10m	0.7225%	1.02%	15/04/2026
13/07/2020	\$5m	0.8490%	1.149%	15/04/2028

- 1.4 In October Council will have borrowed an additional \$20m, further details will be reported in the next treasury update, as this transaction has not been completed at the time of writing this report. The reason for this additional \$20m is prefunding to pay for a \$20m loan maturing in May 2021.

This new borrowing will be put on deposit until required in May 2021 and while deposit rates have fallen recently, there is still a positive margin available to do this transaction.

- 1.5 **Recent Movements in Investments:** On the 17th July two of Council's Term deposits matured (\$2m at 2.89% and \$2m at 2.62%). These funds were used to fund Council's ongoing capital program. In addition on 30th September a further Term Deposit matured (\$10m at 2.5%).
- 1.6 Council has 2 active term deposits totalling \$10m with rates ranging from 2.50% pa to 1.41% pa, these investments are being held as funding for future capital expenditure.
- 1.7 In October Council will be investing a further \$30m, (\$10m at 1.09%, with further details on the remaining \$20m will be reported in the next treasury update as this transaction has not been completed at the time of writing this report).
- 1.8 On the 26th August Council entered into a two new deposits totalling \$10m as follows:

Bank	Amount	Interest Rate	Maturity
Westpac	\$5m	1.41%	23/04/2021
Westpac	\$5m	1.41%	26/02/2021

- 1.9 Council is currently compliant with its Treasury Management Policy, the full table of measures and KPI's is included in the attached dashboard.
- 1.10 In February 2020 a report was put to the Risk and Assurance committee outlining the results of reviewing the Treasury policy with Council advisors Bancorp. There were a number of significant changes that were put forward and then ratified with a resolution passed through the Operations and Monitoring Committee.
- 1.11 With the policy having been reviewed in February of this year it is felt that the policy is still relevant and up-to-date, with one main exception. This is in the area of external debt ratios and limits and in particular the macro limit relating to net external debt as a percentage of income.
- 1.12 Currently Council's net debt to revenue ratio is 101% with the Treasury Policy limit set at 150%. It is expected with high levels of capital spend needed that this will rise from this year going forward.
- 1.13 Officers are currently underway working through the 2021-22 Long Term Plan (LTP) for Council. This is a plan that has a 10 year horizon and includes all of the capital projects that have been tabled as necessary over that time period. Whilst it is relatively early in this process, indications are of a high capital spend especially in the first three years of the LTP, with external debt expected to increase significantly over this time. This is in addition to the high budgeted capital spend of \$130m in the current financial year.
- 1.14 Officers feel that it is in Council's best interests to maintain a good level of flexibility within the policy, whilst still maintaining a prudent approach to the treasury function. This becomes especially important when COVID-19 is factored into considerations going forward over the next 12–18 months.
- 1.15 Representatives from Council's Treasury advisors Bancorp will be in attendance at this meeting to discuss current trends and the context of other local government organisations and their respective policy limits.
- 1.16 While it is still early in the development of the LTP, it is prudent that the Committee begin to consider future potential changes to the Treasury Policy limits. This will be reported back to the Committee in December where a recommendation will be sought that potentially looks to increase limits in order to maintain a good level of flexibility.

- 1.17 The Reserve Bank of New Zealand (RBNZ) left its Official Cash Rate (OCR) at 0.25% on the 16th March 2020, with the rate to be held at this level for 12 months.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

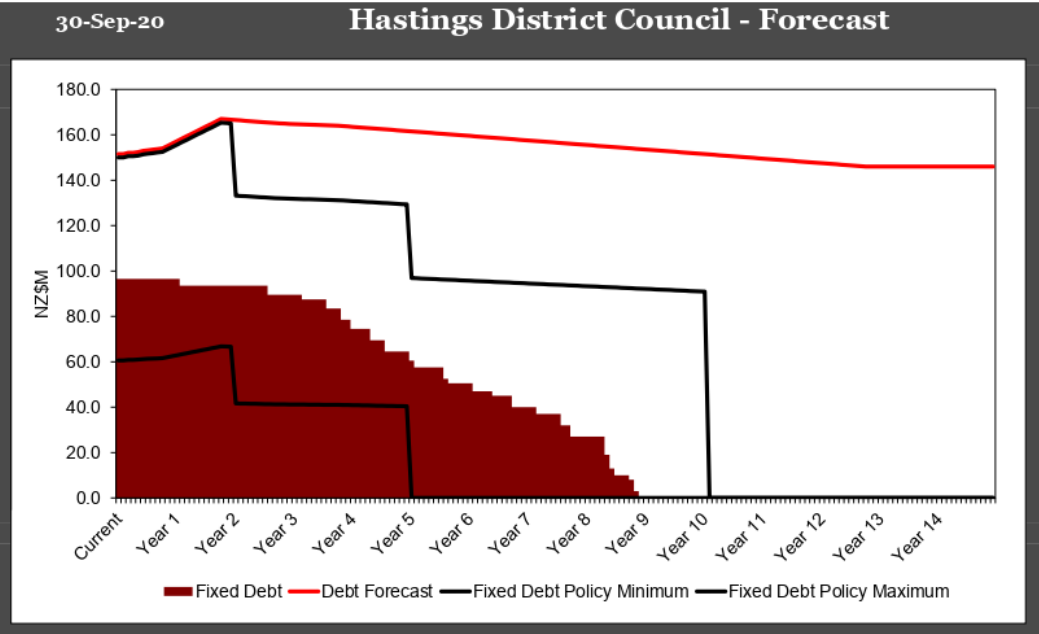
- A) That the Committee receives the report titled Quarterly Treasury Update.
- B) That the Committee approves the proposed changes to the Treasury Management Policy, and sends it to Council for adoption.

Attachments:

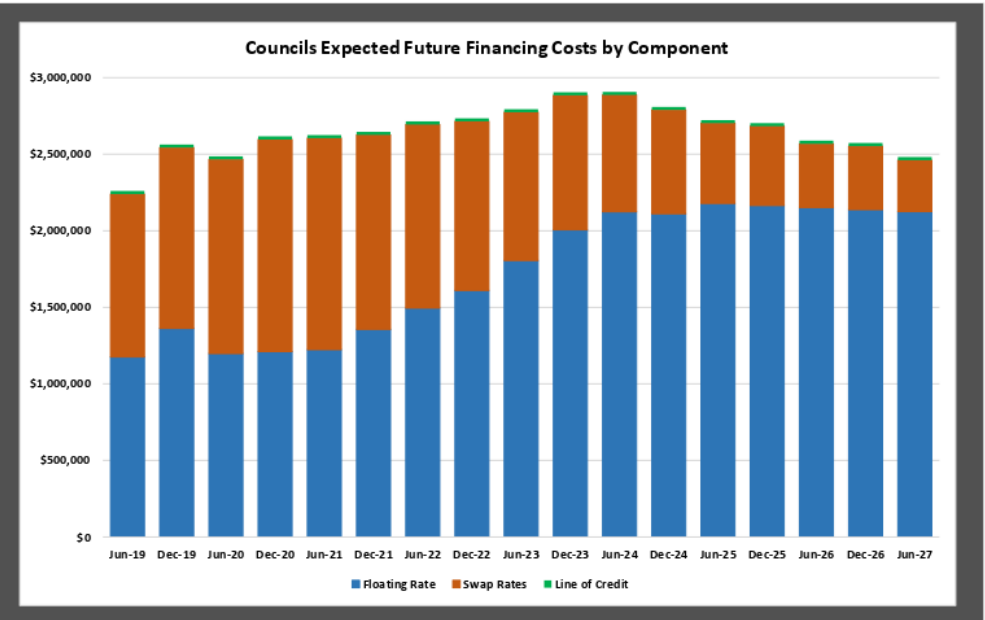
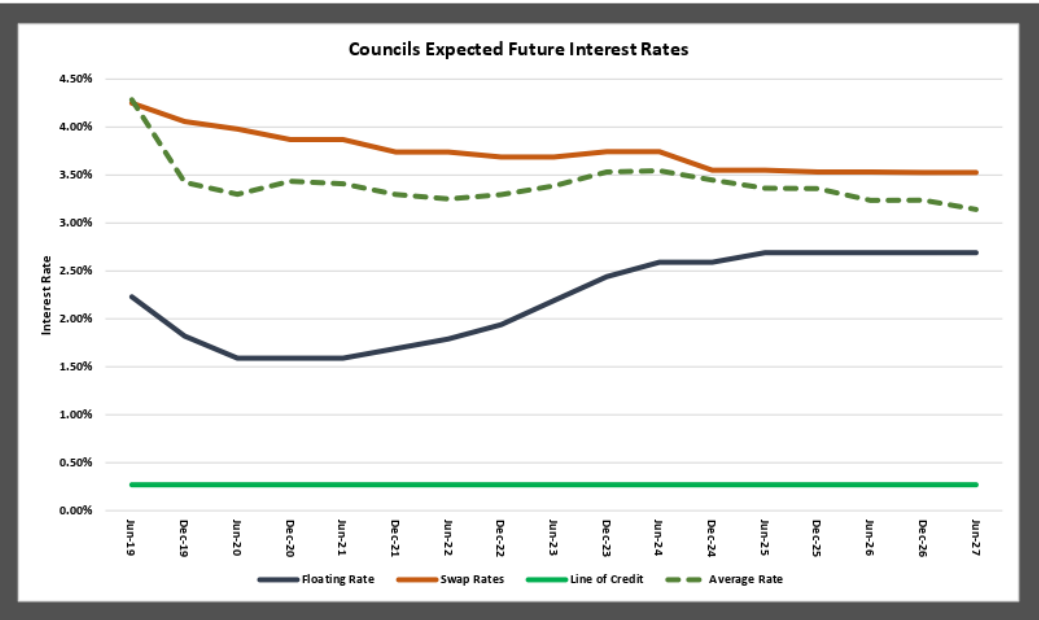
- | | | |
|---------------------|---|-----------------|
| 1 ↓ | Financial Management - Treasury - Investment reporting - Treasury Dashboard 30th September 2020 | FIN-15-01-20-20 |
|---------------------|---|-----------------|

Interest Rate Risk Position

30 September 2020



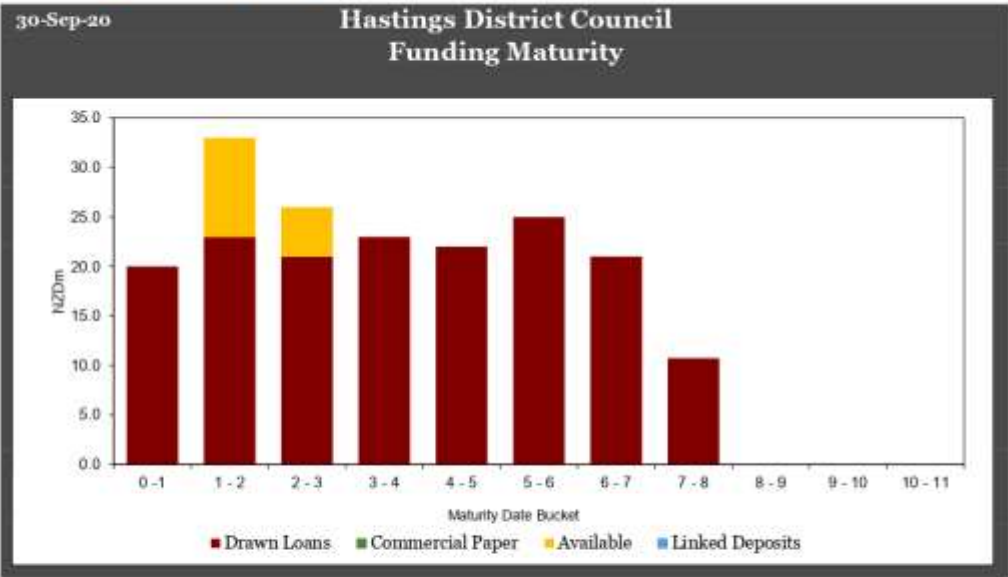
Debt Interest Rate Policy Parameters					
(calculated on rolling monthly basis)					
Debt Period Ending	Debt Forecast	Minimum %	Maximum %	Actual	Compliant (Y/N)
Current	166	40%	99%	58%	Yes
Year 1	157	40%	99%	61%	Yes
Year 2	167	25%	80%	56%	Yes
Year 3	165	25%	80%	54%	Yes
Year 4	164	25%	80%	46%	Yes
Year 5	162	0%	60%	37%	Yes
Year 6	160	0%	60%	32%	Yes
Year 7	158	0%	60%	25%	Yes
Year 8	156	0%	60%	17%	Yes
Year 9	154	0%	60%	0%	Yes
Year 10	152	0%	60%	0%	Yes
Year 11	150	0%	0%	0%	Yes
Year 12	148	0%	0%	0%	Yes
Year 13	146	0%	0%	0%	Yes
Year 14	146	0%	0%	0%	Yes
Year 15	146	0%	0%	0%	Yes
Weighted Avg Cost of Fixed Rate Instruments				3.88%	
Value of Live Fixed Rate Instruments				\$ 96,500,000	
Weighted Avg Length of Fixed Rate Instruments				6.07 Years	



Cost of Holding Fixed Interest Position				30-Jun-20				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	88,500,000	4.01%	(13,321,317)	80,500,000	4.14%	(10,915,528)		8,000,000	(0.13%)	(2,405,789)	
Total Interest Rate Swaps	42,500,000	4.18%	(6,220,779)	53,500,000	3.93%	(7,846,533)		(11,000,000)	0.25%	1,625,754	
	131,000,000	4.07%	(19,542,096)	134,000,000	4.06%	(18,762,061)		(3,000,000)	0.01%	(780,035)	
Average Cost of Funds				30-Jun-20				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	157,000,000	0.91%		147,000,000	2.26%			10,000,000	(1.35%)		
Westpac Lines of Credit	88,500,000	4.01%		80,500,000	4.14%			8,000,000	(0.13%)		
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%		
	165,740,000	2.98%		155,740,000	3.57%			10,000,000	(0.59%)		

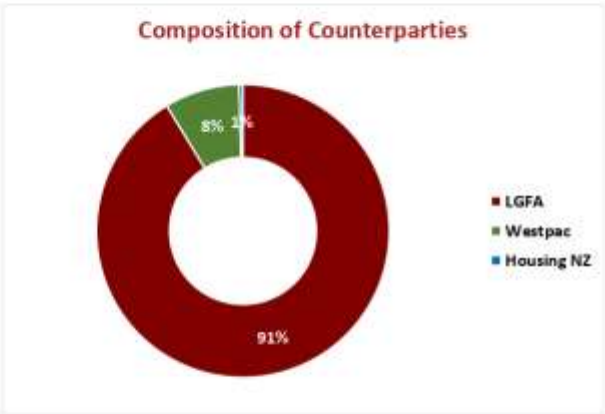
Funding and Liquidity Risk Position

30 September 2020



Funding KPI's

	Minimum %	Maximum %	Actual	Compliant (Y/N)
Liquidity	110%	170%	121%	Yes
Fixed Interest Debt	40%	99%	58%	Yes
Funding Maturity Profile				
0-1 Year	0%	33%	20%	Yes
1-2 Year	0%	33%	18%	Yes
2-3 Year	0%	33%	13%	Yes
3-4 Year	0%	33%	11%	Yes
5-6 Year	0%	33%	11%	Yes
6-7 Year	0%	33%	12%	Yes
7-8 Year	0%	33%	10%	Yes
8-9 Year	0%	33%	5%	Yes
9-10 Year	0%	33%	0%	Yes
10-11 Year	0%	33%	0%	Yes
Net Debt as % Equity	6%	20%	7%	Yes
Net Debt as % Income	93%	150%	101%	Yes
Net Interest as % Income	3%	15%	4%	Yes
Net Interest as % of Rates	5%	20%	6%	Yes



Funding and Liquidity Characteristics

Total External Council Drawn Debt	165,740,000
Funds Drawn from LGFA	165,000,000
Undrawn Bank Facilities	15,000,000
Term Deposits	20,000,000.00
LIQUIDITY RATIO Definition: (Cash Reserves + Lines of Credit + Drawn Debt) / Drawn Debt	1.21
Weighted Average Length of Funding	3.46 Years

Monday, 19 October 2020

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
**Hastings District Council: Risk and Assurance
Committee Meeting**

Item 5

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: Regan Smith, Risk and Corporate Services Manager

Te Take:
Subject: Risk Appetite Measures

1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to present to the Committee a summary of the risk tolerance measures that form part of the Council's risk appetite statements.
- 1.2 **Importance of Risk Appetite**
- 1.3 The governing body of an organisation is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives (UK Corporate Governance Code). This risk taking profile is articulated in the form of a risk appetite statement, against which decisions at all levels throughout the organisation can be calibrated. This facilitates a consistent approach to risk taking that is within the organisation's tolerance.
- 1.4 This gives rise to the following definitions:
 - Risk appetite reflects the risks an organisation is prepared to engage with to achieve strategic objectives.
 - Risk tolerance reflects the degree of variation in risk that the organisation is prepared to accept.
- 1.5 **Measuring Risk Appetite**
- 1.6 Risk tolerance measures have been established for five principle risks (i.e. Safety, Financial performance, Service delivery impacts, Compliance, Reputation) in relation to each of the key focus areas of the current Long Term Plan. This recognises that there is a range of risk appetite that varies according to the activity being undertaken.

- 1.7 This report presents the first summary of the agreed risk tolerance measures to assess whether Council's services have operated within the documented risk appetite **(Attachment 1)**.
- 1.8 Key areas to note from the current report are:
- Overall actual performance falls within the tolerance ranges established.
 - In the majority of cases variations that fall outside of the established tolerances have been caused by the interruption to physical work programmes during COVID-19 lockdown. This implies that the work programmes are reasonably aggressive.
 - The continuing level of industrial and residential economic activity is putting the system under pressure, as evidenced by minimum level of vacant residential land and instances of construction that has not met the required building standards.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) That the Committee receives the report titled Risk Appetite Measures.

Attachments:

- 1 [↓](#) Risk Appetite Statement Tolerance Report October 2020 PMD-9-3-20-19



HDC Risk Tolerance Report – 1st Quarter 2020/2021

1. Our Environment

Appetite: Averse **Conservative** Measured Justified Flexible



Tolerances & Measures:

Safety	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Hastings Drinking Water Monitoring Plan met.			Achieved	Meets
	<5 dry weather sewerage overflow per 1000 connections PA*			0.89	Meets
Financial	Extremely Low	Low	Limited	Expect Some	Anticipated
Variation	Measure			Actual	Tolerance
	Capital project spend between -25% and +10%			-32%	Under
Service Delivery	Extremely Low	Low	Limited	Expect Some	Anticipated
Standard	Measure			Actual	Tolerance
	<20 unplanned water outages per month			24	Over
	No habitable floors flooded (1:50 year event)			0	Meets
Compliance	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Compliant Water Safety Plans for each supply.			In Progress	Meets
	HBRC consent compliance.			Minor technical non-compliance	Meets
	No material non-compliance raised			0	Meets
Reputation	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Regional public/media interest expected – No adverse national coverage.			Lowes Pit & Frimley Park (Balanced) Water Central (Negative)	Meets
	Nationally seen as leaders in water supply.			3 Waters review (Balanced)	Meets

* LTP measure

Commentary

- The only material variation to risk tolerances is associated with the underspend relating to safe drinking water capital projects. Delays have occurred due to consultation and engagement leading to the budget underspend.

Tolerance Assessment Key:

Under	Meets	Over
Performance below lower threshold	Performance in acceptable range	Performance exceeds maximum threshold

Ref:

V1.0 / August 2020

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2. Moving Around

Appetite: Averse **Conservative** Measured Justified Flexible



Tolerances & Measures:

Safety	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Reducing fatality and serious injury trend*			Achieved 30 (down from 40)	Meets
	Bridges meet requirements for safe carriage			Achieved	Meets
Financial	Extremely Low	Low	Limited	Expect Some	Anticipated
Variation	Measure			Actual	Tolerance
	Project spend between -25% and +10%			-42%	Under
Service Delivery	Extremely Low	Low	Limited	Expect Some	Anticipated
Standard	Measure			Actual	Tolerance
	5.5% of local network resurfaced pa*			3.23%	Under
	<1.5 % of footpaths classified poor or worse*			1.93%	Over
	Max 27 (10%) weight/speed restricted bridges			30 (12%)	Over
Compliance	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Comply with NZTA funding requirements			Achieved	Meets
	Comply with NZ Bridge Design Manual and Regulations			Achieved	Meets
Reputation	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Regional public/media interest expected – No adverse national coverage			Speed limit consultation changes (Balanced)	Meets
	Recognised for best practice asset management & renewal planning			Waugh Consulting and NZTA recognise good practice.	Meets

* LTP measure

Commentary

- Resurfacing and footpath programmes have been impacted by COVID-19 lockdown.
- Changes in heavy vehicle standards has affected bridge restrictions.

Tolerance Assessment Key:

Under	Meets	Over
Performance below lower threshold	Performance in acceptable range	Performance exceeds maximum threshold

Ref:

V1.0 / August 2020

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3. Our Economy

Appetite: Averse Conservative **Measured** Justified Flexible



Tolerances & Measures:

Safety	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	No notifiable injuries/illness from infrastructure projects			0	Meets
	No serious assaults in the CBD resulting from failure of community safety services.			Achieved Note: Some anti-social activity around pocket parks	Meets

Financial	Extremely Low	Low	Limited	Expect Some	Anticipated
Variation	Measure			Actual	Tolerance
	Project spend between -50% and +25%			3.1% CBD & industrial growth	Meets

Service Delivery	Extremely Low	Low	Limited	Expect Some	Anticipated
Standard	Measure			Actual	Tolerance
	Vacant industrial land: Min 20%; Target 30% *			20%	Under
	<10% retail space vacant (quarterly basis)			TBA	-

Compliance	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	No Planning & Building Act compliance failures.			Not Achieved Ryman Healthcare notice to fix	Over

Reputation	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Positive regional public interest/media for liveable spaces – no adverse media coverage.			Market statistics (Positive)	Meets

* LTP measure

Commentary

- Vacant industrial LTP measure achieved, but it is below the target level identified. This is driven by considerable uptake of the recently rezoned land at Omaha and Irongate areas reducing the vacant land available for development down to the minimum buffer area.
- Notice to Fix issued to Ryman Healthcare for remediating issues identified through Council inspection process.

Tolerance Assessment Key:

Under	Meets	Over
Performance below lower threshold	Performance in acceptable range	Performance exceeds maximum threshold

Ref:

V1.0 / August 2020

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4. Where We Live

Appetite: Averse Conservative Measured **Justified** Flexible



Tolerances & Measures:

Safety	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	No dwellings built in risk areas without mitigation			Not Achieved West Rd floor level	Over
	All new dwellings meet safe and sanitary requirements			Achieved	Meets
Financial	Extremely Low	Low	Limited	Expect Some	Anticipated
Variation	Measure			Actual	Tolerance
	Project spend between -50% and +25%			-59.5% Residential growth	Under
Service Delivery	Extremely Low	Low	Limited	Expect Some	Anticipated
Standard	Measure			Actual	Tolerance
	Min 20ha residential greenfields land available*			112ha	Meets
	<0.2% of plan zone land (valuable soils) used for new housing per annum			TBA	-
Compliance	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	No Resource Consents or Building Consents legal challenges upheld.			Achieved	Meets
Reputation	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Positive regional public/media attention expected – No adverse national coverage			Low level coverage associated with Kainga Ora not meeting targets	Meets
	Support for national recognition of successful innovation in provision of housing.			Pending successful completion of Papakainga developments	Meets

* LTP measure

Commentary

- Construction of West Rd property not in accordance with consented plans.

Tolerance Assessment Key:

Under	Meets	Over
Performance below lower threshold	Performance in acceptable range	Performance exceeds maximum threshold

Ref:

V1.0 / August 2020

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5. Things To Do

Appetite: Averse Conservative Measured Justified Flexible



Tolerances & Measures:

Safety	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	No notifiable injuries caused by the condition Council infrastructure. <i>Note: Injuries resulting from an individual's actions not caused or influenced by Council equipment or infrastructure are excluded.</i>			0	Meets
Financial	Extremely Low	Low	Limited	Expect Some	Anticipated
Variation	Measure			Actual	Tolerance
	Project spend between -25% and +10%			-22.7% Opera House & Parks	Meets
Service Delivery	Extremely Low	Low	Limited	Expect Some	Anticipated
Standard	Measure			Actual	Tolerance
	Opera House Qualmark rating – Five star*			Closed	NA
	>97% parks user satisfaction*			Not measured	-
	<3 non-weather related park closures pa			Partial closure of Tainui reserve	Meets
Compliance	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	All playground equipment compliant.			Farndon Park playground	Over
	No fines/prosecutions for non-compliant equipment or facilities.			Achieved	Meets
Reputation	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Positive regional public/media attention for liveable spaces expected – No adverse coverage			Inner city plan (positive)	Meets

* LTP measure

Commentary

- Partial closure of Tainui reserve required due to water damage to a part of the reserve.
- Routine inspection at Farndon Park Domain playground identified equipment that needed repair, which is underway.

Tolerance Assessment Key:

Under	Meets	Over
Performance below lower threshold	Performance in acceptable range	Performance exceeds maximum threshold

Ref:

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6. Our People

Appetite: Averse Conservative **Measured** Justified Flexible



Tolerances & Measures:

Safety	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	No youth put in potentially harmful situations			Achieved	Meets
Financial	Extremely Low	Low	Limited	Expect Some	Anticipated
Variation	Measure			Actual	Tolerance
	Operational spend between -10% and +10%			-2% Subsidies & Grants	Meets
Service Delivery	Extremely Low	Low	Limited	Expect Some	Anticipated
Standard	Measure			Actual	Tolerance
	No unplanned outages for CCTV, City Assist or Kaitiaki services.			Achieved	Meets
	Min 3 place based plans completed*			Waipatu complete, 3 plans under development	Under
	Min 1 social development review completed*			Multi cultural strategy completed	Meets
Compliance	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	No challenges for lack of engagement or consultation upheld.			Achieved	Meets
Reputation	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Positive regional public/media interest for community lead plans expected – No adverse national coverage			Sporadic positive coverage for community support	Meets

* LTP measure

Tolerance Assessment Key:

Under	Meets	Over
Performance below lower threshold	Performance in acceptable range	Performance exceeds maximum threshold

Ref:

V1.0 / August 2020

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Our Service Delivery

Appetite: Averse **Conservative** Measured Justified Flexible



Tolerances & Measures:

Safety	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	<10 medical attention or LTI injuries too staff & contractors per month			4.67	Meets

Financial	Extremely Low	Low	Limited	Expect Some	Anticipated
Variation	Measure			Actual	Result
	Operational spend between -5% and +5%**			+1.9%	Meets

Service Delivery	Extremely Low	Low	Limited	Expect Some	Anticipated
Standard	Measure			Actual	Tolerance
	Max 10% variation from the LTP targets*			16% of measures not achieved	Over
	No Council decision reversed upon review			0	Meets

Compliance	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	No challenges to Resource Consent or Building Consent decisions upheld.			Achieved	Meets
	Services provided meet regulatory requirements for safe operation.			Achieved	Meets

Reputation	Extremely Low	Low	Limited	Expect Some	Anticipated
Outcomes	Measure			Actual	Tolerance
	Interest of local groups or individuals may occur, but events within Council's control should generally not result in adverse regional or national media coverage. Positive media attention up to national level is desirable for innovative service.			Local attention to consultation & petitions	Meets

* LTP measure

** CE KPI measure

Commentary

- Variation for most LTP measures caused by COVID-19 related disruptions to services.

Tolerance Assessment Key:

Under	Meets	Over
Performance below lower threshold	Performance in acceptable range	Performance exceeds maximum threshold

Ref:

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Monday, 19 October 2020

Item 6

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
**Hastings District Council: Risk and Assurance
Committee Meeting**

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: Regan Smith, Risk and Corporate Services Manager

Te Take:
**Subject: Updated Enterprise Risk Management Framework and Revised
Strategic Risk Register**

1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

1.1 This report presents an updated versions of the following documents for review and endorsement by the Committee:

- Hastings District Council Enterprise Risk Management (ERM) framework and policy
- Hastings District Council Tier 1 Strategic Risk Register.

1.2 HDC Enterprise Risk Management Framework and Policy

1.3 The following key changes have been made to the HDC Enterprise Risk Management framework and policy (Attachment 1):

- Updated to reflect the revised process and principles in the latest version of the ISO31000 Risk Management standard.
- Altered governance section to reflect the new Committee and internal meeting structure.
- Incorporated the recently adopted risk appetite statements.

1.4 HDC Strategic Risk Register

1.5 A review of the current HDC Tier 1 Strategic Risk Register is considered appropriate to ensure that the Council strategic risk profile is fit for purpose. This is particularly important to align with development of the 2021-2031 Long Term Plan, and to consider drivers resulting from the current COVID-19 operating environment.

- 1.6 The review also provides the opportunity to rationalise the number of risks on the register to create a more focused list. This will enable the Committee to give more attention to material issues facing Council.
- 1.7 The following changes to the HDC Tier 1 Strategic Risk Register are recommended:
- Establish a new Significant Operational Service Failure strategic risk that represents an aggregation of the operationally focused strategic risks on the current register, and delegating responsibility for managing the individual risks to the Lead Assurance Team. This simplifies the register while still allowing the Committee to seek assurance that the specific risks are suitably managed.
 - Consider the attached lists of proposed and suggested Strategic Risks (Attachment 2) in order to confirm which risks should be included on the Council Tier 1 Strategic Risk Register. The Proposed Strategic Risks are considered to be material to delivery of the proposed vision and goals in the 2021-2031 Long Term Plan, while the suggested Strategic Risks have merit and could be included in addition to, or instead of, any of the Proposed Risks. Any additional risks that the Committee Members consider material may also be included.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) **That the Committee receives the report titled Updated Enterprise Risk Management Framework and Revised Strategic Risk Register.**
- B) **That the Committee recommend the following documents for adoption by Council:**
- Hastings District Council Enterprise Risk Management framework and policy
 - Hastings District Council Tier 1 Strategic Risk Register.

Attachments:

- | | | |
|----|---|------------------|
| 1↓ | DRAFT HDC Risk Management Policy and Framework V4 for Risk & Assurance October 2020 | PMD-03-81-20-206 |
| 2↓ | Draft Revised Strategic Risk Register for Risk and Assurance Committee October 2020 | PMD-9-3-20-20 |



Hastings District Council Enterprise Risk Management Policy & Framework

Policy expert	Risk and Corporate Services Manager
Policy owner	Council
Owner Department	Corporate
Approval date	TBC
Version	4.0
Review date	TBC

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Change history

Amendment (s)	Date	Updated by and authority
First Release	12 Sep 2012	Updated by Business Service Manager. Authorised by Leadership Management Team
Annual Review V1.1	16 Sep 2013	Updated by Business Service Manager.
Minor changes to text for clarification		
Full Review V2.0	9 Feb 2017	Updated by Business Service Manager.
Overview of risk management updated to reflect ISO 31000 standard.		
Roles and responsibilities, and conflict of interested included in Policy section.		
Guiding principles from the ISO 31000 standard included in risk framework.		
Need for risk management to be integrated in to all business activities reinforced throughout.		
Audit & Risk V2.1	28 Feb 2017	Updated by Business Service Manager. Confirmed by Audit & Risk Subcommittee.
Protection of personal safety added to policy objectives.		
Risk matrix included as Appendix 1.		
PWC feedback incorporated V2.2	11 May 2017	Updated by Business Service Manager.
CE commitment statement added		
Reference to Risk Handbook included.		
Enhancements include:		
- Annual policy review,		
- principles moved to Policy section,		
- risk process overview included,		
- Additional guidance relating to consultation and treatment plans.		
- Risk register management and monitoring		
- Glossary of Terms added.		
Purpose amended to include community outcomes	21 Jun 2017	Updated by Business Service Manager. Confirmed by Council
Draft removed. Version published	13 Jul 2017	Updated by Business Service Manager. Approved by Council 13 July 2018
Annual review. Moved to new policy template:	3 Aug 18	Updated by Risk and Corporate Services Manager. Approved by Council 31 January 2019
- Add Architecture section.		
- Include Council responsibilities in Purpose and Roles & Responsibilities.		
- Updated risk principles to match ISO31000:2018		
- Updated Risk Appetite and Tolerance.		
- Risk Impact and matrix revised.		
- Minor amendments to Risk Process Analysis and Evaluation sections.		
Annual review:	10 July 20	Updated by Risk and Corporate Services Manager.
- Architecture section updated to reflect current structure.		
- Risk appetite section added and tolerance statements included.		

Note: Changed sections are indicated by a vertical bar in the margin.

1. Purpose

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

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

1.1. Background

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

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

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

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

1.2. Governance Oversight

Collectively the Councillors are responsible for setting risk management tone and objectives, and for oversight of the organisation's strategic risks. This includes determining acceptable levels of risk exposure (refer to Risk Appetite and Tolerance) and confirming that management operate within the limits defined.

1.3. Chief Executive Commitment

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

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

Nigel Bickle, Chief Executive

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

2. Architecture

2.1. Reporting Structure

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

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

Risk information flows down from the Council, and is reported up from Groups and business teams as shown in the diagram below:



In addition to this regular information flow, issues that arise between reporting cycles will be raised with the appropriate forum in a timely manner to allow effective treatment decisions to be made.

Business units and underlying teams may adopt or adapt this framework to meet their needs as deemed appropriate by the line manager. However, in all cases high risk issues identified by these teams must be escalated to LT or Risk and Assurance Committee as described in this framework.

2.2. Roles and Responsibilities

Role	Responsibility
All Staff	Actively involved in managing risk. Consult with and keep line managers informed about risk as appropriate.
Risk Owners	Accountable for management of assigned risks. Consult with and keep LMT informed about risk as appropriate.
Group Manager	Have practices in place within their Group to: <ul style="list-style-type: none"> - Identify, assess and monitor risks. - Assign responsibility for managing risks. - Develop and implement treatment plans to reduce risk exposure. - Regularly review risk controls and treatments. - Appropriately communicate and escalate risks as required. - Consider new, emerging and changing risks. - Support and encourage staff to engage in risk identification and response actions.
LT	Assess and monitor the organisation wide risk profile. Regularly review risk controls and treatments. Set priorities and allocate resources for risk mitigation.
Councillors (Elected Members)	Responsible for setting risk management tone and objectives. Define the organisation's risk appetite. Confirm that risk is managed within prescribed tolerance. Review the Tier 1 strategic risk register and seek assurance that adequate controls are in place and effective.

2.3. Conflict of Interest

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

3.Strategy

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

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

HDC manages risks in order to:

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

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

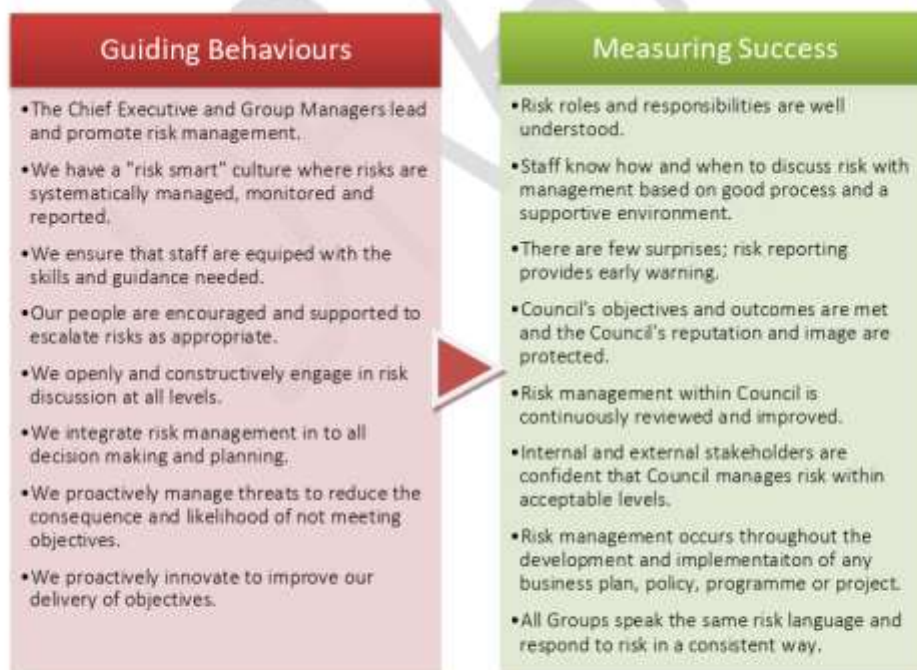
3.1.Scope and Applications

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

3.2.Guiding Behaviours and Measures

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

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



4. Policy Statement

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

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

4.1. Mandate and Commitment

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

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

4.2. Objectives

The Council's risk management objectives are:

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

4.3. Principles

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

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

4.4. Risk Appetite and Tolerance

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

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

4.4.1. HDC Risk Appetite Statement

The Council's over-arching risk appetite statement is as follows:

The Hastings District Council is responsible to the rate payers of the district to enable democratic local decision-making and action by, and on behalf of, communities to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

To achieve these outcomes Council has a **conservative** appetite toward risk that would adversely affect core services. In contrast, there is a desire to leverage opportunities that enhance outcomes for the community. As a result there is a more open approach to considering innovation or solutions that create long term benefits.

Whilst the overarching risk appetite may be conservative, Council recognises that it is not possible, or necessarily desirable, to eliminate all of the risks inherent in its activities. In some instances acceptance of risk within the public sector is necessary due to the nature of services, constraints within operating environment and a limited ability to directly influence where risks are shared across sectors.

Therefore, in relation to the Long Term Plan strategic objectives Council's risk appetite may vary depending on the circumstances and trade-offs implicit in the specific context. Resources are aligned to priority outcomes based on the specific risk appetite, and arrangements are in place to monitor and mitigate risks to acceptable levels.

The risk appetite for each of the key focus areas in the current Long Term Plan is stated in Appendix 2.

4.4.2. Risk Appetite Terminology

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

5. Risk Process

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

5.1. Integrated Risk Management

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

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

5.2. Risk Process Overview

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



5.3. Risk Process Map

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



5.3.1. Communication and Consultation

Effective risk management is based on continuous communication between internal and external stakeholders, and should include open two-way communication at all levels. This will help to ensure that individual risks are well

understood so that robust risk ratings, risk treatment plans and monitoring requirements are established to increase confidence in successfully achieving Council goals

5.3.2. Establish Context

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

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

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

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

5.3.3. Risk Identification

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

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

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

5.3.4. Risk Analysis

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

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

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

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

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

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

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

5.3.5. Risk Evaluation

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

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

5.3.6. Risk Treatment

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

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

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

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

IMPORTANT: The Health and Safety at Work Act and Regulations contain specific requirements on the hierarchy of controls for risk treatment. Refer to the reference to the H&S manual for details.

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

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

Treatment and action plans should include;

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

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

5.3.7. Risk Escalation

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

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

1. Accepted onto that management team's risk register, or
2. Escalated further, or

3. Referred back to the team or business unit for action.

The following table outlines the risk action and escalation requirements:

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

5.3.8. Risk Monitoring and Review

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

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

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

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

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

5.4. Risk Recording & Reporting

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

6. References

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

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

7. Review

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

8. Definitions

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

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

9.1. Likelihood Assessment Table

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

9.2. Impact Assessment Table

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

9.3. Risk Matrix and Heat Map

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

Notes on matrix heat map:

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

9.3.1. Calculated Risk Score Ranges

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

10. Appendix 2: Risk Appetite Key Focus Areas

10.1. Our Environment

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: \$47.8M
- Demand management: \$1.5M
- Environmental enhancement: \$1.7M



Appetite

Averse	Conservative	Measured	Justified	Flexible
--------	---------------------	----------	-----------	----------

Council intends to take a **Conservative** 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	Expect Some	Anticipated
Safety	●				
Outcomes	Drinking Water Monitoring Plan Hastings Urban Supply (WAT-20-54-19-1) requirements met. Fewer than 5 dry weather sewerage overflow events per 1000 connections per annum (LTP measure)				
Financial			●		
Variation	Spend between \$38.25M (-25%) and \$56.1M (+10%) for all projects.				
Service Delivery		●			
Standard	No more than 20 unplanned water supply outages or waste water system restrictions per month. No habitable floors affected by storm water for up to a 1 in 50 year ARI storm event (LTP Measure).				
Compliance		●			
Outcomes	Compliant Water Safety Plan for each Council water supply. Full compliance with Hawkes Bay Regional Council consent requirements. No material non-compliance raised by Water Assessors against a Council water supply.				
Reputation		●			
Outcomes	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 (Aligns with Water Services Business Plan).				

10.2. Moving Around

Context

LTP18/19 focus is to invest in our infrastructure to look after our assets prudently and to meet new challenges in bridge strengthening, increasing environmental standards and climate change.

- Renewals & Safety upgrades: \$4.4
- Walking & Cycling: \$1.1M
- Better Bridges: \$1.8M



Appetite

Averse	Conservative	Measured	Justified	Flexible
--------	---------------------	----------	-----------	----------

Council intends to take a **Conservative** approach to risk in order to achieve this outcome due to the potential adverse impacts on public safety and economic prosperity as a result of failing to provide a transportation network and bridges that are able to cope with current and future demands. This means that risks will be accepted only when essential to the core outcome, and limited possibility/extent of failure exists. In practice, the result is that assets will be prioritised based on sound research and data, and upgraded using the most suitable certified construction solution. In other words, Council is not looking to apply untested innovative solutions.

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	Expect Some	Anticipated
Safety					
Outcomes	Reducing trend of fatality and serious injury from previous year (LTP measure). All bridges meet requirements for safe carriage.				
Financial					
Variation	Spend between \$5.5M (-25%) and \$8M (+10%) for all projects.				
Service Delivery					
Standard	5.5% of sealed local road network is resurfaced per annum (LTP measure). No more than 1.5 % of footpaths classified poor or worse as measured by Council's condition rating system (LTP measure). Maximum of 27 (10%) weight and/or speed restricted bridges on the network.				
Compliance					
Outcomes	Full compliance with NZTA funding requirements. Full compliance with NZ Bridge Design Manual and Regulatory requirements.				
Reputation					
Outcomes	Interest of local groups or individuals is expected, but events should not result in adverse regional or national media coverage. Some desire to be recognised for best practice asset management and renewal planning.				

10.3. Our Economy

Context

Invest in the Hasting City Centre to increase its vibrancy and to meet the challenges of changing retail patterns and how people use the central city.

Ensure industrial development opportunities are easily accessible in Omaha, Irongate and Whakatu/Tomoana to meet our target of increased jobs and investment.

- Industrial Zone Investment: \$19M
- Economic Development: \$3.5M
- CBD Development: \$3.4M



Appetite

Averse	Conservative	Measured	Justified	Flexible
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Council is prepared to take a **Measured** approach to achieving this outcome on the basis that there is a desire try innovative ideas that may increase development of industrial land and improve the utility of the City Centre. This means that risk will be accepted if limited and heavily out-weighed by 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	Expect Some	Anticipated
Safety					
<i>Outcomes</i>	No notifiable injuries or illness from infrastructure projects due to poor health & safety practices by Council or a contractor. No serious assaults in the CBD resulting from failure of community safety services (including; CPTED design, CCTV, City Assist).				
Financial					
<i>Variation</i>	Spend between \$12.9M (-50%) and \$32.4M (+25%) for all projects.				
Service Delivery					
<i>Standard</i>	A minimum of 20% and a target of 30% of vacant industrial land (LTP measure). Less than 10% of retail spaces vacant on a quarter basis.				
Compliance					
<i>Outcomes</i>	No material failures to comply with the life safety goals of planning and building act and regulations.				
Reputation					
<i>Outcomes</i>	Positive regional public interest or media attention is expected for creating liveable spaces, but outcomes should not result in adverse media coverage.				

Example:

- Council invested \$3.8M installing water infrastructure for the Irongate industrial area to stimulate development after receiving only 20% of development contributions.

10.4. Where We Live

Context

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

- Residential infrastructure spend: \$20.5M

Appetite

Averse	Conservative	Measured	Justified	Flexible
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Council is prepared to take a **Justified** approach to achieving this outcome in order to meet the need in the community for sufficient liveable spaces. This means that strongly justified risks may be taken, as long as the potential impact is managed.

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	Expect Some	Anticipated
Safety					
<i>Outcomes:</i>	No new houses constructed in at risk areas (i.e. natural hazard zones) without mitigation. All new houses meet safe and sanitary requirements (e.g. weather tightness).				
Financial					
<i>Variation</i>	Spend between \$10.25M (-50%) and \$25.6M (+25%) for all projects.				
Service Delivery					
<i>Standard</i>	A minimum 20% residential greenfields land available (LTP measure) Less than 0.2% of plan zone land (valuable soils) used for new housing per annum (Note: this is equivalent to 62Ha or two times Lyndhurst Stage 1 & 2).				
Compliance					
<i>Outcomes</i>	No legal challenges upheld for unsound Resource Consents or Building Consents decisions.				
Reputation					
<i>Outcomes</i>	Positive regional public interest or media attention is expected, but events within Council's control should not result in adverse national media coverage. There is support for national recognition of successful innovation in provision of housing.				

Example:

- Council is looking to invest around \$11M installing road and water infrastructure for Howard Street residential area to make the development more appealing to the market.



10.5. Things To Do

Context

Continue enhancing our parks, recreational and cultural facilities to make the Hastings District a place where people want to work, live and play.

- Opera House: \$39.6M
- Enjoyable reserves: \$5.9M
- Regional Sports Park Grant: \$4.9M



Scope

This strategic outcome covers the approach taken to enhancing the playgrounds, sports fields, parks, reserves, swimming pools and aquatic facilities, Skate Park and mountain bike trails in the District.

Appetite

Council is prepared to take a **Justified** approach to achieving this outcome on the basis that there is a desire to provide spaces that allow people to enjoy the natural environment and seek adventure. This means that risk may be accepted as long as the impact is managed.

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	Expect Some	Anticipated
Safety					
<i>Outcomes</i>	It is expected that injuries will occur within parks, recreational and cultural facilities as a result of the actions of individuals. However, no notifiable injuries or illness should be caused by the condition of the physical infrastructure provided by Council. <i>Note: Injuries resulting from an individual's actions not caused or influenced by Council equipment or infrastructure are excluded from this measure.</i>				
Financial					
<i>Variation</i>	Spend between \$37.8M (-25%) and \$55.4M (+10%) for all projects.				
Service Delivery					
<i>Standard</i>	Opera House Qualmark rating – Five star (LTP measure) Greater than 97% parks user satisfaction (LTP measure). Less than 3 non-weather related unplanned park closures per year.				
Compliance					
<i>Outcomes</i>	Only compliant equipment is use or installed in play grounds. No fines or prosecutions for non-compliant equipment or facilities.				
Reputation					
<i>Outcomes</i>	Positive regional public interest or media attention is expected for creating liveable spaces, but outcomes should not result in adverse media coverage.				

Example:

- Work on the Opera House, plaza and municipal building was started before all funding sources were confirmed.
- A covered slide tower was installed in Cornwall Park to provide an adventure opportunity.

10.6. Our People

Context

Work together with communities and other to build civic pride, develop our youth and uplift people and communities.

- Youth, Hapu and Community Development: \$2.2M
- City Assist & Kaitiaki: \$3.1M
- Community Grants: \$3.2M



Appetite

Averse	Conservative	Measured	Justified	Flexible
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Council is prepared to take a **Measured** approach to achieving community uplift due to the need to work collaboratively with local Hapu, community and other agencies. This means that risk will be accepted if limited and heavily out-weighed by 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	Expect Some	Anticipated
Safety					
Outcomes	No programmes or placements put youth in potentially harmful situations.				
Financial					
Variation	Spend between \$7.6M (-10%) and \$9.3M (+10%) for all projects.				
Service Delivery					
Standard	No unplanned outages for CCTV, City Assist or Kaitiaki services. At least 3 place based plans completed (LTP measure) At least 1 social development review completed (LTP measure)				
Compliance					
Outcomes	No challenges against community programmes for lack of engagement or consultation that can be upheld.				
Reputation					
Outcomes	Positive regional public interest or media attention is expected for community lead plans and pathways for youth, but outcomes within Council's control should not result in adverse national media coverage.				

10.7. Our Service Delivery

Context:

Local Infrastructure which contributes to public health and safety, supports growth, connects communities, activates communities and helps to protect the natural environment

Local public services which help meet the needs of young and old, people in need, visitors and locals, businesses and households.

Regulatory functions which help to prevent harm and help create a safe and healthy environment for people, which promote the best use of natural resources and which are responsive to community needs.

- Operating budget: \$88M



Appetite

Averse	Conservative	Measured	Justified	Flexible
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Council intends to take a **Conservative** approach to delivery of core services as the community expects Council to provide safe, compliant and reliable services that reflect the needs of the community in a cost effective and efficient way. 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	Expect Some	Anticipated
Safety					
Outcomes	Fewer than 10 medical attention or lost time injuries to Council workers (staff and contractors) per month (refer Health & Safety Reports).				
Financial					
Variation	Spend between \$83.6M (-5%) and \$92.4M (+5%) for all operations (Aligns with Chief Executive Objectives).				
Service Delivery					
Standard	No more than 10% variation from the LTP target levels of service. No decision reversed upon review.				
Compliance					
Outcomes	No legal challenges upheld for unsound Resource Consent or Building Consent decisions. All services provided meet regulatory requirements for safe operation.				
Reputation					
Outcomes	Interest of local groups or individuals may occur, but events within Council's control should not result in adverse regional or national media coverage. Positive media attention up to national level is desirable for innovative service.				

Example:

- It is important that the decisions made when issuing a consent, permit or licence are technically correct, even if that means there is a slight delay in issuing the decision.





Proposed Strategic Risk Register

Objectives: Heretaunga whenua houkura, Fertile land; Heretaunga hapori ora, Prosperous people.

- **Economic Wellbeing:** Sufficient and supportive economy (*Enable employment; House supply matches need; Transport links people, goods & opportunities*).
- **Environmental Wellbeing:** Healthy environment & people (*Water & land wisely used; Sustainable development & carbon emissions reduced; Environment enhanced & protected; Council services green & healthy*).
- **Social Wellbeing:** Safe and inclusive place (*Community safe & resilient; Innovations connect citizens & services; Pathways for youth*).
- **Cultural Wellbeing:** Vibrant place to live, play & visit (*Great spaces for all people; Civic pride, cultural diversity & relationships are strong*).

Context: Levels of social inequality remain apparent in the community despite relatively strong performing rural and industrial economic sectors. However, these sectors are increasingly subject to constraints over water resources and availability of labour.

The Local Government Act requires Council to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future. However, Council does not have specific powers or ability to collect revenue in relation to social, environmental or cultural outcomes. Therefore, partnerships with other agencies will be key to achieving these outcomes.

Proposed Strategic Risks

ID	Description	Comments	L	I	Inherent Risk
3	People safety & wellbeing	People safety and wellbeing risk encompasses serious health impacts affecting workers (including: employees, contractors and volunteers), customers and public as a result of activities undertaken by Council.	Pr	Sv	Extreme 45
1	Water Quality & Quantity	As a result of climate change and human activities there may not be a sustainable quantity and quality of water to meet needs for economic and social wellbeing (WEF). (Note: Network delivery issues would now fall under the Significant Operations risk).	Pr	Sv	Extreme 45
NEW	Significant Operational Service Failure	Operational failure that may have material impact on Council service delivery. (Note: This reflects the operational risks delegated to Tier 2 register for the Lead Team).	Li	Sv	Extreme 30
New	Financial sustainability	Due to over committing Council to work programmes the financial sustainability of the Council may be compromised affecting deliver of all goals.	Li	Sv	Extreme 30
New	Inequitable resource allocation	Ineffective or complex district plan land-use policies may compromise the ability to deliver equitable access to resources affecting Social, Cultural, Economic and Environmental wellbeing (WEF).	Li	Sv	Extreme 30
New	Failure to integrate spatial planning and asset management planning	Failure to accurately understand community needs may lead to poor spatial planning and compromise delivery of the infrastructure services required by the community affecting Economic, Social and Cultural wellbeing.	Li	Sv	Extreme 30

ID	Description	Comments	L	I	Inherent Risk
4	Failure of climate adaptation measures	Lack of knowledge, protracted decision making or insufficient application of resources may cause climate change adaptation measures to fail adversely impacting economic, social and cultural wellbeing. (Note: Amended Adverse Environmental Change risk)	Po	Sv	High 30
New	Increasing levels of social inequity	Failure of community engagement, consultation and stakeholder partnerships, particularly Iwi and Government agencies, may lead to further increases in social inequity in the community adversely affecting Social, Cultural and Economic wellbeing.	Po	Sv	High 30

Note: (WEF) means that the risk has been cited by the World Economic Forum in its Global Risk Review.

Risks Suggested for Inclusion on Risk Register

New	Liability from consenting and compliance activities	Failure to identify systemic deficiencies in consents or ineffective compliance monitoring activities may expose Council to liability claims.	Li	Mj	High 24
New	Significant statutory reform	Failure to proactively adapt to statutory changes could adversely affect economic, environmental, social or cultural wellbeing.	Po	Sv	High 20
14	Governance Failure	Failure to clearly define Councils goals and strategy, or to monitor the achievement of anticipated outcomes, or to work effectively together as a team, will detract from the quality of decisions and impede the achievement of strategic objectives. Note: need to confirm whether to retain considering work programme underway.	Po	Sv	High 20

Opportunity Risk

NEW	Service Innovation	By dedicating specific resources innovate services delivery methods may established benefiting community wellbeing	Po	Mi	Low 4
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CURRENT Strategic Risk Register Changes

Mapping of existing strategic risks to new draft profile. All risks merged in to a new Strategic risk "Significant Operations Failure" would remain as independent risks on the tier 2 register.

ID	Description	Recommendation	Inherent risk level	Residual risk level
1	Water Supply Contamination	Change to: Waters Quality & Quantity	Extreme	High
2	Civil Defence Emergency	Move to tier 2	Extreme	Extreme
3	People Safety	Retain	Extreme	High
4	Adverse Environmental Change	Retain – climate change	Extreme	High
5	Infrastructure Service Failure	Merge to: "Significant Operations failure" as tier 2 risk (waters, roads, waste, consenting, compliance management)	Extreme	High
6	Information Security Failure	Merge to: "Significant Operations failure"	Extreme	High
7	Ineffective Regulatory Oversight	Merge to: "Significant Operations failure"	Extreme	Medium
8	Inadequate Available Funds	Merge to: "Significant Operations failure"	Extreme	Medium
9	Procurement Failure	Merge to: "Significant Operations failure"	Extreme	Medium
10	Corruption and Fraud Incidents	Merge to: "Significant Operations failure"	Extreme	Medium
11	Business Interruption	Merge to: "Significant Operations failure"	Extreme	Medium
12	Loss of Key Staff	Merge to: "Significant Operations failure"	Extreme	Medium
13	Officer Error/Omission	Merge to: "Significant Operations failure"	Extreme	Medium
14	Governance Failure	Consider archiving or retaining	Extreme	Medium
15	Economic Downturn	Archive – becomes a threat to new strategic risks	High	Medium
16	Demographic Change	Archive – becomes a threat to new strategic risks	High	Medium
17	Failure to Meet Regulatory Requirements	Merge to: "Significant Operations failure"	High	Medium
18	Legislative Change	Merge to: "Significant Operations failure"	High	Medium
19	Facility Failure	Merge to: "Significant Operations failure"	High	Medium
20	Failure to Achieve BAU Performance	Merge to: "Significant Operations failure"	High	Low

Monday, 19 October 2020

Item 7

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
**Hastings District Council: Risk and Assurance
Committee Meeting**

Te Rārangi Take

Report to Risk and Assurance Committee

Nā: Regan Smith, Risk and Corporate Services Manager
From: Steffi Bird, Risk Assurance Advisor

Te Take:
Subject: Risk Assurance Update

1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to provide the Committee with an update on the following risk assurance activities:
- Internal Risk Assurance Review Programme.
 - Crowe Internal Audit Programme.
 - Crowe Internal Review of Accounts Payable controls, post implementation of Electronic Purchase Order (EPO) system.
 - Status of review and audit actions
- 1.2 **Internal Risk Assurance Review Programme.**
- 1.3 The recent appointment of Steffi Bird as Council's Risk Assurance Advisor has enabled the internal risk assurance review programme to recommence. The immediate action has been to update the review plan to reflect a viable programme for the current financial year.
- 1.4 The Draft Risk Assurance Review Plan 2020-21 (**Attachment 1**) includes the selected reviews and timeframes, based on the intention of completing one review each quarter. Due to the global pandemic and associated resource constraints during the first quarter, three reviews will be completed for FY20/21. It should be noted that the field work for the Policy Review is currently underway.

- 1.5 A key point of the proposed plan is a combined audit team involving Crowe and HDC Risk Assurance team to undertake review of the Consenting processes. The principle is to take the opportunity to maximise the value of the audit by covering a wider range of controls than just the financial systems Crowe intends to review.
- 1.6 **Crowe Internal Audit Programme.**
- 1.7 The Proposed Internal Audit Plan 2020/21 (**Attachment 2**) outlines the programme of work discussed between Crowe and officers for use of the contracted time to undertake internal audits.
- 1.8 The Internal Audit Plan covers 3 areas, including the combined audit with the HDC Risk Assurance team on Council's consenting activities. It should be noted that the Data Analytics audit is underway, with the data collection phase complete.
- 1.9 **Crowe Internal Review of Accounts Payable Controls**
- 1.10 Crowe were commissioned to undertake a review of Council's accounts payable controls after implementation of the TechnologyOne Electronic Purchase Order system (**Attachment 3**).
- 1.11 The Crowe report makes the overall assessment that based upon "*comparison of the current Council's practices and controls against 'good practice' accounts payable controls showed that the Council generally meets the 'good standard' controls expected in the accounts payable process.*"
- 1.12 The review identified two low risk recommendations that Council is in the process of addressing in order to get the report finalised.
- 1.13 **Status of Review and Audit actions**
- 1.14 A summary of actions from internal assessments is included as **Attachment 4**. Key points to note are:
- The suspension of the review programme while has resulted in no new action and limited progress toward closure of open actions.
 - All outstanding actions related to completing implementation of the cash handling policy, which has been affected by COVID-19 disruptions, displacement of the Finance team from Heretaunga House due to the buildings earthquake prone status and pressure to complete the Annual Plan at the same time.
- 1.15 A list of actions from internal and external audits is included as **Attachment 5** for reference. The intention for future meetings is to provide a consolidated view of all internal and external audit actions to enable oversight by the Committee.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) That the Committee receives the report titled Risk Assurance Update.
- B) That the Committee ratify the Draft Risk Assurance Review Plan and Proposed Internal Audit Plan for 2020-21.

Attachments:

- | | | |
|----|--|------------------|
| 1↓ | DRAFT Risk Assurance Review Plan 2020-21 for Risk & Assurance Committee October 2020 | PMD-9-1-20-21 |
| 2↓ | Crowe Proposed Internal Audit Plan 2020-21 | FIN-07-02-20-113 |

3	↓	Crowe Review of Electronic Purchase Order System Project Apollo	FIN-07-02-20-114
4	↓	Risk Assurance Action Summary October 2020	PMD-9-3-20-18
5	↓	Audit Action Sheet as at 3 Feb 2020 (revised)	FIN-07-02-20-109



Risk Assurance Review Plan 2020-21 - DRAFT HDC Risk Assurance

Risk Assurance	Risk Assurance Review Plan 2020 - 2021
Owner	Risk & Corporate Services, Corporate
Committee	Risk & Assurance Committee
Date of issue	TBC
Date of Approval	TBC

Review Plan

1. Executive Summary

1.1. Introduction

Hastings District Council (HDC) recognises that an independent and objective assurance program provided by the Risk Assurance function assists in demonstrating effective governance and oversight within the organisation.

The Risk Assurance role reports to the Risk & Corporate Services Manager for operational purposes and to the Risk & Assurance Committee for providing assurance on risk management activity within the organisation. The Risk Assurance Review Plan plays a key role in assuring Council, the Risk & Assurance Committee and Chief Executive (CE) that the internal controls are effective and embedded within the organisation and that continuous organisational improvement forms part of Council's Risk Management maturity journey.

The proposed Review Plan is supported by the Risk Assurance Charter (PMD-9-1-18-2).

1.2. Risk Assurance Objectives

The objective of the Risk Assurance Review Plan is to:

- Provide assurance to the Council, the CE, and the Risk & Assurance Committee and those who rely on Risk Assurance's work that critical risks and controls have been identified, along with any opportunities for improvement.
- Assist management to achieve their objectives and accountabilities.
- Provide insights and value to improve Council's operations.
- To identify strengths and weaknesses within the organisation and provide guidance and oversight in ensuring Council address areas for improvement.

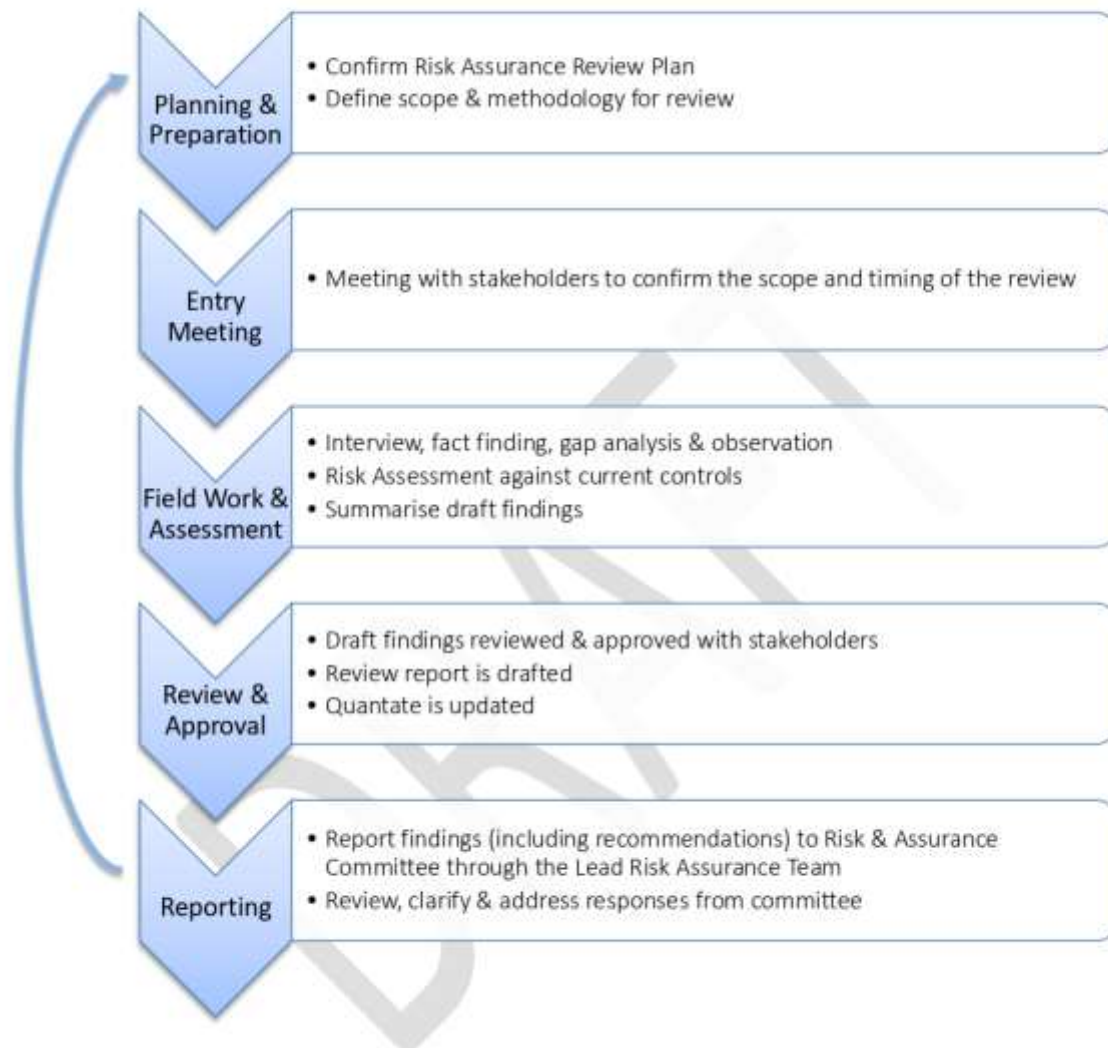
1.3. Risk Assurance's Review Planning Approach

Risk Assurance's planning approach to developing the review planning has included:

- Reviewing the Strategic Risk Register – testing the critical controls
- Consultation with the Group Managers and key stakeholders in the organisation;
- Items being highlighted and prioritised by management within Council;
- Receiving and reviewing previous and current audit programs provided by contracted external auditors such as Crowe Horwath and Audit New Zealand;

The suggested timeframes for reviews have been considered with the intention to complete one review each quarter and have the review report presented to the next Risk & Assurance Committee following the review completion. Due to the global pandemic and associated resource constraints during the first quarter, three reviews will be completed for FY2021.

1.4. Methodology



2. Review Plan for 2020/21

Building Consent Function	
Inherent Risk Rating	High
Brief Scope / Description	To carry out a review of the Building Consent area. A review of the relevant policies and procedures focusing on the Council's legal liability and delivery of service to the community.
Link to Strategic Risk / Key Risk Category	<ul style="list-style-type: none"> Legal & Compliance Reputation <ul style="list-style-type: none"> Service Delivery
Suggested Timeframe	Nov – Dec 2020

Failure to Meet Regulatory Requirements	
Inherent Risk Rating	High
Brief Scope / Description	A review of Council's ability to meet regulatory requirements through a system of defined accountabilities delegated to staff for meeting regulatory obligations. The review will focus on Council's responsibilities on Delegations and LGOIMA Requests.
Link to Strategic Risk / Key Risk Category	Risk 17 – Failure to Meet Regulatory Requirements <ul style="list-style-type: none"> Delegations & Warrants LGOIMA
Suggested Timeframe	Jan – Mar 2021

IMBT – IT Security	
Inherent Risk Rating	High
Brief Scope / Description	To review the processes and controls around Council's dependency for firewall protection, moving into a cloud based system and training/updates around cyber security, internet and email usage, change management and network security.
Link to Strategic Risk / Key Risk Category	Risk 8 – Information Security Failure <ul style="list-style-type: none"> Successful computer virus attack Lack of IT resilience
Suggested Timeframe	Apr – Jun 2021

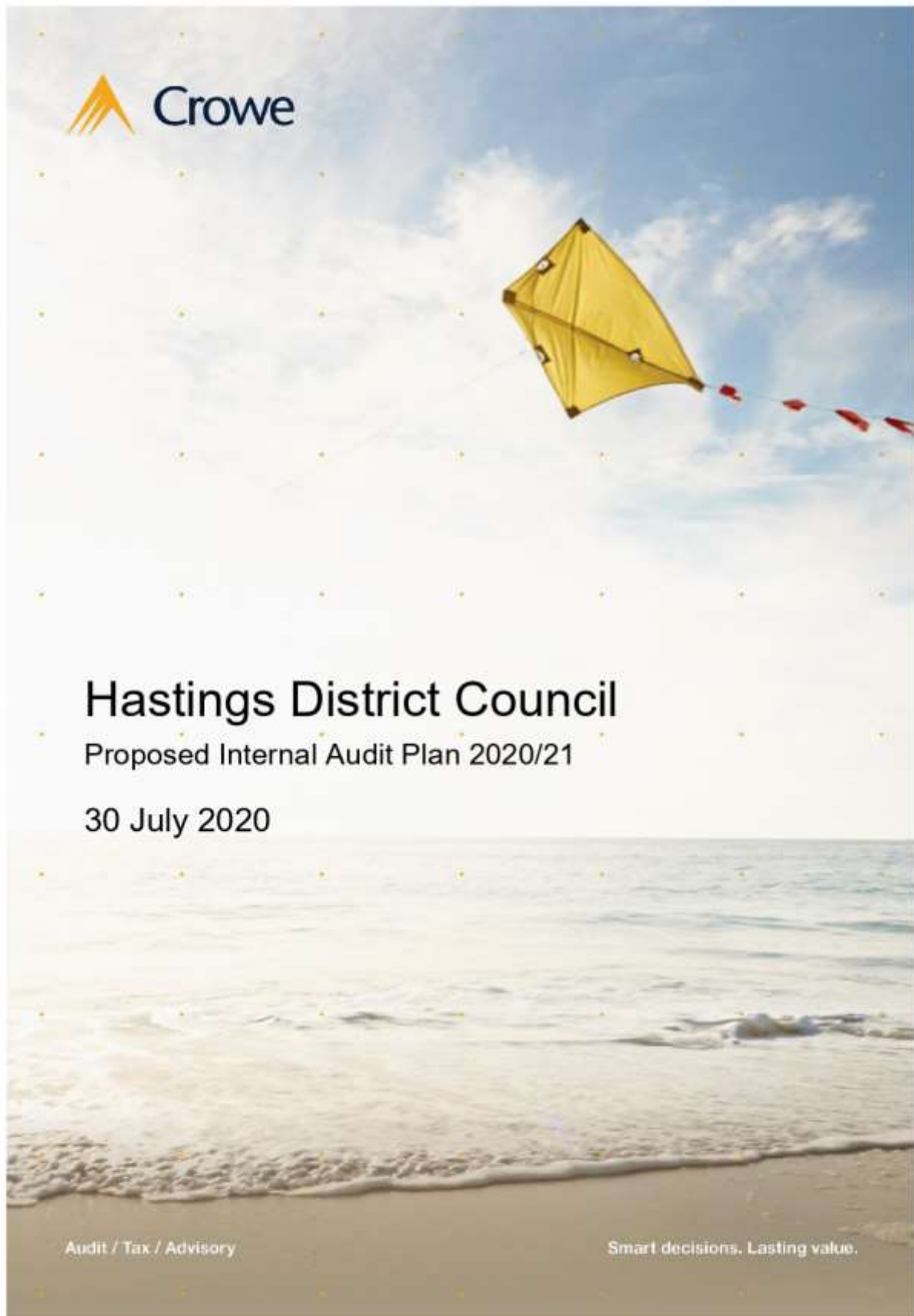
3. Summary of Review Plan 2019 – 2023

Review Activity	Inherent Risk Rating	Link to Strategic Risk / Key Risk Category	FY 20	FY 21	FY 22	FY 23
Solid Waste Review	High	Risk 15 – Loss of Key Staff Key Risk – Loss of key staff impacting on service delivery				✓
Security Services	Medium	Risk 12 – Procurement Failure Reputation				✓
Security Invoice Review	Medium	Risk 12 – Procurement Failure Key Risk – Poor procurement practices resulting in poor expenditure decisions				✓
Aquatics Centre Review	Medium	Service Delivery Health & Safety Legal & Compliance Infrastructure Failure				✓
Strategic Risks – Critical Controls Assessment	High	Against all 20 Council Strategic Risks	✓			
Transportation	High	Risk 10 – Economic Downturn Service Delivery	✓			
Ineffective Regulatory Oversight	High	Risk 5 – Ineffective Regulatory Oversight People Safety Service Delivery	✓			
Community Programmes - Youth	Medium	Reputation People Safety	✓			
Animal Control / Environmental Health	Medium	Service Delivery People Safety Reputation Legal & Compliance			✓	
Failure to Meet Regulatory Requirements	High	Risk 17 – Failure to Meet Regulatory Requirements ▪ Delegations & Warrants ▪ LGOIMA		✓		
IMBT – IT Security	High	Risk 8 – Information Security Failure Key Risks: ▪ Successful computer virus attack ▪ Lack of IT resilience		✓		
Parks & Properties	Medium	Service Delivery Legal Compliance			✓	
Fraud & Corruption	High				✓	
Libraries	High	Service Delivery Reputation People Safety			✓	
Building Consent Function	High	Legal & Compliance Reputation		✓		
Water Contamination	High	Risk 1 – Water Supply Contamination			✓	

4. Next Steps

Task	Task Owner
Review the Risk Assurance Review Plan for 2020 / 2021 and provide any feedback to Risk Assurance Advisor	Risk & Assurance Committee
Approve the Risk Assurance Review Plan for 2020 / 2021	Risk & Assurance Committee
Completion of the relevant Risk Assurance Review each quarter	Risk Assurance Advisor
Present report and findings from each review to the Risk & Assurance Committee	Risk Assurance Advisor
Present an annual report to Council outlining the Risk Assurance Review Program for awareness	Risk & Assurance Committee Chair





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Draft for Discussion

1. Executive Summary

We have prepared a proposed internal audit plan to be undertaken during the 2020/21 Financial Year for discussion and approval based on the following factors:

- Meetings held with the CFO, Financial controller and Business Services Manager in July 2020.
- A review of previous internal audit activities undertaken.
- Current issues noted by us as items of risk prevalent in the local government sector.
- Coverage of financial, operational and IT related activities and functions.

The proposed annual audit plan is indicative only and is submitted to the Finance, Audit & Risk Sub-committee for consideration and approval. The plan is intended to be dynamic and further changes may be made as needed throughout the period included in the review.

A timeframe for the audits will be determined following discussion and approval of the Risk & Assurance Committee.

2. Initial Audits Proposed

In our discussions with the Management, the following were noted as being potential initial audits to consider during the first year of the audit plan:

Data Analytics

Data Analytics exercise over payroll and payables master and transactional data to identify potentially suspicious relationships, trends and transactions for the year ended 30/06/2020. Tests are undertaken to identify for example:

- Unauthorised payments.
- Fictitious employees and vendors.
- Suspicious transactions, journals and activities.
- Links between employees and vendors and authorisations of any payments to linked vendors.
- Duplicate invoices or payments.
- Duplicate or redundant data.
- Compliance with financial controls.
- GST posting errors.
- Excessive overtime or allowances paid to staff.

Building Control and Resource Consent Financial Processes and Controls

Our approach will be to review key control criteria in place over resource consents operations including the following:

- Review the HDC's policies and procedures regarding revenue calculation bases and rates.
 - Establish whether documented calculation bases or fixed rates are in place for service provision and enforcement action.
 - Establish whether these calculation bases and rates have been appropriately reviewed and approved.
 - Establish whether the rates are consistent with the rates communicated to the public (e.g. on the HDC website).
- Review procedures for capturing billing information.
 - Review the procedures for logging or recording billing information at its source and ensuring all billing information is recorded and retained.

- Review procedures for ensuring all variable revenues (e.g. time or materials based charges) are recorded on a complete, accurate and timely basis.
- A selection of records will be reviewed to ensure that billing information has been completely and accurately captured.
- Revenue Controls
 - Are effective data capture, reconciliation and reporting procedures in place or available to ensure the completeness and accuracy of revenue? This includes:
 - Completeness of billable time recording and analysis of outlying information.
 - Capture, reporting and monitoring of fee reductions and waivers.
 - Review of credit note processes, in particular where deposit regimes are in place.
 - Effective reconciliation procedures are in place to ensure all revenue has been invoiced. A selection of reconciliations will be reviewed to ensure the reconciliations are being undertaken accurately and completely.
- Fraud Risk Management
 - Has a formal fraud risk assessment been undertaken to identify potential fraud risks?
 - Are reports generated or available which could highlight potentially suspicious behaviour. Reports could include:
 - Consents issued in short timeframes
 - Fees and charges waived
 - Officers processing consents by developer (to identify developers unexpectedly having all consents processed by a single officer).
 - Are staff members aware of Council policies on fraud, conflicts of interest, Code of Conduct, and protected disclosures?
 - What quality assurance and review procedures are undertaken that could identify suspicious activities?
- IT Systems Access Controls
 - Are user profiles and systems access managed on a roles/needs basis?
 - Are user access rights understood and reviewed on a periodic basis?

Review of revenue and invoicing at cemeteries and crematorium

Our approach will be to review key control criteria in place over revenue invoicing and collection at the 4 Hastings cemeteries and crematorium including the following:

- Review the HDC's policies and procedures regarding revenue calculation bases and rates.
 - Establish whether documented calculation bases or fixed rates are in place for service provision.
 - Establish whether the rates are consistent with the rates communicated to the public (e.g. on the HDC website).
- Review procedures for capturing billing information.
 - Review the procedures for logging or recording billing information at its source and ensuring all billing information is recorded and retained.
 - Review procedures for ensuring all variable revenues (e.g. time or materials based charges) are recorded on a complete, accurate and timely basis.
 - A selection of records will be reviewed to ensure that billing information has been completely and accurately captured.
- Revenue Controls
 - Are effective data capture, reconciliation and reporting procedures in place or available to ensure the completeness and accuracy of revenue? This includes:
 - Completeness of billable time recording and analysis of outlying information.
 - Capture, reporting and monitoring of fee reductions and waivers.
 - Review of credit note processes

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- Effective reconciliation procedures are in place to ensure all revenue has been invoiced. A selection of reconciliations will be reviewed to ensure the reconciliations are being undertaken accurately and completely.
- Effective collections procedures are in place.

Estimated hours

The estimated hours for 2020/21 Internal Audit Plan are as follows:

Crowe Table Header/Column Title	Estimated Hours
Data Analytics	50
Building Control and Resource Consent Financial Processes and Controls	100
Review of Revenue and Invoicing at Cemeteries and Crematorium	40
Ongoing Relationship Management*	30
TOTAL	220

* Ongoing relationship management includes the preparation of annual work programmes, regular meetings with the Risk and Assurance Lead, preparation of update reports for each Audit & Risk Subcommittee Meeting and attendance at Audit & Risk Subcommittee Meetings when requested.

We have documented in Section 3 below an internal audit universe detailing the range of audit projects we would typically see in a strategic internal audit plan for a Regional Council.

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3. Internal Audit Universe

We have indicated below the range of audit projects we would typically see in a strategic internal audit plan for a District Council.

Audit Project / Activity and Brief Scope		Prior Years	2017/18	2018/19	2019/20
Governance					
1	Risk Management Process Review: Review of Risk Management policies and procedures			✓	
2	Development of Risk Policy and Framework: Facilitation of Strategic and Operational Risk Assessment processes.	✓			
3	Development of Assurance Map: Identify the assurance processes in place over the high rated risks to allow the Audit & Risk Committee to determine areas where further internal audit activity may be required.	✓			
4	Ethics: Review of the Council's ethical standards and procedures including codes of conduct, protected disclosures policies, conflicts of interest policies and programmes	✓			
5	Strategic Planning Process (Annual Plan/Long-Term Plan): <ul style="list-style-type: none"> Review the adequacy of the procedures and practices with respect to the annual and long-term planning processes covering Consultation/engagement with the community, Council staff and Councillors in developing the Annual Plan. Degree to which the Council Plan and annual plan reflects Council and community priorities The timeliness of development of the Annual Plan and coordination / resourcing through the Annual Budget and Capital Works Program The process for monitoring and reporting on achievement of Annual Plan actions. 				

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Audit Project / Activity and Brief Scope		Prior Years	2017/18	2018/19	2019/20
6	Decision-Making Processes: Review of delegated authorities to ensure clear principles and guidelines for the delegation of authority are documented, promote timely, efficient and appropriate decision-making and are adhered to.				
Regulatory					
1	Rates Management: Review of the policies, procedures and controls in place over the calculation and collection of rates.				
2	Regulatory Revenue: Review of the policies, procedures and controls in place to ensure the completeness of fee setting, invoicing and collection, enforcement actions and integrity of information systems for the following functions: <ul style="list-style-type: none"> • Parking • Animal Control • Environmental Health • Other bylaws 		✓		
3	Resource and Building Consents Review of the policies, procedures and controls in place to ensure completeness of fee setting, invoicing and collection, enforcement actions and integrity of information systems for: <ul style="list-style-type: none"> • Building Control • Resource Consents 				
Finance					
1	Fraud Risk Management: Assess the Council's performance against key attributes of a better practice fraud control program (drawn from AS 8001:2008 Fraud and Corruption Control)		✓		
2	Cash Handling: Review the of the cash handling procedures in place at selected Council locations such museums, libraries, waste and recycling centres, car parks and swimming pools.	✓			

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Audit Project / Activity and Brief Scope		Prior Years	2017/18	2018/19	2019/20
3	Procurement and Purchasing: Procurement review covering the current procurement procedures and strategies in place and to identify potential improvements to the efficiency and effectiveness of procurement activities (supplier optimisation, use of preferred suppliers/AOG agreements, management of conflicts of interest, contract tendering and monitoring of supplier performance).	✓			
4	Data Analytics: Annual Data Analytics exercise over payroll and payables master and transactional data to identify potentially suspicious relationships, trends and transactions.		✓	✓	
5	Treasury Management Assess the Council's Treasury operations for compliance with the Council's Treasury policies and procedures, including the monitoring controls over treasury activities, segregation of duties and compliance with delegated authorities.	✓			
6	Accounts Receivable and Credit Control: Review of policies, procedures and controls over invoicing, collection of revenues and credit management.			✓	
7	Sensitive Expenditure Review of policies, procedures and controls over purchasing activities (purchase order and invoice approvals) and expenditures to meet OAG expectations for Sensitive expenditure.				
8	Fixed Asset Management: Review of policies, procedures and controls in place for safeguarding and verifying the existence of fixed assets including disposal procedures and procedures for monitoring the existence of assets.				
9	Tax Compliance: Review of the Council's compliance with GST, PAYE, Withholding tax and FBT.	✓			

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Audit Project / Activity and Brief Scope		Prior Years	2017/18	2018/19	2019/20
10	Grants and Loans Review of policies, procedures and controls over the awarding of grants and loans including criteria for awarding grants, consistency, transparency and management of conflicts of interest and monitoring of use of grants.				
Operations and Infrastructure					
1	Buildings Management: Review of the policies, delegated authorities, procedures and controls in place over condition and usage of council-owned properties.				
2	Contract Management: Review of policies, procedures and controls in place over contracts including delegated authorities, tender procedures, monitoring of contractual terms (SLAs, renewal and termination clauses) and monitoring performance of contracted parties.			✓	
3	Project Management Methodology: Review of the Council's project management methodology against better practice standards and project implementation				
4	Water Supply/Waste Water Management: Review of policies, procedures and controls in place over key water and waste risks including quality performance monitoring, monitoring of key supply and maintenance contracts, emergency response plans and fee setting and invoicing procedures.				
5	Asset Management: Review of processes and controls to ensure alignment between Asset Management Plans, Activity Management Plans and Long Term Plans.				
6	Events Management: Review of the policies, procedures and controls in place over the planning and management of major events and festivals.				

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Audit Project / Activity and Brief Scope		Prior Years	2017/18	2018/19	2019/20
Information Services					
1	Business Continuity and Disaster Recovery Planning: Review the adequacy of the various processes that have been put in place within the Council to manage and control Business Continuity Planning (BCP) and the effectiveness of the Council's business continuity procedures in place to respond to a disaster.				
2	External IT Network Vulnerability Assessment/Cyber Security Assessment of the Council's corporate perimeter systems for any potential vulnerability which would allow an unauthorised user to gain access to those systems.	✓			
3	Records Management: Review of the policies, procedures and controls in place over the registration, retention, destruction and confidentiality of Council documents and records and processes to ensure records can be effectively retrieved.				
4	IT/Cyber Security: Review of the design and operation of the Council's IT Security policies and procedures to protect sensitive data and systems from unauthorised access or alteration.	✓		✓	
Human Resources					
1	HR Practices: Review of key HR policies and procedures including recruitment, training, performance appraisal, staff retention and succession plans, disciplinary procedures and security of personal information.				
2	Payroll: Review of the payroll procedures and practices to assess whether the controls and processes ensure complete, accurate and timely processing of payroll information.	✓			✓

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Audit Project / Activity and Brief Scope		Prior Years	2017/18	2018/19	2019/20
3	Health and Safety: Review of the extent to which the Health & Safety-related policies and procedures in place at the Council meet the requirements of the Health and Safety at Work Act (2015) and review of specific areas of concern.			✓	

Draft for Discussion

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1. Executive Summary

1.1. Objectives and scope

The objective of this assignment was to perform a post-implementation evaluation of the Council's Project Apollo (the Project) to evaluate the extent to which the key process, system and reporting controls are in line with 'good practice'.

The scope of the review included the following:

- Assessing the design and operating effectiveness of the current Accounts Payable controls, in particular:
 - Segregations of duty/dual controls
 - Vendor set up
 - Implementation of DFAs
 - 3-way check and escalation procedures/thresholds where values do not match
- Identify any control gaps and 'missing controls' compared to 'good practice' Accounts Payable process

1.2. Key observations

The Council implemented a new Procure to Pay solution and AP Invoice Matching module of its current financial management system Finance One – Project Apollo – in November 2019 to strengthen controls in the purchasing and accounts payable process.

We noted the following **key strengths** in relation to the Council's implementation:

- The Council has provided appropriate training for its key personnel to ensure roles and responsibilities are well understood, including the roles of staff who approve purchase orders and invoices.
- The Council has reviewed its delegated authority framework and Delegated Financial Authority Policy to ensure the limits adequately reflect the nature of its purchasing activity. The delegated authority limits have been coded in Finance One as part of Project Apollo to ensure the system automatically applies them for purchase order and invoice approval.
- The implementation of Project Apollo allowed the Council to enforce and automate several key process controls, including segregation of duties and a three-way match between a purchase order, goods received note and invoice.

Our comparison of the current Council's practices and controls against 'good practice' accounts payable controls showed that the Council generally meets the 'good standard' controls expected in the accounts payable process. We did not identify any missing key controls. Refer Appendix 1 for details.

Based on our evaluation of the key controls, we noted two areas where controls could be further improved. These relate to:

- Implementing a full review of changes to supplier master data as opposed to the sampling approach currently in use.
- Performing a review of users with access to the Council's bank accounts to ensure only appropriate individuals have access.

We have weighted these observations using a scale of high, medium, low or process improvement in order to indicate the priority with which we consider these observations should be treated. More detail on the rating scale is provided in the table in Appendix 3.



1.3. Basis and use of report

This report has been prepared in accordance with the objectives and approach set out in the scoping document dated 24 May 2019, and subject to the limitations set out in Appendix 5 "Basis and Use of Report".

DRAFT



2. Findings and Recommendations

1. Review supplier master data changes		Rating of finding: Low
Observation	Recommendations	Agreed Management action(s)
<p>The Council has a formal process in place to independently review the changes made to supplier master data in the Finance One system.</p> <p>Every month a standard system generated audit report is extracted from Finance One which shows all the changes to supplier master data made during the period. This report is checked by the Financial Controller to ensure that changes are valid and appropriate supporting documentation exists.</p> <p>We noted however that only a sample of changes is reviewed each month. For the months that we selected, only 15% of all supplier bank account changes on average have been reviewed. This situation increases the risk that inappropriate bank account change can occur either because of an error or fraud.</p> <p>We also noted that for 2 out of 11 supplier bank account changes that we reviewed, the Council changed the supplier bank account based on an email from a Council's employee without requesting any supporting documentation, e.g. a deposit slip or a bank statement. This further increases the risk that a fictitious bank account could be used for payment.</p>	<p>The Financial Controller should review all changes to supplier bank accounts (including adding bank accounts for new suppliers).</p> <p>When setting up new suppliers or changing existing bank accounts, the Council should verify the supplier bank account against the supplier's bank deposit slip or bank statement to ensure that the bank account belongs to the supplier. For example, the Council can create a standard supplier master data change request form that would require the requestors to provide this information.</p> <p>We understand that the Council was considering implementing an electronic New Supplier Form. We support this initiative and recommend using this form for changes of supplier master data too.</p>	<p>Finance will set up a process to ensure all changes to bank accounts are reviewed as they happen.</p> <p>Responsible Person Aaron Wilson</p> <p>Date of Implementation 1st October 2020</p>



2. Review the level of access to the Council's bank accounts in Westpac Online		Rating of finding: Low
Observation	Recommendations	Agreed Management action(s)
We reviewed the current list of Council's employees who have access to the Council's bank accounts via Westpac's Corporate Online Banking software. We discussed the list with the Financial Controller and identified one user that potentially should not have access.	The Council should perform a comprehensive review of user access level to its bank accounts to ensure only appropriate staff have access commensurate with their job responsibilities.	n/a
		Responsible Person n/a
		Date of Implementation n/a



Appendices

Appendix 1: Alignment of Council's accounts payable process controls with 'good practice'

Area	'Good practice' expectation	Council's practice		
		Fully meets	Partially meets	Does not meet
Delegated Authorities	There is a comprehensive delegated authority document in place that covers engaging suppliers, approving payments and effecting payment	✓		
Supplier selection	Procedures for selecting and screening new suppliers are documented and communicated	✓		
	Appropriate due diligence checks of prospective suppliers are performed prior to setting up a supplier in the system	✓		
Purchasing process	Procedures for purchasing goods and services are documented and communicated to all staff	✓		
	Purchase order process is in place, authorisation levels are formalised, communicated and reviewed on a regular basis	✓		
	Purchase orders are formally authorised and reviewed for compliance with authority levels	✓		
	The receipt of goods and services is formalised, and appropriate quality controls are performed on goods received by appropriate personnel	✓		
	Invoices are matched to delivery notes and purchase orders. Automated tolerance levels are established for differences between PO and invoice	✓		
	All invoices are approved prior submission for payment	✓		
	Appropriate segregation of duties exists between the tasks of ordering goods, receiving goods and approving invoices for payment	✓		
Payment process	The procedures for making payments are documented and communicated	✓		
	Invoices submitted for payment are independently reviewed and authorised for payment	✓		
	Electronic payments are used as a payment method	✓		
	There is a segregation of duties between recording invoices, creating payment runs and approving payments	✓		

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	Approval of payments is performed by appropriate and authorised individuals	✓		
	Access to online banking is appropriately controlled, i.e. there are unique user IDs and passwords or smartcards in place. There are in-built dual controls in place over the preparation and authorisation of online payments		✓	
Supplier masterdata management	There is system-enforced segregation of duties between the person who makes changes to supplier masterfile details and the person preparing or authorising payments	✓		
	Masterfile changes are subject to a system-enforced dual control (especially for bank accounts) or, alternatively, they are independently reviewed and agreed to supporting documentation	✓		
	If independently reviewed, the review occurs on a regular basis and all changes are reviewed (especially bank account changes)		✓	
	Access to the masterfile report is restricted to the appropriate individuals	✓		
Monitoring and reporting	Budgets are prepared setting out expenditure for expenses	✓		
	Reviews of actual to budget/compliance to budget are regularly performed	✓		
	Supplier statements are regularly reconciled to creditor ledger balances	✓		
	These reports are regularly reviewed and potential issues are identified, appropriately reported to senior management and remediated on a timely basis	✓		



Appendix 2: Detailed scope and approach

Objectives

The objectives of this assignment will be to perform a post-implementation evaluation of the Council's Project Apollo (the Project) to evaluate the extent to which the key process, system and reporting controls are in line with 'good practice'.

The scope of the review will include the following:

- Assessing the design and operating effectiveness of the current Accounts Payable controls, in particular:
 - Segregations of duty/dual controls
 - Vendor set up
 - Implementation of DFAs
 - 3-way check and escalation procedures/thresholds where values do not match
- Identify any control gaps and 'missing controls' compared to 'good practice' Accounts Payable process.

Out of scope

The following will be out of scope for this engagement:

- Assessing the Council's project management and delivery framework and methodology
- Assessing the design and operating effectiveness of the Council's Information Technology General Controls (ITGCs).

Approach

We will perform the following activities during the review:

- E-interview relevant Council's personnel (e.g. Finance staff) to gain an understanding of the current Accounts Payable process and underlying controls
- Perform an evaluation of the design and operating effectiveness of the relevant Accounts Payable controls
- Identify any gaps and develop recommendations to address the identified risks
- Prepare a draft report and discuss it with the key Council's stakeholders
- Receive feedback and finalise report.



Appendix 3: Classification of Internal Audit Findings

Risk ratings are based on the use of professional judgement to assess the extent to which deficiencies could have an effect on the performance of systems and controls of a process to achieve an objective.

Rating	Definition	Guidance	Action required
High	<ul style="list-style-type: none"> Issue represents a control weakness, which could cause or is causing major disruption of the process or major adverse effect on the ability of the process to achieve its objectives. 	<ul style="list-style-type: none"> Material errors and departures from the organisation's policies and procedures Financial management / accountability / probity concerns Non-compliance with governing legislation and regulations may result in fines or other penalties Collective impact of many moderate or low issues 	<ul style="list-style-type: none"> Requires significant senior management intervention and may require significant mobilisation of resources, including external assistance. Ongoing resource diversionary potential. Requires high priority to immediate action
Moderate	<ul style="list-style-type: none"> Issue represents a control weakness, which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives. 	<ul style="list-style-type: none"> Events, operational, business and financial risks that could expose the organisation to losses that could be marginally material to the organisation Departures from best practice management procedures, processes 	<ul style="list-style-type: none"> Requires substantial management intervention and may require possible external assistance. Requires prompt action.
Low	<ul style="list-style-type: none"> Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives. 	<ul style="list-style-type: none"> Events, operational and business risks that could expose the organisation to losses which are not material due to the low probability of occurrence of the event and insignificant impact on the operating capacity, reputation and regulatory compliance Departures from management procedures, processes, however, appropriate monitoring and governance generally mitigates these risks. 	<ul style="list-style-type: none"> Requires management attention and possible use of external resources. Requires action commensurate with the process objective.



Appendix 4: List of Interviewees

Name	Title
Aaron Wilson	Financial Controller
Richard Elgie	Finance Operations Manager
Mei Rehu	Systems Accountant
Vanessa Matthews	Accounts Payable Officer



Appendix 5: Basis and Use of this Report

This report is prepared on the basis of the limitations set out below:

- Our procedures were performed according to the standards and guidelines of The Institute of Internal Auditors' International Professional Practices Framework. The procedures were not undertaken in accordance with any auditing, review or assurance standards issued by the External Reporting Board (XRB).
- Our procedures were designed to provide limited assurance which recognises that absolute assurance is rarely attainable, due to such factors as the use of judgment in gathering and evaluating evidence and forming conclusions, and the use of selective testing, and because much of the evidence available for review is persuasive rather than conclusive in nature.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
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Risk Assurance Task Summary - Dec 2019



Assurance Review Programme

Programme for Jul 2020 - Jun 2021

Scheduled	Status
Policy & Procedures	In Progress
Consents	Planned
Regulatory Review	Planned
IT Security	Planned

Note: Programme on hold due to change in staffing

Review Programme Progress Status



Assurance Review Tasks

Completed Tasks

Previous Quarter	Current Quarter
1	1

Open Tasks

In Progress	Count
Current	0
Overdue	3
Total	3

Open Task Breakdown



Overdue Tasks

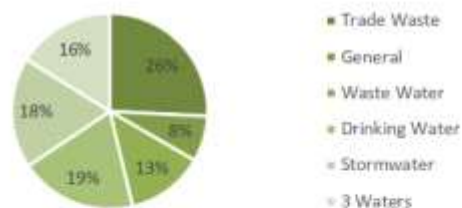
Team	Status	Task	Due Date	Risk ID	Description
Finance	In progress	Publish Cash Handling Policy ready for rollout	27/09/2019	10	Corruption and Fraud Incidents
Finance	In progress	Rollout Cash Handling Procedural Guidance flip charts to operational teams	10/01/2020	10	Corruption and Fraud Incidents
Finance	In progress	Audit site handling cash to verify procedural guidance applied.	10/02/2020	10	Corruption and Fraud Incidents

Infrastructure Data

Current Consents

Team	Number
Trade Waste	24
General	7
Waste Water	12
Drinking Water	18
Stormwater	17
3 Waters	15
Total	93

Current Consents



Audit Action Sheet as at 24/01/20						FW-07-02-18-100	24 Jan 2020 Completed pending Audit signoff
Recommendation	Officer Responsible	Priority	Start Date	By When	Comment		
Audit New Zealand Recommendations							
Classification of Fault Response and Resolution Times	Ashley Durstan	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. Progress will be reviewed once interim has been completed.		✓
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. A control process has been developed with audit to complete testing at 20/20 interim with an expectation that this recommendation will be closed.		✓
Rate Masterfile review	Aaron Wilson	low	Apr-19	Jun-19	Management will look into the possibility of a report for all RID 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. A masterfile change report has been developed with Audit to complete testing at the 2020 interim with an expectation that this recommendation will be closed.		✓
Implement Contract Management System	Ange Hirst	low	1/07/2017	Oct-20	A spreadsheet based contract management system has been established with ongoing refinement. An internal audit by Crowe Horwath of contract management has been has been completed with a number of recommendations made, these have been addressed in the internal audit report. A project has been established to investigate system options.		⬇
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 are expecting to close this once interim has been completed for 2020.		✓
Improvements to financial systems and processes following Opal Taylor fraud	Aaron Wilson	medium	28/11/2018	Jun-19	With the EPD system going live, Audit will review progress at interim 2020, with this recommendation likely to be resolved.		✓
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. With the EPD system going live, Audit will review progress at interim 2020, with this recommendation likely to be resolved.		✓
Rates Assessment Notice - description of "factor" be included as a separate column to value to ensure sufficient information is given to meet legislative requirements	Richard Elgie	medium		Jun-20	This will be reviewed with appropriate staff in the new year.		⬇
Rates resolution - greater care taken in development the rates resolution to ensure that all dates included within in are accurate.	Ashley Humphries	medium		Jul-20	A robust review process is undertaken annually of the rates resolution which includes an annual legal review to ensure compliance and best practice. Officers will review the review process to ensure mistakes of this nature do not occur again.		⬇
Fair value assessment of non-revalued assets are made more robust	Aaron Wilson	medium		Aug-20	Officers will review how fair value assessments are undertaken for non-revalued assets.		⬇
Crowe Horwath Fraud Risk Management Review							
Incomplete contract management policies and procedures	Ange Hirst	Medium		2020	New Policy and Strategy in draft form waiting for approval. Operational Manual being scoped due for completion June 2020. Introduction to procurement and contract management sessions were run in May 2019. Contract management training delivered in November to key staff - 33 attended.		⬇
Lack of contract management planning	Ange Hirst	Medium		2020	The Mbie 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. Contract management sessions held in May 2019. Investigating contract management systems in marketplace. Contract Management training delivered November 2019 to 39 staff. To further improve Hastings District Council's contract evaluation processes additional management resources are required.		⬇
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		⬇
Unclear management capabilities	Ange Hirst	Medium		Jun-20	An introduction to procurement and contract management session was run with 29 staff attending. Contract Management training held November 2019. More detailed one on one training is occurring with the procurement staff as required. Working with HR on procurement capabilities when new staff arrive.		⬇
Contracts not assessed for risk	Bruce Allan	Medium		Jun-20	The implementation of a new contract register is being scoped for approval.		⬇
Contracts register incomplete	Ange Hirst	Medium		Jun-20	There is a working group set up to look at contract management systems out in the market.		⬇

Audit Action Sheet as at 24/01/20						FR-07-02-18-100		24 Jan 2020 Completed pending Audit signoff
Recommendation	Officer Responsible	Priority	Start Date	By When	Comment			
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.			
Develop in house training programme for fraud and corruption awareness and line manager responsibility for invoice approvals	Bruce Allan	high		May-20	Training programme to be developed - With the new onboarding induction for new employees, this is now being covered. A wider programme of internal training has been 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.			✓
Review Protected Disclosures Policy	Bruce Allan	high	23/05/2017	Feb-20	This will now be put formally to the Lead team for adoption.			
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.			

Audit Action Sheet as at 29/01/20						FIN-07-02-18-300	24 Jan 2020 Completed pending Audit signoff
Recommendation	Officer Responsible	Priority	Start Date	By When	Comment		
CLOSED and COMPLETED							
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 RID 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. Audit have reviewed and now CLOSED.		✓
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. Audit have reviewed and now CLOSED.		✓
Review IT Policies and Procedures	Andrew Smith	medium	1/07/2017	Jun-19	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. 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. 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. Policies published and communicated to date include: Password Management and Authentication: This Policy describes the authentication requirements for accessing internal computers and networks and includes those working in-house as well as those connecting remotely. Email: The purpose of the Email Policy is to document how electronic mail systems and services are to be used. Access Control: 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. Additional IT Policies under review and in the process of being finalised include: • Mobile Phones & BYOD • Internet Usage • Laptops & Tablets • Information Privacy Target completion to have all IT Policies finalised and issued / communicated is June 2019. Management expect this to be concluded at the year end audit. Audit have reviewed and now CLOSED.		✓
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. Audit have reviewed and now CLOSED.		✓
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. Audit have now CLOSED this recommendation.		✓
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. Now CLOSED.		✓
PWC Accounts Payable & Electronic Bank Transfer Internal Audit							
Electronic Purchase Order (EPO) System Implementation	Bruce Allan	medium	23/05/2017	2019	EPO system has now gone live. Requirements have now been met. CLOSED.		✓
Goods Receipted not Recorded when received (requires EPO)	Bruce Allan	low	23/05/2017	2019	EPO system has now gone live. Requirements have now been met. CLOSED.		✓
Review PO / Invoice approval DFAs (requires EPO)	Bruce Allan	medium	23/05/2017	2019	EPO system has now gone live. Requirements have now been met. CLOSED.		✓

Monday, 19 October 2020

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
**Hastings District Council: Risk and Assurance
Committee Meeting**

Item 8

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: Jennie Kuzman, Health and Safety Manager

Te Take:
Subject: Contractor H&S Performance Report

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

- 1.1 The purpose of this report is to provide an update to the Committee in regards to the management of Health and Safety risks within Council.
- 1.2 This report provides information regarding Contractor Health and Safety Performance for the period 1 July to 31 August 2020.

2.0 Recommendations – *Ngā Tūtohunga*

- A) That the report of the Health and Safety Manager titled Contractor H&S Performance Report dated 19 October 2020 be received.

3.0 Background – *Te Horopaki*

- 3.1 The purpose of this report is to provide information to the Committee in regards to the management of Health and Safety risks within Council.
- 3.2 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.

4.0 Discussion – *Te Matapakitanga*

- 4.1 To assist Elected Members in undertaking their due diligences requirements in regards to the management of Contractor Health and Safety risks, reports covering the Health & Safety performance of those Contractors working under Council's 10 highest-risk term contracts, are provided to the Committee on a regular basis.
- 4.2 The second of these reports is attached (attachment one) and includes health and safety performance indicator scores for each of the Contractors working under Council's 10 highest-risk term contracts, for the period 1 July to 31 August 2020. These contracts are long term and the activities undertaken within these contracts collectively cover all of Council's critical health and safety risks.
- 4.3 The 10 contractors in alphabetical order are:
- **Armourguard Ltd** (Noise Control Contract)
 - **City Care Ltd** (Water Services Maintenance Contract)
 - **Downer Ltd** (Urban Road Maintenance Contract)
 - **Fulton Hogan Ltd** (Rural Road Maintenance Contract)
 - **Gemco Ltd** (Toitoti Redevelopment Contract)
 - **HSM Security Ltd** (Night Security and Animal Control After hours Contracts)
 - **JJ's Waste & Recycling** (Municipal Waste Collection Contract) – *NEW CONTRACT*
 - **M.W. Lissette Ltd** (Landfill Civil Works Contract)
 - **Recreational Services Ltd** (Parks, Open Spaces and Amenities Maintenance Contract)
 - **Smart Environmental Ltd** (Municipal Recycling Collection Contract) - *NEW CONTRACT*
- 4.4 Commentary regarding trends and analysis is included within this contractor performance report.

Attachments:

- 1 [↓](#) Health & Safety Contractor Performance Report - 1 HR-03-11-4-20-175
July-30 August 2020

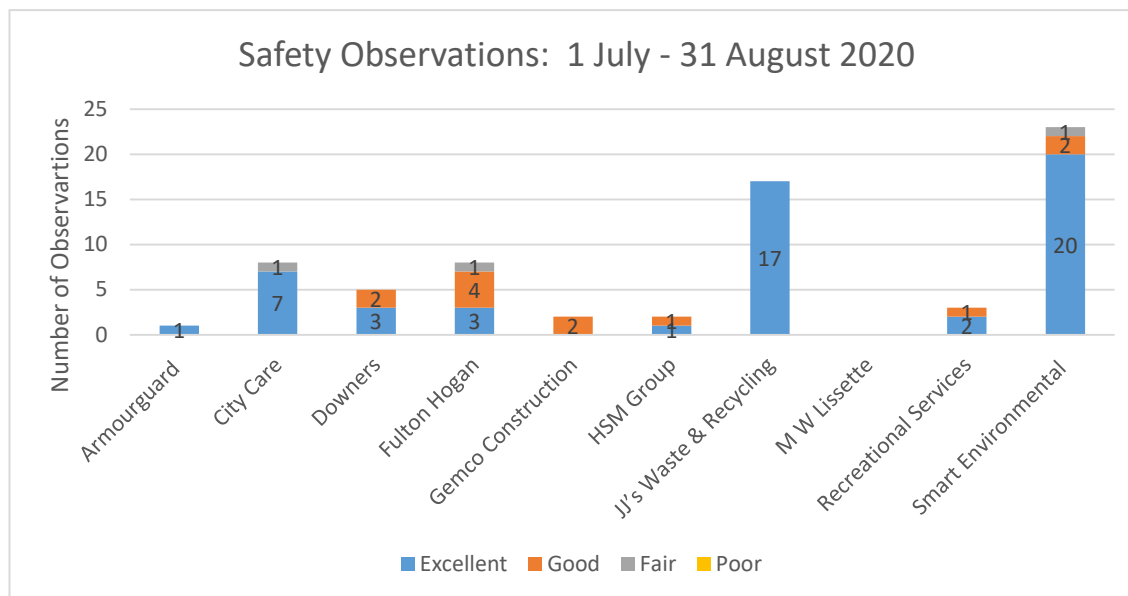
Health & Safety Contractor Performance Report

1. Leading Indicators: Health & Safety Observations 1 July – 31 August 2020¹

Contractor	Contract	Excellent	Good	Fair	Poor	Total
Armourguard	Noise Control	1				1
City Care	Water Services Maintenance	7		1		8
Downers	Urban Road Maintenance	3	2			5
Fulton Hogan	Rural Road Maintenance	3	4	1		8
Gemco Construction	Toitoti Redevelopment		2			2
HSM Group	Afterhours Security & Afterhours Animal Control	1	1			2
JJ's Waste & Recycling	Municipal Waste Collection	17				17
M W Lissette	Landfill Civil Works					0
Recreational Services	Parks, Open Spaces and Amenities Maintenance Contract	2	1			3
Smart Environmental	Municipal Recycling	20	2	1		23

¹ Current as of 1 October 2020 as entered into Council's H&S System

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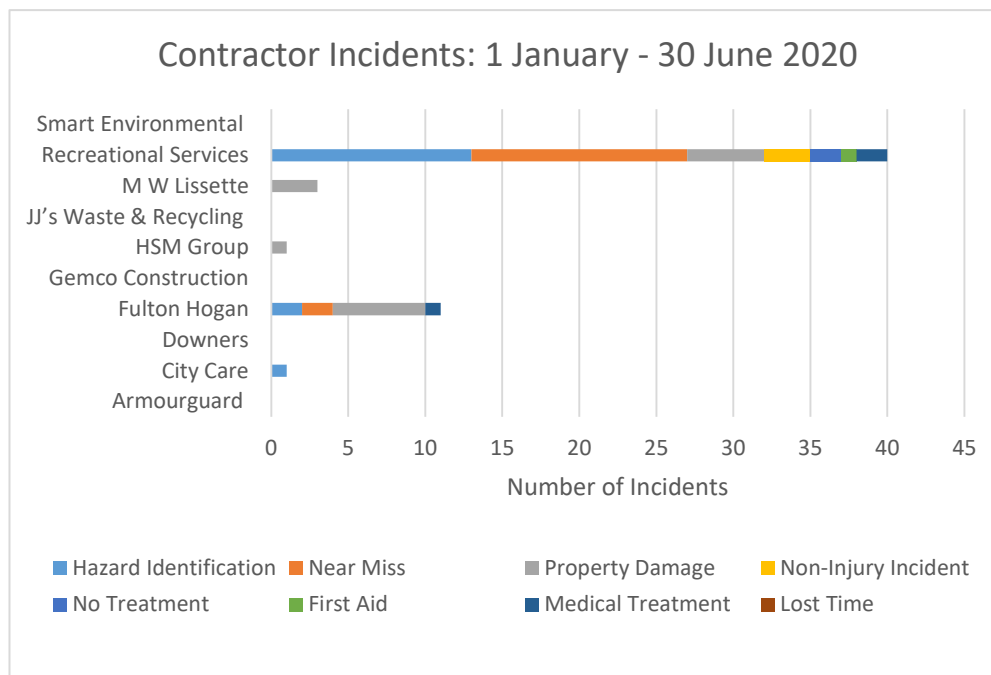


2.

- These are proactive observations undertaken by HDC staff of contractor workers undertaking tasks associated with the HDC contract works.
-
- This key indicator measures both the quality of the work being undertaken by contractors and the quantity of observations being undertaken of these contracts by HDC Staff.
-
- The vast majority of observations have shown the work to be of a good or excellent H&S standard.

Lagging Indicators: Health & Safety Incidents Reported – 1 July – 31 August 2020

Contractor	Hazard Identification	Near Miss	Property Damage	Non-Injury Incident	No Treatment	First Aid	Medical Treatment	Lost Time
Armourguard	0	0	0	0	0	0	0	0
City Care	1	0	0	0	0	0	0	0
Downers	0	0	0	0	0	0	0	0
Fulton Hogan	2	2	6	0	0	0	1	0
Gemco Construction	0	0	0	0	0	0	0	0
HSM Group	0	0	1	0	0	0	0	0
JJ's Waste & Recycling	0	0	0	0	0	0	0	0
M W Lissette	0	0	3	0	0	0	0	0
Recreational Services	13	14	5	3	2	1	2	0
Smart Environmental	0	0	0	0	0	0	0	0



-
- These are incidents reported by contractor workers undertaking tasks associated with the HDC contract works.
-
- It is important to regularly review incidents to understand causes and implement appropriate corrective actions. Good reporting of hazards and near misses can reduce the potential for more severe incidents.
-
- Many contractors are not currently reporting to the desired standard. Only two contractors appear to reporting to the desired standard – Recreation Services and Fulton Hogan. Improvement needs to be made in collecting the information from other contractors.

Monday, 19 October 2020

Item 9

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
**Hastings District Council: Risk and Assurance
Committee Meeting**

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: Bruce Allan, Group Manager: Corporate

Te Take:
Subject: Insurance Update

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

- 1.1 The purpose of this report is to provide the Committee with an update on Council's insurance placements following the workshop with the committee on 29 September.
- 1.2 At that workshop, the Committee generally accepted that Council's insurance cover is fit for purpose and appropriate with the most significant issue that was discussed at that workshop being the catastrophe cover that Council has in place through the Local Government Protection Programme (LAPP) and the extent of cover that is provided.

2.0 Recommendations – *Ngā Tūtohunga*

- A) That the report of the Group Manager: Corporate titled Insurance Update dated 19 October 2020 be received.

3.0 Background – *Te Horopaki*

- 3.1 Council's insurance is placed through a number of different programmes:

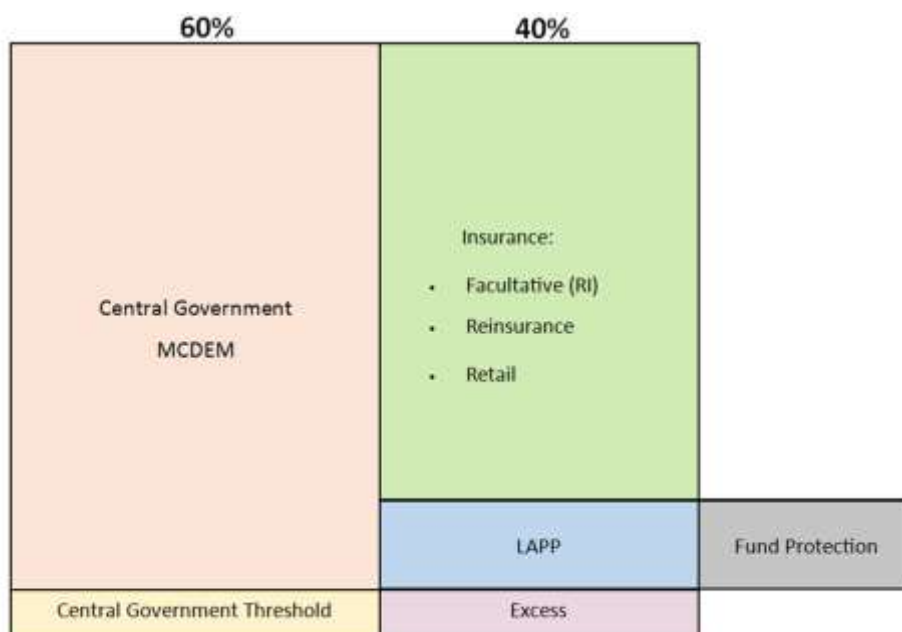
All material damage insurance	AON
All liability insurance	AON
Public Liability & Professional Indemnity	Marsh

Underground services – catastrophe cover LAPP
Bridges AON

- 3.2 The policy renewal programme is currently being worked on with a 1 November renewal date for all policies except the Public Liability & Professional Indemnity cover with Marsh which has a July renewal date.
- 3.3 AON was appointed as Council's broker in June 2020 and this will be their first placement for November. They are currently working on those placement options and the outcomes of those placements will be reported back to the Committee in December.

4.0 Discussion – *Te Matapakitanga*

- 4.1 Catastrophe cover works on the premise that Central Government will cover 60% of the damage incurred through a major catastrophic event with the local authority required to cover the remaining 40%. It is up to the local authority as to how that 40% is covered and for HDC, that cover is provided through LAPP. The following diagram demonstrates that funding split.



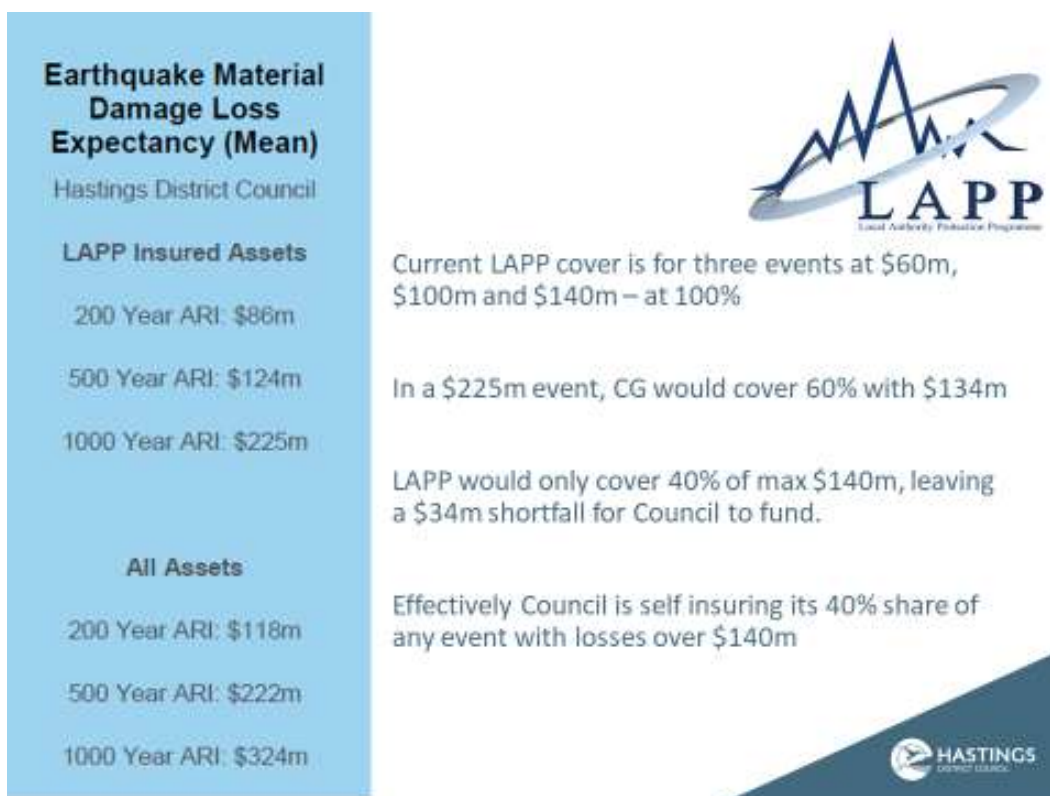
- 4.2 One area of concern expressed at the workshop was the level of cover provided through LAPP. The LAPP membership cover is for three events at \$60m, \$100m and \$140m at 100% in any given year.
- 4.3 An assessment of potential earthquake loss to the three waters infrastructure assets, those assets covered under the 60:40 split approach and with Council's LAPP membership, was undertaken in 2019 to assess the level of damage that could be incurred under three different scenarios. These scenarios have shaking levels approximately consistent with 200-year, 500-year and 1,000-year average recurrence intervals (ARIs). The three scenarios developed are:

Scenario 1 – a magnitude 7.1 rupture of the Tukituki Fault. The fault is located 5-10 km southwest of Hastings.

Scenario 2 – a magnitude 6.2 rupture of the Hawke's Bay 8 Fault. The fault is approximately 15 km east of Hastings.

Scenario 3 – a magnitude 7.6 rupture of the Napier 1931 Fault. The fault runs through the western half of Hastings.

The following slide was presented to the Committee at that Workshop and demonstrated a funding shortfall should Hastings experience a 1 in 1,000-year event like the 1931 Napier earthquake.



- 4.4 It should be noted that the modelling for Scenario 1 and Scenario 2 indicates that the LAPP cover would be adequate to fund Council's 40% share with no shortfall. Therefore, based on the modelling performed, only the 1 in 1000 year event is estimated to cause damage beyond the maximum LAPP cover of \$140m.
- 4.5 The most significant scenario describes a situation where a 1 in 1,000-year event would create approximately \$225m of damage to Council's underground infrastructure. In this situation, the upper limits of LAPP's cover at \$140m would mean that Council would face a shortfall of \$34m and is effectively self-insuring its 40% share of any event with losses over \$140m.
- 4.6 Recent discussions with LAPP have indicated that they are aware of this and are considering increasing those upper limits but at this stage are unsure of the financial impacts to the policies or the capacity of the market to take on that additional risk. Any change however will not be made until the November 2021 renewal if it was made.
- 4.7 This is a very extreme event but these events are not unprecedented, with the one modelled in this scenario being a real example from 1931. The events of Christchurch also present some real examples of the type and scale of a large event like this.

Council does have options in this situation:

- 1) It can recognise the likelihood of such an event is very rare but they do happen and acknowledge that it is not always prudent to insure for every eventuality and self-insuring this upper limit is a viable option. Being a member of LAPP in Hawke's Bay does have some other advantages in that Wairoa District Council is the only other LAPP member that could be affected by a significant event on the East Coast with Palmerston North being the closest other member Council.
- 2) It can request that LAPP considers an increase to its upper loss limits. Hastings District Council is one of the bigger Councils in this scheme where the \$140m limit could be exceeded. The only other members where size and scale could breach this threshold are probably Palmerston North and New Plymouth. This may mean that for the cost of increasing the upper limit, most other members would not necessarily see the value of making this change.

Seeking an optional additional layer with an upper limit may be another option of increasing the level of cover available.

3) It can look to change insurers. For this type of cover, AON is the only other viable option.

- 4.8 Council's Financial Strategy has previously acknowledged that it is important to maintain some financial capacity to respond to a major event. In recent times that financial capacity has been used to respond to growth, earthquake-prone buildings and changing water supply regimes with a move to a fully treated water supply with improved resilience.
- 4.9 While Council's financial capacity to respond to a major event is not as strong as it has been in the past, there is still quite a bit of headroom with Council's debt ceiling being 250% of income, or in the current context, about \$300m. Council therefore has the capacity to respond to this uninsured upper limit should it be put in that situation.

5.0 Next steps – *Te Anga Whakamua*

- 5.1 It is recommended that Officers continue to have discussions with LAPP on the chances of increasing the upper limits and to report back in the coming months on further options for the Committee to consider.

Attachments:

There are no attachments for this report.

Monday, 19 October 2020

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
**Hastings District Council: Risk and Assurance
Committee Meeting**

Item 10

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: Lex Verhoeven, Strategy Manager

Te Take:
Subject: 2021-31 Long Term Plan

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

1.1 The purpose of this report is to update the Committee about the progress being made on the development of the Long Term Plan, with particular focus on financial management and risk management considerations. This is a preliminary update which focuses on:

- Key Asset Management Considerations
- The Growth Programme
- Debt and Fiscal Pressure Points
- Programme Deliverability / Audit Expectations
- BERL Price Indices

1.2 This is a preliminary update report which is not seeking any decision from the Committee. It will be supplemented with further information specific updates as appropriate at future Committee meetings scheduled for 7 December 2020 and 1 February 2021. Those updates will be able to look at more detail at matters of interest such as:

- The forward capital works programme
- The Financial and Infrastructure Strategies
- The Treasury Policy and legislative fiscal benchmarks compliance
- Key Assumptions

2.0 Recommendations – Ngā Tūtohunga

- A) That the report of the Strategy Manager titled 2021-31 Long Term Plan dated 19 October 2020 be received.
- B) That the Committee note that the 1 February 2021 update will include endorsement of the more significant policies which underpin the Long Term Plan.

3.0 Background – Te Horopaki

3.1 Development of the Long Term Plan meets the legislative requirement to have in place a Long Term Plan by 30 June 2021. The Council has commenced working through the plan development broadly under the following steps in an iterative process:

- January/February – Direction Setting (Completed)
- March/June - 2020/21 Annual Plan and Covid-19 Response (Completed)
- July – Workshop One “Common Understanding” (Completed)
- August - Workshop Two “Finding the Right Balance” (Completed)
- October – Workshop Three “Piecing it Together” (In Progress)
- December – Workshop Four “Broad Plan”
- February – Council Meeting “Last Call”
- March – Council Adoption for Community Consultation

4.0 Discussion – Te Matapakitanga

4.1 The key matters of interest for the Committee at this point in the process have been summarised as:

KEY ASSET MANAGEMENT CONSIDERATIONS

- The Council’s Infrastructure Strategy (which is informed by the various Asset Management plans for our infrastructural activities) is a cornerstone of the Long Term Plan. That strategy signals a significant wave of investment required in the renewal of ageing assets, which is a national trend. The Council’s philosophy is to catch that wave early so that those investment impacts can be managed in terms of community affordability and spread in the optimal way.
- The Council’s 4 year programme of investment into safe drinking water (circa \$60m) is well on track for completion, and the targeted rate to fund this investment (and the step change in operational costs) is in the third year of its forecast LTP escalation to get it to a more sustainable level.
- Whilst most impacts have been previously signalled the scale and pace of some of those impacts (particularly in the roading area) are now significant issues to address. The Councils first cut of the budget contains the necessary investment to ensure that it is optimising investment to maintain current levels of service. A key funding risk in this regard is the level of support from the New Zealand Transport Agency for the programme being submitted for approval. Current indications are that the investment themes within our application have that support. The roading programme is however subject to ongoing refinement.
- The Council uses the funding of depreciation as a guide as to the correct level of investment. The actual investment is however driven from the detailed knowledge it has on the condition of its assets. The Council’s renewal graphs show a good correlation between renewal

investment and depreciation. A point to note is that the stormwater asset (being a newer asset relative to others) will start to see a period of renewal escalation commencing from about year 15 of the plan.

- Looking ahead, there are future uncertainties that are likely to mean that infrastructure will cost more. This is particularly the case in respect of the impacts of climate change and increasing environmental standards. These future uncertainties need to be built into the Council's Financial Strategy and the necessary fiscal headroom maintained to address them as they are better understood.

THE GROWTH PROGRAMME

- The Council's development programme to cater for residential growth has been considered by Council and aligns with the regional growth strategy (HPUD's). There are however choices as to the pace and sequencing of development, given that Council in most cases takes on the risk of providing services to the land in advance of collecting development contributions to fund the work.
- The Council manages its risk exposure by staging developments and ensuring sufficient demand is evident prior to committing to the investment in infrastructure. Regular reporting into the internal Executive Board and contact with key developers in the region keeps Council agile to any changes in the property market that might impact on our development strategy. The key development areas in the early years of the plan are Howard Street and the Iona/Middle area.
- The Council are also actively engaged in developments to facilitate affordable housing, particularly in the Flaxmere area.

DEBT AND FISCAL PRESSURE POINTS

- Preliminary budgets at this stage in the process indicate that the debt limits within the early years of the plan are likely to be close to (or in breach) of Council's Treasury Policy Limits. The section below makes reference to the workstream focused on programme deliverability, and any smoothing of the capital programme will also be beneficial to reducing the pressure on Treasury Policy debt limits.
- The Council's debt policy is reasonably conservative relative to some Council's, but for good reason, as this headroom is considered the Council's safeguard against unknown future events. It may be however that this Committee will need to consider the future financial policy settings. This will be reported to the 7 December Committee meeting.

PROGRAMME DELIVERABILITY / AUDIT EXPECTATIONS

- A particular focus of the 2021 Long Term Plan Audit is programme deliverability. This stems from the fact that 50% of local authorities typically deliver less than 80% of their forecast capital programme, with a further 26% delivering less than their full forecast capital programme.
- This is currently front of mind in the Long Term Plan process, with the capital programme being particularly front loaded in the first 3 years. This is further exacerbated with the recent success the Council has had to deliver projects funded through the Provincial Growth Fund and Crown Infrastructure Fund. A work stream is focussed on finding the optimal programme that can be delivered.

BERL PRICE INDICES

- With the significant work programme the Council has in front of it, comes the increased risk that price fluctuations will have on Council finances. The budgets will be inflated using the

Local Government Cost Index (LGCI). This is a cost index developed specifically for local government focused on the goods and services that local government provides.

- Management will need to monitor closely any cost escalations and movements in the contractor market given the volatile context we are currently operating in. Where particular contracts are in place with specific inflation factors that differ from the LGCI the budgets have reflected that.

ASSUMPTIONS

- All LTPs have a series of underlying assumptions that are made that inform the LTP. Attached as **Attachment 1** is a bulletin from the Office of the Auditor General titled “Assumptions underpinning your LTP”. It provides some useful context to the assumption making process and some guidance for elected officials in terms of what to ask and look for. At the December Committee meeting those assumption will be reported to the Committee for discussion.

5.0 Next steps – *Te Anga Whakamua*

- 5.1 Further Council workshops are scheduled in October and December and this Committee will be kept informed of issues of relevance and where guidance may be required.
- 5.2 The next Risk and Assurance Committee meeting will be a meeting that will have a number of LTP items that will be addressed including the two major strategies (Infrastructure and Financial) and underlying assumptions.

Attachments:

- | | | |
|---------------------|---|----------|
| 1 ↓ | LTP Bulletin 4 - Assumptions underpinning your long term plan | CG-16-55 |
|---------------------|---|----------|

Summary of Considerations - *He Whakarāpopoto Whakaarohanga*

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 wellbeing of communities in the present and for the future.

Link to the Council’s Community Outcomes – *Ngā Hononga ki Ngā Putanga ā-Hapori*

This proposal promotes the wellbeing of communities in the present and for the future.

Māori Impact Statement - *Te Tauākī Kaupapa Māori*

N/A

Sustainability - *Te Toitūtanga*

N/A

Financial considerations - *Ngā Whakaarohanga Ahumoni*

The financial considerations driven by the impact of this LTP are significant and as the budgets are refined further the impacts of those financial implications will be reported to the Risk and Assurance Committee.

Significance and Engagement - *Te Hiranga me te Tūhonotanga*

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

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

In time the LTP will be formally consulted on with the community.

Risks

Rural Community Board – *Te Poari Tuawhenua-ā-Hapori*

N/A



Assumptions underpinning your long-term plan

A long-term plan (LTP) can only be as good as the assumptions underpinning it. As an elected member, you need to ensure that the best judgement and available data is applied to the assumptions used to prepare your LTP. It is not possible to predict the future, but your underlying assumptions provide your council with reference points that help direct your community and organisation into the future.

The importance of supportable and realistic assumptions

To provide effective leadership, elected members should have input at all stages of the LTP process, from planning to the final document. This includes consideration of, and agreement on, the significant assumptions underpinning the LTP. Having realistic and evidence-based assumptions is crucial to ensure that the LTP is based on the best available information at the time of its preparation, and it provides readers with the best possible insight into the future of their council and community.

Input for assumptions needs to be from both internal and external sources. Although there might be common assumptions across councils, it is important that your council applies its own specific knowledge when developing its assumptions. This will enable the assumptions to be sufficiently tailored to your council and for your LTP to reflect what is most likely to happen in your community.

You need to understand how the assumptions have been developed and what your council has used to support them. You should challenge management on what is there and what might be missing.

You and your colleagues will adopt the significant assumptions before adopting the consultation document. Therefore, they will become **your** assumptions – you need to understand and be prepared to explain and stand by them.



CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

The significant assumptions to focus on

The future is uncertain and transparency about the potential impact of that uncertainty is important in preparing the LTP. For the 2021-31 LTP, matters such as Covid-19, the future impacts of climate change, and the three waters reforms will be front of mind. They create additional uncertainty. Your council will need to develop assumptions to cover each of these matters.

Some of your council's significant assumptions are more uncertain or provide greater risk than others. The more risky and uncertain the assumption, the more focused attention and challenge you should apply to it. You should ensure that this uncertainty and risk is adequately explained in your LTP. Key assumptions underpinning your LTP are likely to include:

- the Covid-19 downturn and recovery assumptions. These will affect other assumptions, such as those related to population growth, other demand changes, and funding sources (including revenue from your council-controlled trading organisations). Although the full implications of Covid-19 are still unclear, and will remain so for some time, it is likely that some of the assumptions councils previously made about the future (for example, in the 2020/21 annual plan) will need to be revisited. We will cover other Covid-19-related issues in our next bulletin;
- your council's assumptions about a changing climate. Your LTP should reflect how the expected effects of the changing climate will impact your council's operations, service levels, and planned responses;
- for territorial authorities, assumptions about your council's delivery of water and wastewater services. It is uncertain how, and to what extent, the proposed three waters reforms will take effect, and based upon our current understanding of timelines, this is not expected to be resolved by 30 June 2021. This means that your LTP should be based on the assumption that your council will continue to provide water and wastewater services;

- your council's asset assumptions. Your LTP should contain maintenance and renewal forecasts that are based on realistic and reliable information about asset condition and performance;
- your council's ability to deliver its planned capital expenditure. The impact on your council's planned levels of service and its flow-on impacts on forecast debt and rates funding means that it is essential the LTP's forecast capital programme is achievable; and
- implementing new or known changes to regulation. For example, the recently released National Policy Statements on Freshwater Management and Urban Development and, in particular, how regulatory changes might affect the levels of service your council is required to provide.

Some of these assumptions – such as your council's plans to recover from the Covid-19 downturn and climate change – might be of great interest to your community. Be prepared to engage with your community on these and the other assumptions that you approve.

Questions for elected members when considering the significant assumptions

- What process has your council carried out to identify its significant assumptions? Are you satisfied that the significant assumptions are comprehensive and robust, and there is nothing missing?
- Are you satisfied that there is appropriate evidence to support the significant assumptions?
- Are you satisfied that management has applied the assumptions consistently across the LTP (including in the financial and infrastructure strategies), consultation document, and other underlying information?
- Do you have enough information on your council's assumptions to be able to engage with your community on them?

Monday, 19 October 2020

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
**Hastings District Council: Risk and Assurance
Committee Meeting**

Item 11

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: Aaron Wilson, Financial Controller

Te Take:
Subject: Annual Report 2020 Update

1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to update the Committee about a change to the adoption date of the Annual Report and
- 1.2 This report concludes by recommending that the report be received.

2020 Annual Report

- 1.3 Staff worked to the annual year end timetable for the 2020 year end. The timetable was inclusive of all the processes and requirements of the production of the Annual Report and required a high degree of coordination across Council .Key dates for the audit process were:
- Draft financial statements available for audit 28th August
 - Full Annual report available for Audit 28th August
 - Summary Annual Report available for Audit 28th August
 - Final Audit begins – audit on-site 28th August
- 1.4 Officers were able to provide Audit with a complete draft Annual Report for their arrival on the 28th August, which included the revaluation report for the water infrastructure assets. As requested at the last Risk and Assurance meeting, officers have provided the chair of the committee with the revaluation report and also the assessments of the carrying value of all other asset classes. A

significant difference this year was the additional disclosure requirements that were directly related to COVID-19 impacts on Council's financials.

1.5 Please note that there are three attachments with this report, they are :

- Draft Financial Statements
- Draft Statement of Cashflows
- Draft COVID-19 Disclosures

1.6 There is a potential issue that has been raised by Audit NZ in relation to non-financial performance information and specifically the *DIA Mandatory Performance Measure 4 (customer satisfaction)* where Council has not been capturing all the necessary information. While this measure has been in place for some time, this has been a new area of focus for audit and we expect that a large number of Council's will be in the same position. At the time of writing we are unsure how Audit will treat this non-compliance and an update on this issue will be provided by Karen Young at the Committee meeting.

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

Unaudited Operating Accounting Result	BUDGET COUNCIL \$'000	ACTUAL COUNCIL \$'000	Variance \$'000
Operating Revenue	130,425	142,477	12,052
Less: Operating Expenditure	126,023	135,846	(9,823)
Net Surplus/(Deficit)	4,402	6,631	2,229
Unrealised movement on Swaps	-	5,196	(5,196)
Net Surplus/(Deficit) after Swaps	4,402	1,435	(2,967)
Gain/(Loss) on Revaluations	67,470	35,901	(31,569)
Net Surplus after accounting gains and losses	71,872	37,336	(34,536)

1.8 The draft unaudited financial result for the year ended 30 June 2020 before gains or losses on revaluations and losses on interest rate swaps is a surplus of \$6.6m with a favourable variance to the budget of \$2.2m.

1.9 It is important to note that budget variances noted in the table above, refer to variances against the Annual Plan excluding carry forwards or any other budget adjustments as this is what Council is required to report against in the Annual Report.

1.10 The unrealised losses on interest rate swaps of \$5.1m is an accounting entry and reflects the potential cost to Council of replacing all of its interest rate swaps at the prevailing swap interest rates on 30 June 2020. Council is, however, extremely unlikely to be put in that situation and the loss is therefore recognised as an 'unrealised loss'.

1.11 Council has interest rate swaps in place to hedge against interest rate exposure by reducing uncertainty of future cashflows. This is in line with Councils prudent financial approach and meets the requirements of Councils treasury policy. Market conditions have changed from several years ago when many of these swaps were taken out.

1.12 Heretaunga House Impairment:

1.13 Due to Heretaunga House being reassessed as an earthquake risk, the building is now not leased or used by Council. The decision to move out of the building was made at the end of June 2020, with further engineering and consultation reports to be commissioned to look at the options and costs around either repairing the building to an acceptable standard or rebuilding.

- 1.14 It is likely that this process will take at least two years, and in terms of the carrying value of this asset means that its value for the building, not including the land of \$5.2m is not a correct assessment of its fair value.
- 1.15 With little information to assess the actual value, officers have worked through a template of broader questions to get an indication of what the impairment should be, in order to reflect what an acceptable carrying value is.
- 1.16 With the length of time that the building will not be able to be used for its intended purpose, or leased, it has been decided that the building should be fully impaired down to zero, with the impairment taken to the asset reserve.

Annual Report Adoption:

- 1.17 The Audit NZ schedule has been significantly impacted by COVID-19 with interim audits being completed remotely along with other large audits putting their programme behind.
- 1.18 While there has been some dispensation for the normal annual report adoption from the 31st October, officers were mindful that they did not want the Annual Report process to drag on and worked hard to achieve the audit timeframes required to enable the audit to be completed for a 15th October adoption of the Annual Report.
- 1.19 Unfortunately Audit NZ have not been able to deliver the completed audit in this timeframe and a delayed adoption of the Annual Report has been set down for 10th November following the Operations and Monitoring Committee meeting. Audit NZ have confirmed that they can meet this new deadline.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) That the Committee receives the report titled Annual Report 2020 Update.

Attachments:

- | | | |
|----|---------------------------------|------------------|
| 1↓ | Draft Financial Statements 2020 | FIN-09-01-20-190 |
| 2↓ | Draft Statement of Cashflows | Fin-09-01-20-193 |
| 3↓ | Draft COVID-19 Disclosures | FIN-09-01-20-194 |

\$'000	Notes	BUDGET COUNCIL 2020 \$'000	ACTUAL COUNCIL 2020 \$'000	
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR ENDED				
<u>Revenue</u>				
77,347	Rates, excluding metered water supply charges	3	82,165	81,814
26,487	Fees, charges and metered water supply charges (i)		24,839	28,198
20,161	Subsidies and Grants (ii)		16,364	21,772
6,989	Development and financial contributions		5,408	4,281
134	Donations		3	90
534	Interest revenue (iii)	4	0	478
1,154	Other revenue (iv)	5	646	746
4,976	Vested infrastructural assets (v)		1,000	5,098
137,781	TOTAL REVENUE		130,425	142,477
<u>Expenses</u>				
89,763	Operational costs (vi)	6	87,040	95,911
34,085	Depreciation and amortisation expense	7	32,150	34,944
4,605	Finance Costs (vii)		6,833	4,991
128,453	TOTAL EXPENSES		126,023	135,846
7,088	Unrealised Loss on Swaps (viii)			5,196
2,240	Surplus/ (deficit) before tax		4,403	1,435
-	- IncomeTax expense	8	-	-
2,240	Surplus/(deficit) after tax		4,403	1,435
<u>Other comprehensive revenue and expense:</u>				
42,549	Gain/loss on infrastructural revaluations		67,470	41,152
-	- Gain/Loss on land and building revaluations		-	(5,223)
31	Gain/Loss on other revaluations		-	(28)
-	- Financial assets at fair value through other comprehensive revenue		-	-
42,580			67,470	35,901
44,820	Total other comprehensive revenue and expense		71,873	37,336

ACTUAL COUNCIL 2019 \$'000		Notes	BUDGET COUNCIL 2020 \$'000	ACTUAL COUNCIL 2020 \$'000
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020				
ASSETS				
Current assets				
2,939	Cash & cash equivalents		1,265	(254)
12,455	Receivables	9	10,434	10,732
55	Inventory	10	108	106
31	Short Term Investments		-	14,180
15,480	Total current assets		11,807	24,764
Non-current assets				
-	Derivative financial instruments	16	-	-
1,747	Investments in associates	11 (a)	1,066	1,063
Other financial assets				
16	Investments in CCO's and similar entities	11 (b)	941	15
2,460	Investment in other entities	11 (b)	1,568	3,172
4,223	Total other financial assets		3,575	4,250
237,622	Plant, property and equipment	12	219,598	251,909
1,955,062	Infrastructural assets	12	1,858,890	2,019,628
60	Biological Assets	12		60
155	Intangible assets	12	963	294
2,197,123	Total non-current assets		2,082,268	2,276,142
2,212,603	Total assets		2,094,076	2,300,906
LIABILITIES				
Current liabilities				
23,578	Payables and deferred revenue (i)	13	16,538	21,304
2,444	Employee entitlements	14	2,241	3,092
2,186	Derivative financial instruments	16	-	699
10,000	Borrowings and other financial liabilities (ii)	15	12,530	20,000
38,208	Total current liabilities		31,309	45,095
Non-current liabilities				
800	Provisions & Other Non-current Liabilities	13	659	1,640
349	Employee entitlements	14	480	333
11,380	Derivative financial instruments	16	13,500	18,063
96,240	Borrowings and other financial liabilities (iii)	15	115,301	132,815
108,769	Total non-current liabilities		129,940	152,851
146,977	Total liabilities		161,249	197,946
2,065,626	Net assets (assets minus liabilities)		1,932,827	2,102,959
Equity				
1,238,844	Accumulated funds	17	1,133,055	1,239,991
3,648	Restricted Reserves	18	3,182	3,934
823,134	Revaluation Reserves	19	796,589	859,034
2,065,626	Total equity		1,932,827	2,102,959

ACTUAL COUNCIL 2019 \$'000	ACTUAL GROUP 2019 \$'000			BUDGET COUNCIL 2020 \$'000	ACTUAL COUNCIL 2020 \$'000
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020					
Cash flows from operating activities					
Cash was provided from:					
77,350	77,350	Receipts from rates revenue		82,165	81,387
39,640	39,685	Receipts from customers		30,893	45,506
534	540	Interest received		-	478
159	159	Dividends and commissions received		-	126
20,161	21,062	Subsidies and grants received		16,367	21,772
	-	GST (net)		-	
137,844	138,796			129,425	149,269
Cash was applied to:					
93,025	92,963	Payments to suppliers and employees		87,040	103,236
4,377	4,377	Interest paid		6,833	5,009
(960)	(960)	GST (net)		-	221
96,442	96,380			93,873	108,466
41,402	42,416	Net cash flows from operating activities (note 20)	A)	35,553	40,802
Cash flows from investing activities					
Cash was provided from:					
3,210	3,225	Receipts from sale of property, plant and equipment (I)		422	1,811
194	354	Losses and impairment / revaluation prior year		-	-
3,404	3,579			422	1,811
Cash was applied to:					
72,008	72,043	Purchase of property, plant & equipment and infrastructural assets		71,993	74,608
	128	Purchase of investments		383	14,150
72,008	72,171			72,376	88,758
(68,604)	(68,593)	Net cash flows to investing activities	B)	(71,954)	90,569
Cash flows from financing activities					
Cash was provided from:					
40,501	40,501	Proceeds from borrowings		41,691	46,574
Cash was applied to:					
12,000	12,134	Repayment of borrowings		5,290	
28,501	28,367	Net cash flows from financing activities	C)	36,401	46,574
1,300	2,190	Net increase (decrease) in cash, cash equivalents and bank overdraft	(A+B+C)	-	(3,193)
1,640	2,045	Cash, cash equivalents and bank overdraft at the beginning of the year		1,265	2,939
2,939	4,235	Cash, cash equivalents and bank overdraft at the end of the year		1,265	(254)
Cash at end of year comprises					
2,939	4,235	Cash and cash equivalents		1,265	(254)
2,939	4,235			1,265	(254)

COVID-19 Disclosures for Annual Report 2019/20

Hastings District Council has considered the potential impact of COVID-19 as part of its impairment testing of assets on its statement of financial position.

It is acknowledged that there is significant uncertainty in how COVID-19 will impact the New Zealand economy and Hastings District Council in the future. The table below provides an assessment of the impact of the impact of COVID-19 on Council assets. This assessment is effective as at the end of July 2020 and has made use of all available information at that time.

ASSET	COVID-19 Assessment
CASH AT BANK	No impact to carrying value. All cash and term deposits held at banks with credit ratings of A or better.
DEBTORS AND OTHER RECEIVABLES	No impairment is required for rates receivables due to the powers under the Local Government (Rating) Act 2002 to recover outstanding rates debts. Other receivables have been assessed for impairment and there is no significant impact from COVID-19 on collectability.
INVENTORIES	No impact on carrying value.
OTHER FINANCIAL ASSETS	<p>All financial assets that are current are held with banks with Standard and Poors credit ratings of A or better.</p> <p>Non-Current financial assets include investments in associates, including Hawke's Bay Airport. Council has a 24% interest in Hawke's Bay Airport which has been severely affected by COVID-19 restrictions. This is reflected in the significant decline in its value accounted for using the equity method. Subsequent to year end, an additional loan was provided by the shareholders to support the continuity of the airport's expansion. Refer to Note 26 for more details on the loan. The ability of Hawke's Bay Airport to be able to continue as a going concern for the next twelve months from the date of this report is largely dependent on the viability of its forecasted revenue and growth post- COVID-19 as well as continues availability of funding from its lenders/ shareholders. Refer to Note 11 for details on impairment considerations.</p> <p>In addition are unlisted shares which relate to an entity owned by local government. Due to its low carrying value at year end, there is minimal risk exposure from all factors including COVID-19.</p>
INTANGIBLE ASSETS	Council continues to use its intangible assets (computer software) to the fullest extent possible and as such there are no indicators of impairment as a result of COVID-19.
BIOLOGICAL ASSETS	Council has two small blocks of forestry assets. There has been no impact on these assets as a result of COVID-19 as these holdings will not be harvested in the short to medium term and are also well under the level of materiality required.

FIXED ASSETS	<p data-bbox="497 313 805 347">Property, Plant & Equipment</p> <p data-bbox="497 351 1303 441">COVID-19 impact has introduced increased uncertainty in the valuation of these assets. However, Council is of the opinion that there is no significant adverse impact arising from COVID-19.</p> <p data-bbox="497 459 794 488">Water Infrastructure Assets</p> <p data-bbox="497 497 1303 642">Water, Wastewater and Stormwater have been valued at Optimised Depreciated replacement cost as at 30 June 2020. Below ground assets have been valued by Council's engineers and independently reviewed by Waugh Infrastructure, whose letter indicated that COVID-19 is unlikely to lead to any reduction in demand for Council's assets.</p> <p data-bbox="497 663 810 692">Roading Infrastructure Assets</p> <p data-bbox="497 701 1303 907">Due to the current global COVID-19 pandemic, it is emphasised that there is a heightened uncertainty with regards to predicting future changes in asset values. The indices used to forecast future costs have been estimated using trends based on data captured from previous periods. This fair value assessment has been conducted before the true full impact of COVID-19 is known. There is therefore a risk that infrastructure costs may fluctuate as a result of the impact of COVID-19 on the economy.</p> <p data-bbox="497 913 1303 1182">While this is the case, it is expected that the impact of Covid-19 will be minimal on horizontal assets. It is, therefore, expected that the level of risk when assessing the valuation of roading infrastructure assets is low. It is possible that replacement cost rates may be subject to short-term changes due to shortages of materials or specialist labour. However, the replacement costs that are used in depreciated replacement cost calculations should reflect typical and sustainable market conditions. Beca are, therefore, comfortable that the fair value assessment noted below is a reasonable estimate of the roading infrastructure asset values.</p> <p data-bbox="497 1202 678 1232">Land & Buildings</p> <p data-bbox="497 1240 1303 1563">Property transactions in Hawke's Bay since New Zealand went into lockdown on 25 March 2020 were subdued until May but are now showing resumed support rather than the widely forecast decline. Some of this is catch up transactional activity, while mortgage interest rates below 3% and looking to stay low for longer are providing plenty of encouragement to home buyers, despite economic commentators suggesting tougher times still ahead. We remain slightly cautious for the coming 12 month period, including any election uncertainty. However, it may eventuate that Hawke's Bay is less impacted by the border controls and our strong farming and horticultural economy serves to better insulate the region compared to other parts of New Zealand.</p> <p data-bbox="497 1572 1303 1715">In general terms, the non-residential market in Hastings District is more cautious than was the occurring in June 2018 and June 2019. There is no evidence however of prices being at lower levels compared to 2018. Rural properties of all sizes and farming types are continuing to attract very strong prices.</p>
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Monday, 19 October 2020

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
**Hastings District Council: Risk and Assurance
Committee Meeting**

Item 12

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: Bruce Allan, Group Manager: Corporate

Te Take:
Subject: Group Manager: Corporate Update Report

1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

Heretaunga House

- 1.1 The impact of Heretaunga House's Detailed Seismic assessment continues with approximately half of the staff displaced from Heretaunga House now being relocated into new office premises on Warren Street. The balance of displaced staff will be relocated during the first half of November.
- 1.2 The Building Intelligence Group have been engaged to undertake a due diligence survey of Heretaunga House to get an understanding of the necessary remedial works required to enable Heretaunga House to be usable again. That work commenced in late August and is expected to take about 12 weeks to complete. A draft report is expected in late November and this will help identify options for Council to consider regarding its future use.

Policies

- 1.3 There are a number of policies that are reviewed on an annual to triennial basis and should be brought through this Committee for oversight. In recent times, this Committee has had oversight of the following policies:
 - Treasury Policy
 - Health and Safety Policy
 - Procurement Policy
 - Delegated Financial Authority Policy

- Risk Policy

- 1.4 The Long Term Plan also presents an opportunity for policies that the Local Government Act requires to be included in the Long Term Plan to be reviewed. Policies that fall into this camp include the Significance and Engagement Policy, Revenue and Financing Policy and the Rating Policy.
- 1.5 As part of the long-term development, more of these policies will be presented to this Committee for oversight and a more robust review regime will be developed and presented back in the December meeting for other policies that are appropriate for the Committee to have oversight of.

Second Independent Member of Committee

- 1.6 At the time of writing, a recommendation had been made for Council to consider the appointment of a second independent member of this Committee. It had been previously recommended that someone with expertise and experience in asset management or in industries that are asset heavy like Councils be considered.
- 1.7 The terms of reference for this Committee is sufficiently broad to allow the Committee scope to broaden its focus to ensure it was getting sufficient assurance across the areas of risk for the organisation. It is proposed that the Chair and the responsible officer work to develop up a broadened scope of activities that sufficiently captures areas of significant risk, with a particular focus on asset management.

Outstanding Actions

- 1.8 Attached as **Attachment 1** are the outstanding actions from previous Risk and Assurance meetings.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

- A) That the Committee receives the report titled **Group Manager: Corporate Update Report**.

Attachments:

- 1 [↓](#) Risk & Assurance Status of Actions Sheet CG-16-54

Hastings District Council Risk and Audit Subcommittee Status of Actions Sheet – 19 October 2020

Item No.	Meeting Date	Action	Reporting Officer	Progress	Complete
1	02/07/19	<u>Governance Oversight of Finances</u> <ul style="list-style-type: none"> Finance to develop a inhouse training package. 	GM:C	Delayed due to COVID-19	
2	04/05/20	<u>Audit NZ</u> <ul style="list-style-type: none"> Organise workshops with Committee on impacts of Covid-19 on Annual Report 2019/20, if required. Review of Council contracts, impacts of lockdown and disestablishment Report to Operations & Monitoring meeting on 23 July on effect of Covid-19 Feedback on Audit NZ plan and documents from Karen Young 	GM:C GM:AM GM:C GM:C	No issue has arisen that would have warranted a workshop. CT to provide. Covid financial impacts reported to Operations & Monitoring. Feedback given to Audit NZ.	
3	04/05/20	<u>Treasury Activity and Funding</u> <ul style="list-style-type: none"> Reconvene Committee if considered necessary for funding. 	GM:C	Not required.	✓
4	27/07/20	<u>2020/21 Insurance Renewal Programme</u> <ul style="list-style-type: none"> Workshop to be held to undertake a more detailed briefing; a statement re matters to be addressed to be circulated to obtain feedback. Officers to investigate issues and problems (such as under-insurance and exclusions) re Christchurch and Kaikoura earthquakes. 	Jeff Tieman Jeff Tieman	29/09 Covered	

5	27/07/20	<u>Health & Safety Risk Management</u> <ul style="list-style-type: none"> Internal audit against ISO 45001:2018 Gap Analysis standard be undertaken with progress reports to Committee. 	Jennie Kuzman	H&S Update to December meeting	
6	27/07/20	<u>Annual Report 2020 Update</u> <ul style="list-style-type: none"> Prepare a short summary to update the Committee showing the seven major types of assets Council has, include carrying value and recommended value for each asset. 	GM:C/ Aaron Wilson	✓	
7	27/07/20	<u>Corporate Update</u> <ul style="list-style-type: none"> External appointment on the Committee be addressed and filled prior to 19 October meeting if possible. 	GM:C/Chair	Underway	