

Monday, 5 July 2021

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Risk and Assurance Committee Meeting

Kaupapataka

Agenda

Te Rā Hui:
Meeting date: **Monday, 5 July 2021**

Te Wā:
Time: **1.00pm**

Te Wāhi:
Venue: **Council Chamber
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
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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, 5 July 2021

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Hastings District Council

Risk and Assurance Committee Meeting

Kaupapataka

Agenda

	<i>Koromatua</i> Chair: Jon Nichols – External Independent Appointee
<i>Mematanga:</i> Membership:	<i>Nga Kai Kaunihera</i> Councillors: Simon Nixon (Deputy Chair), Alwyn Corban, Tania Kerr, and Geraldine Travers Robin Hape - Heretaunga Takoto Noa Māori Standing Committee appointee Jaun Park – External Independent Appointee Mayor Sandra Hazlehurst
<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:	Christine Hilton (Extn 5633)

Te Rārangī Take

Order of Business

Apologies – Ngā Whakapāhatanga

- 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 12 April 2021.
(Previously circulated)

4.0 Annual Report 2021 Update 7

5.0 Risk Assurance Programme Update 9

6.0 Strategic Risk Update 11

7.0 Draft Three Waters Reform Risk Assessment 13

8.0	Group Manager: Asset Management Update Report	17
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9.0	Group Manager: Corporate Update Report	23
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10.0	Minor Items – <i>Ngā Take Iti</i>	
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11.0	Urgent Items – <i>Ngā Take Whakahihiri</i>	
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12.0	Recommendation to Exclude the Public from Item 13	29
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13.0	Contractor Health & Safety Performance Report	
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Monday, 5 July 2021

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: Annual Report 2021 Update

1.0 PURPOSE AND SUMMARY - TE KAUPAPA ME TE WHAKARĀPOPOTOTANGA

- 1.1 The purpose of this report is to update the Committee about progress being made on year-end issues.
- 1.2 This report concludes by recommending that the report be received.

2021 Annual Report

- 1.3 Staff have completed the annual year end timetable for the 2021 year end. The timetable is inclusive of all the processes and requirements of the production of the Annual Report and requires a high degree of coordination across Council. The Local Government Act stipulates that the Annual Report must be adopted by Council by 31st October each year, this year the date set down for Council approval is 14th October. Other key dates for the audit process are:
 - Draft financial statements available for audit 13th September
 - Full Annual report available for Audit 13th September
 - Summary Annual Report available for Audit 13th September
 - Final Audit begins – audit on-site 20th September
- 1.4 The audit is scheduled to start a month later than last year due to resourcing pressures at Audit NZ. This means there will be less than a week between the end of the onsite audit visit (8th October) and the Council adoption of the Annual Report. It may be prudent to move the adoption date to the

end of October to relieve pressure and ensure sufficient review time for Council prior to adoption of the finalised Annual Report.

- 1.5 The Finance team has a full complement of accounting resources this year with the new Financial Improvement Analyst position being filled in May by Jess Noiseux. Jess was previously an Assistant Manager at Audit NZ and supervised the Council's audit from 2016 – 2019. As a result we expect to improve the reporting process and systems and Officers are confident of providing Audit with completed draft financial statements for audit on 13th September prior to them arriving on-site.
- 1.6 Audit NZ are implementing a new system called 'AuditDashboard'. This is an online portal that allows for easier collaboration and file sharing between Council and Audit. It will be used to assign specific tasks to individual Council staff, exchange information securely and track request progress. We expect this will further strengthen the reporting process and enable a more efficient audit.
- 1.7 There are no significant changes to Public Benefit Entity (PBE) reporting standards that are likely to materially affect the 2020/21 Annual Report. Amendments to PBE IPSAS 1 will require some review of Council's going concern assessment, but this is unlikely to result in more specific disclosures in the Annual Report.
- 1.8 Last year Council received a qualified audit opinion over the activity groups' statement due to incomplete information about the number of complaints Council received related to 3 waters complaints. This was an issue across a number of councils and as a result the DIA issued updated guidance in May 2021. We are currently working through what this means for Council's complaints recording processes and systems. Due to the timing of both the 2020 Annual Report opinion and the updated guidance from DIA, we have not had time to implement changes and we expect to receive a similar audit opinion over the 2021 Activity Groups statement.
- 1.9 Every year there are revaluations of various classes of assets that are performed on a rotating basis on a set schedule. This year it is the land and buildings assets; roading infrastructure assets; parks infrastructure assets and library assets that will be revalued. These valuations are being completed and are as at 30th June 2020.
- 1.10 Interim audit
- 1.11 Audit NZ were on site during March and have completed their interim audit. Due to the timing of both the LTP process and audit along with the interim, any recommendations and updates will be included and reported on by Audit NZ during the final yearend audit process.
- 1.12 Covid-19 implications
- 1.13 We do not expect that year-end reporting will need to articulate the impact of Covid-19 in a significant way this year. Staff will work with Audit NZ to ensure disclosure (if any) is sufficient for reporting purposes.

2.0 RECOMMENDATIONS - NGĀ TŪTOHUNGA

That the Risk and Assurance Committee receives the report titled Annual Report 2021 Update dated 5 July 2021.

Attachments:

There are no attachments for this report.

Monday, 5 July 2021

Item 5

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: Steffi Bird, Risk Assurance Advisor

Te Take:
Subject: Risk Assurance Programme 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 the following risk assurance activities:

- Crowe's final report for Cemeteries and Crematorium Revenue & Invoicing Review
- Progress on 2020/21 Risk Assurance Review Plan
- Draft Internal Risk Assurance Review Plan for 2021-24

1.2 Cemeteries & Crematorium Review

- Our externally appointed internal auditor, Crowe, completed a revenue and invoicing review of Hastings District Council's Cemeteries and Crematorium during March 2021. A copy of the report's executive summary has been included (**Attachment 1**) for the Committee.
- The key themes of the findings relate to system access rights, segregation of duties, reconciliation processes and fee changes.
- Actions to address the findings raised have already begun between the Cemeteries & Crematorium staff and HDC's finance team.

1.3 2020/21 Risk Assurance Review Plan & Previous Review Actions Summary

- As at 15 June 2021, two of the four planned assurance reviews have been completed. The remaining two (IT Security and Ability to meet legal obligations) are underway and due for completion before the end of July. Final reports for the two reviews will be presented to the Committee in September.

- There are 28 open actions from previous internal and external reviews (audits), 14 are considered overdue and of these, 11 are in progress under two main projects – Cash Handling and Procurement/Contract Management. Seven action items have been closed since the last report was presented to the Committee in February. (**Attachment 2**)

1.4 Risk Assurance Review Plan for 2021-24

- A draft three-year risk assurance review plan (**Attachment 3**) has been developed with a focus on the Council's 10 new strategic risks. The Risk Assurance Advisor will schedule the completion of one review each quarter, with the review report presented at the following Risk & Assurance Committee meeting for oversight.
- Feedback is sought from the Committee on the proposed plan and, in particular, any preference for the fourth review of 2021/22. It is suggested that the fourth review is either related to Water Quality or Statutory Reform.
- Council's internal Risk Assurance team have held discussions with Crowe to assist in developing their Review Plan for 2021/22.

2.0 Recommendations - Ngā Tūtohunga

- A) That the Risk and Assurance Committee receive the report titled Risk Assurance Programme Update dated 5 July 2021
- B) That the Committee approve the Risk Assurance Review Plan for 2021-2024.

Attachments:

1⇒	Cemeteries and Crematorium Revenue Review 2021 (Crowe)	PMD-9-1-21-37	Under Separate Cover
2⇒	Assurance Review Actions Summary - June 2021	PMD-9-3-21-30	Under Separate Cover
3⇒	HDC Assurance Review Plan 2021-2024 (Draft)	PMD-9-1-21-38	Under Separate Cover

Monday, 5 July 2021

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: **Steffi Bird, Risk Assurance Advisor**

Te Take:
Subject: **Strategic Risk Update**

1.0 Executive Summary – Te Kaupapa Me Te Whakarāpopototanga

1.1 With the recently adopted strategic risk register for Council, the purpose of this report is to update the Committee on the outcome of the following strategic risk assessments:

- Failure of Climate Adaptation
- People Health, Safety & Wellbeing
- Financial Sustainability

1.2 Failure of Climate Adaptation

- A risk workshop was held for this new strategic risk, which involved Officers, Councillors and a representative from Hawke's Bay Regional Council.
- The objective for the assessment was agreed upon by the group and a whiteboard session resulted in the attached risk identification chart (**Attachment 1**).
- Identified risks were analysed by Risk Assurance and a BowTie diagram developed to reflect the key themes (**Attachment 2**). Upon completion however, it was considered that the negative nature of the BowTie made it difficult to identify an effective path forward and did not accurately represent the opportunities and strengths identified by the workshop group.
- A unique approach was taken to create a secondary BowTie diagram which centres on the *Success of Climate Adaptation*, rather than the failure (**Attachment 3**). This diagram intends to flip the dialogue in regards to climate change and highlights the pathways which could contribute towards successful adaptation.
- Potential controls have been noted against causes within the Success of Climate Change BowTie. These controls are largely associated to first level causes, rather than the root cause.

1.3 People Health, Safety & Wellbeing

- The existing BowTie diagram for this risk was reviewed with a small group for accuracy and completeness, the refreshed diagram is attached (**Attachment 4**).
- Key changes to the BowTie from the review include the addition of public behaviour and user events as threats, and broadening the impacts to include mental injury/illness and relationships with industry bodies and regulators.

1.4 Financial Sustainability

- A risk workshop was held with a group of diverse roles to brainstorm threats and impacts towards a BowTie for the new strategic risk (**Attachment 5**).

2.0 Recommendations - *Ngā Tūtohunga*

That the Risk and Assurance Committee receive the report titled Strategic Risk Update dated 5 July 2021.

Attachments:

1⇒	Risk Identification Chart - Failure of Climate Adaptation	PMD-9-3-21-32	Under Separate Cover
2⇒	BowTie - Failure of Climate Adaptation	PMD-9-3-21-33	Under Separate Cover
3⇒	BowTie - Success of Climate Adaptation	PMD-9-3-21-35	Under Separate Cover
4⇒	People Health, Safety & Wellbeing - Strategic Risk BowTie	PMD-03-81-21-209	Under Separate Cover
5⇒	Financial Sustainability - Strategic Risk BowTie	PMD-9-3-21-34	Under Separate Cover

Monday, 5 July 2021

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

Te Take:
Subject: **Draft Three Waters Reform Risk Assessment**

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

- 1.1 The purpose of this report is to present the preliminary risk assessment results relating to the Central/Local Government Three Waters Reform Programme for discussion.
- 1.2 The Three Waters Reform Programme represents one of the most significant structural changes to Local Government in the last 30 years. This risk assessment intends to identify the material risks and opportunities associated with this change to help inform future Council decision making.
- 1.3 It should be noted that significant uncertainty remains about the scope of the final Government proposal and the process. As a result Council needs to maintain an agile footing and reassess as announcements are made. Therefore the following information should not be considered definitive advice, rather a summary of Officers' understanding of the current situation.

2.0 Methodology

- 2.1 To establish a risk profile to support future Council decision making a risk identification and analysis process was undertaken.
- 2.2 The risk identification process was undertaken through two workshops, which involved a range of internal stakeholders from the water services, strategic planning and customer service teams, and the Risk and Assurance Committee Chair.
- 2.3 The workshops used the PESTLE¹ model to identify risks (including threats and opportunities) for the community and Council associated with delivery of water supply, waste water and storm water

¹ PESTLE stands for Political, Economic, Social, Technological, Legal, Environmental

services by an independent Water Agency. The risk identification process focused on the following three scenarios:

- Scenario 1: Water services delivered by an Independent Water Agency.
- Scenario 2: Transition of water service delivery to an Independent Water Agency.
- Scenario 3: Opt-Out of the proposed Water Agency service model, and Council retaining responsibility for delivering water services.

2.4 The results of the workshops were then transferred to risk registers for analysis and prioritisation. The risk analysis was then used to create a key risk summary page for each scenario.

2.5 The risk registers and summaries have subsequently been reviewed by the executive Lead Team.

3.0 Preliminary Results

3.1 The key risk themes that have emerged from the risk analysis are:

- **Growth Planning Impacts:** This encompasses challenges in setting direction for growth in the district and implementing growth plans.
- **People and Capability:** Challenges relating to retaining sufficient competent staff to operate safely.
- **Ability to Pay:** This theme covers both the householders' ability to meet the costs of the new service standards and potential impacts on Council's financial sustainability.

3.2 Evaluation of the scenario based risk profiles against Council's current risk appetite statement provides the following perspective:

- The risk profile for Scenario 1 is likely to be within Council's risk appetite assuming the Government effectively implements the legislative controls for growth planning and agency work programme development that are being proposed. While a number of risks have been identified for delivery of water services by an Independent Water Agency, the potential benefits should outweigh the risks for Council and the community.
- Conversely, the transition risk profile is high and difficult to mitigate. This is because many of the risk causes are outside of the Council's control, making effective risk mitigation difficult. As a result, minimising the transition period to reduce the risk exposure may be the only effective option in this scenario.
- In contrast, the risk profile of opting out of the Water Agency model is well outside the Council risk appetite. This is because of significant risks associated with Council ability to pay and retention of sufficient people and capability to operate safely once the Water Agencies are operating.

4.0 Recommendations - *Ngā Tūtohunga*

- A) That the Risk and Assurance Committee receive the report titled Draft Three Waters Reform Risk Assessment dated 5 July 2021.
- B) That the Committee endorse the risk assessment and recommend Council consider these issues when making decisions relating to the Central/Local Government Three Waters Reform Programme.

Attachments:

1⇒ 3 Waters Reform Risk Analysis

PMD-9-3-21-28

Under Separate Cover

Monday, 5 July 2021

Item 8

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: **Craig Thew, Group Manager: Asset Management**

Te Take:
Subject: **Group Manager: Asset Management Update Report**

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

- 1.1 The purpose of this report is to provide an update to the Committee and an opportunity to discuss issues that are being faced by the Asset Management Group.
- 1.2 Hastings District is currently operating in an environment with a constrained contractor and consultant market putting demands on staff to deliver the budgeted capital programme in a timely and cost effective way. Commentary on this issue will form a standing agenda item while this risk remains at a heightened level. This report also includes a high level summary of Council's Term maintenance and operations contracts

2.0 Summary of significant operations and maintenance contracts

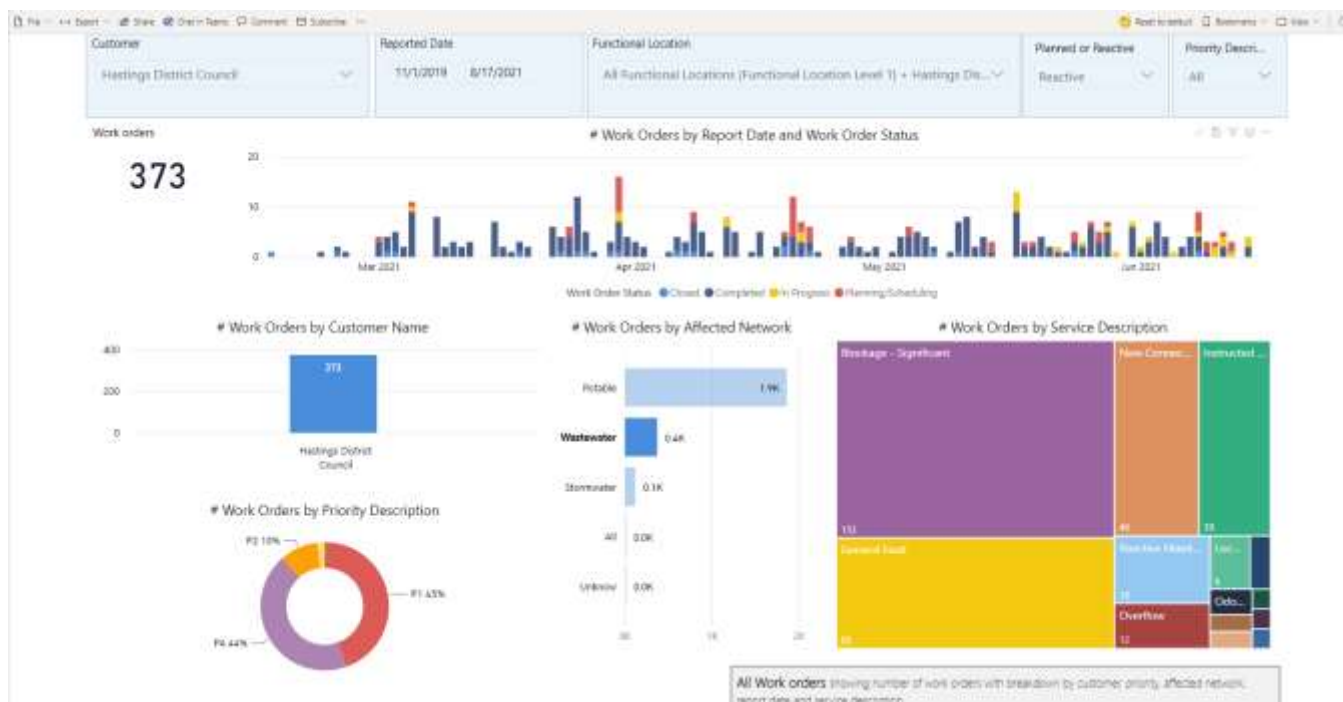
- 2.1 **Open spaces (Parks)**
- 2.2 Officers have recently completed the latest independent Contract Health review, this was performed by Stu Cameron-Lee. The comments that follow come from Stu, we are awaiting the formal report but he has supplied a brief summary and extract from the executive summary.
- 2.3 Overall the service delivery was assessed as consistent with contract specifications and levels of service for scheduled maintenance across all assets. Standards compare favourably with other Councils (upper end). A notable lift in amenity mowing and edging quality and consistency and presentation of sports fields to a high standard was observed. This reflects the collaborative inputs by Council and Recreational Services to customise the work programme by asset and implement effective seasonal renovation and upgrade plans. Gardens showed increased and more consistent evidence of maintenance (trimming and pruning, weed control). The standard of annual beds and hanging baskets has been lifted. Targeted infill planting (scheduled) and mulching will improve presentation of some sites. At an operational level the development of location-specific

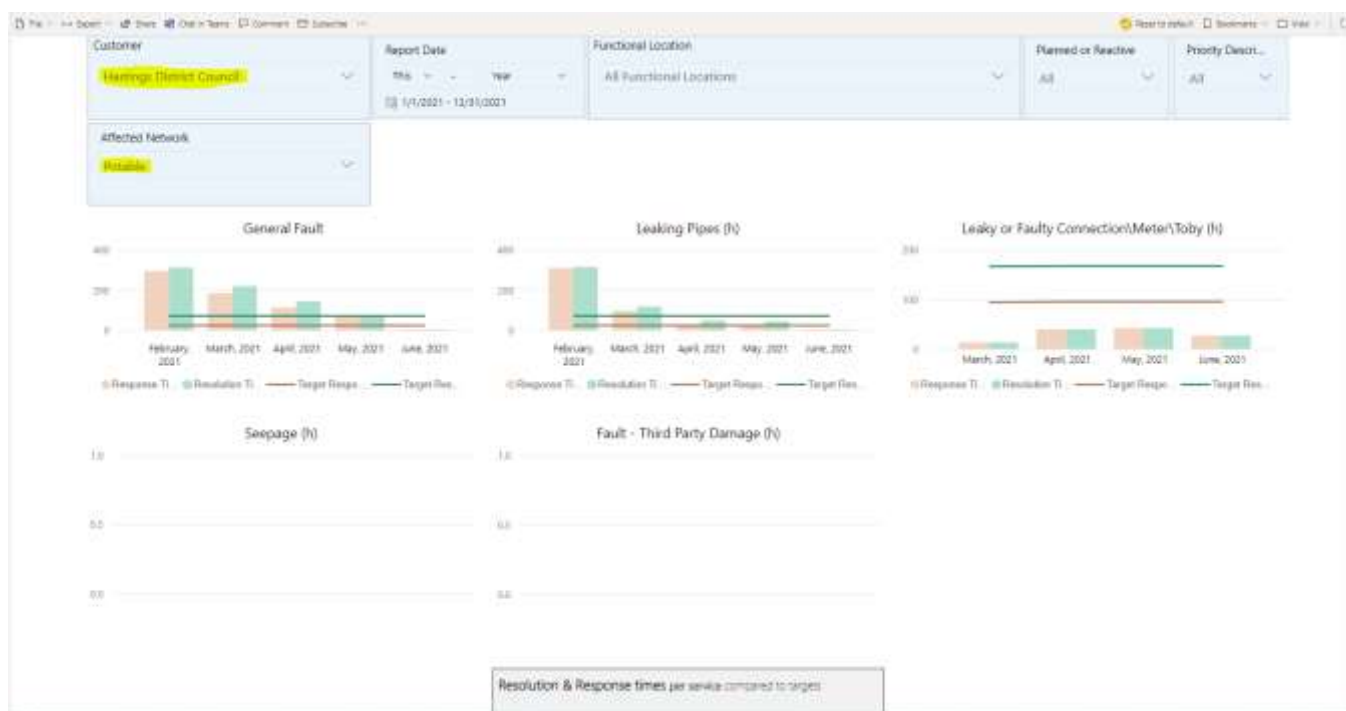
improvement plans would coordinate operational and renewal initiatives and assist with programme development.

- 2.4 Integration of work programmes into the RAMM asset and work management system is significantly completed and has established the basis for more effective, efficient and transparent contract management in the 2021-22 financial year.
- 2.5 Noted an increase in amount of loose litter present across a range of sites. This also aligns with reported increases in illegal dumping.
- 2.6 Overall, there has been good progress in implementing the 2019 review recommendations, with measures prioritised in accordance with importance and availability of internal resources and budget. The integration of the asset register and work and maintenance management system of Council with the Contractor has been a significant focus.
- 2.7 Where service delivery recommendations have been fully implemented there have been significant improvements in quality.
- 2.8 Key improvement areas have been identified –
 1. Tree maintenance resourcing and programme management,
 2. Auditing systems and processes,
 3. Implementation of the Contract Performance Model,
 4. Review of Horticulture delivery to increase value and quality and
 5. Development of Council owned Contract Reporting using interactive Power BI dashboards.
- 2.9 It is anticipated that these improvements could be significantly progressed during 2021-22 financial year.
- 2.10 **Transportation**
- 2.11 The 2 primary maintenance contractors have a combined annual budget of \$15M. The total expenditure is often more than this with the contractors undertaking additional works for other parts of our business, or through other funding streams such as PGF.
- 2.12 Business continuity plans are not a formal requirement of the contracts. Saying that both contracts did present robust continuity plans for COVID that were shared with the wider industry (with contractor's approval) as examples of high quality plans. Both contracts suffer from an industry wide lack of skilled personnel in the transportation industry. We will be making it a requirement in future maintenance contracts to have cadets in each of them, and will be separately identifying and paying for this to ensure focus.
- 2.13 Fulton Hogan – CON2017086 and Downer – CON 2018007
- 2.14 Part of our Contract performance requirements was to set up KPI's which is separate to our pace scores that measures Contract management, Operations, Health and Safety, Environmental Management and Administration elements of the Contract. KPI's are data driven with FH generally performing well since these KPI's were agreed upon. There are always areas to work on – and our most common underperforming area is closing off customer CRM's within 28 days. This is an administrative issue rather than a field issue as the items are always inspected, but not always closed off currently on the field.
- 2.15 PACE scores have always been good for Downer. Some large changes have occurred within the Downer team which has seen some degradation in PACE scores, and overall performance within management. The ground crews have remain mostly unchanged however and work in the field remains at a high level.
- 2.16 **Solid Waste**
- 2.17 Refuse - JJ Richards (JJ's Waste)

- 2.18 The Contract is into the first 11 months of a new kerbside contract and JJ's Waste have been performing extremely well. JJ's Waste continue to add value to the relationship with initiatives around reporting functionality and staff engagement.
- 2.19 We are working through the data extrapolation processes for rate rebate applications to reward those residents that are focussed of waste reduction .i.e. presenting their respective bins kerbside 26 times or less per annum.
- 2.20 JJ's Waste have a robust support network of both drivers and trucks that can support kerbside refuse collections if a disaster or another pandemic were to occur, with JJ's Waste also having the business agility to support Council in ad hoc refuse collections.
- 2.21 Monthly KPI's are being reported consistently; these cover a range of items.
- Missed bin, collected/serviced bin, compliant bins, contamination and residential non-compliance of bins
 - Roading issues, low hanging tress and access to streets, lanes and cul-de-sacs
 - Near miss and H&S incident reporting – Sitewise approved at a score of 88
 - HDC safety Observations regularly reported monthly
 - Driver, management and HDC personnel interactions are positive and complementary
- 2.22 Recycling : Smart Environmental Limited (SEL)
- 2.23 SEL are also into the first 11 months of the new kerbside recycling collection service and are performing well. There have been some initial challenges with staff retention and “churn” however the quality and consistency of kerbside collections remains encouraging.
- 2.24 Council have recently received a variation request from SEL requesting extra funding due to various aspects, including participation. The Engineers Representative has completed an initial assessment and has returned this to SEL. The assessment did not accept the full value of the request, officers have not received a formal response from the contractor to this assessment.
- 2.25 SEL are the largest recycling collection business in NZ and have the ability to call on support throughout the country to support and assist with any business continuity required by Council if a disaster or another pandemic were to occur.
- 2.26 Monthly KPI's are being reported consistently; these cover a range of items
- Missed and compliant crates, contamination stickering / notifications and resident non compliance
 - Roading issues, low hanging tress and access to streets, lanes and cul-de-sacs
 - Near miss and H&S incident reporting – Sitewise approved at score of 94
 - Rural Green bin maintenance, servicing issues and initiative reporting monthly or “ad hoc”
 - HDC safety Observations regularly reported monthly
 - Driver, management and HDC personnel interactions are positive and complementary
- 2.27 **Three Waters** – The new maintenance contract with Fulton Hogan is now entering its third month. This contract is a changed approach to the contract held by Citycare for the previous 9 year period. This new contract requires the contract to help with proactive planning, and also enables the completion of capital works inside its scope.
- 2.28 A significant amount of work has been done leading up to the start of the contract as well as during the first 3 months of the contract to setup the systems, catch up on work from the tail effects of the last contract, additional training of staff.

- 2.29 During the first month, intensive training was done with new Fulton Hogan staff to ensure application to task, safety and company guidelines are core focus for employees. The first three months have shown a slight increase to water leaks that has been trending down since April. Fulton Hogan currently have 16 staff dedicated to the contract, six trucks, two utes and two vans with the average hours worked sitting at 51 hours per person, per week.
- 2.30 A programmed works schedule has been worked through to provide efficiencies to both Fulton Hogan and Council. Combined sessions on 3 Waters Scope of Contract, RPZ testing, as-builts and variation meetings held with additional areas of work scope planned.
- 2.31 Recruiting skilled staff has been a challenge, with two more positions to be filled to bring team up to 18. KPI's for this contract are still in finalisation stage, this is as per contract expectation.
- 2.32 In coming weeks collaboration workshops will be completed to assist in the alignment of goals and a joint working approach across both Council and Contractors team.
- 2.33 The Contractor, working with Officers, have also been developing the dashboard reporting tool to enable closer to real-time monitoring. This assists with response monitoring and importantly fault tracking to inform strategy responses. This work also takes into account the previous annual plan comments by Audit. Sample screen shots are shown below.





- 2.34 Professional Services – Council has completed the tendering process for the new Professional services panel. This commences on 1 July 2021, in the meantime Council officers and the 3 panellists have a significant implementation programme to set up the new arrangements. This panel will enable additional resilience and ability to leverage the depth of 3 locally based, but national/International sized entities.

3.0 Quality System

- 3.1 An external audit of our Quality Management System was undertaken over two days in April. The purpose of this year's NZ Standard ISO 9001:2015 audit assessment was to determine the capability and effectiveness of our management system to ensure continual compliance with customer, statutory and regulatory requirements, meeting our specified objectives and conformity of our quality management system with our stated criteria.
- 3.2 Issues with regards to internal auditing identified in the 2020 assessment prompted a re-evaluation of our audit methodology and its application. An asset-wide examination of process criticality is progressing well with a large amount of work already completed. The operations observed, discussions carried out with members of each team and the documentation presented to the auditor *"Indicated a high level of conformance to the requirements of the standard and to the organisation's own policies and processes"*. A minor non-conformance identified in 2020 which led to this re-evaluation has been carried over to allow the team time to fully implement its new solution. There were no new non-conformances identified during the assessment and no other concerns were noted by the auditor who reported:

"Significant work has been undertaken to ensure the transition of the system documentation to the Promapp platform. This has required the coordination and support of each of the business unit managers and involvement of all staff.... Significant work has been undertaken to capture the roles and responsibilities in the Promapp system, providing a framework for the structure and naming convention of the documentation. Staff were knowledgeable in their duties and IT resources were available.... All areas visited were maintained to a very high standard demonstrating a great deal of work had gone into maintaining the operations. ... It was apparent that there was a renewed focus on improvement. The extensive work carried out to transition the system to Promapp, the focus on process criticality and the adjustments made to the Continuous Improvement Opportunity process to ensure actions were effective, all attest to the Think, Plan, Do, Review ethos being applied".

- 3.3 Two internal audits have been carried out, one on Procurement Process for works over \$70,000 and the other on Contract Management. The results of both audits show that a high level of compliance with our internally documented processes and procedures is being undertaken by the team. Two opportunities for improvement were identified during the audits with regards to completeness of records ensuring that acceptance of information received from a contractor is formally recorded and capturing lessons learned during a project is available to others to easily take advantage of. Council's new procurement and contract management tool which is programmed for delivery later in the year will provide a solution to both of these opportunities for improvement.

4.0 Market Trends

- 4.1 Supply lines remain a challenge with long lead time for many items, this is being mitigated as best we can by long term programming and early ordering. Also with supply restrictions comes price increases, recently we have seen some items increase by 25-30%. These trends will be closely monitored as they threaten completion rates and financial capacity.
- 4.2 Staff resourcing for Council and its suppliers remains a challenge. We are seeing a fair amount of staff transfer between contractors as they look to ensure each have the resources to complete and complete works. This risk manifests itself with price increases and delivery/quality risks with people changing mid-project.

5.0 Reforms

- 5.1 The government's significant reform projects continue on. Critical to the Asset management space are the 3 waters reform changes (New regulator, Water Services Bill, Service delivery reform). It is expected that information relating to the proposed number of entities and the area Hastings is proposed to belong to will be announced in July. There is also reform from the Ministry for Environment, key being the 3 parts of the RMA reform, and the review of NES for Drinking water and proposed wastewater policy settings.
- 5.2 Officers continue to monitor and where able contribute to these discussions.

6.0 Recommendations - *Ngā Tūtohunga*

That the Risk and Assurance Committee receive the report titled Group Manager: Asset Management Update Report dated 5 July 2021.

Attachments:

There are no attachments for this report.

Monday, 5 July 2021

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: Group Manager: Corporate Update Report

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

1.1 Group Manager Overview

- 1.1.1 This Risk and Assurance meeting marks the end of another very busy and productive year for Council. The maturity of the Risk and Assurance Committee continues to grow with a more diverse range of topics and issues presented to the committee to either provide assurance that risks are being managed appropriately or to highlight areas where Council's exposure to risk is heightened.
- 1.1.2 Council continues to deliver its services to the community to a high standard, however community and organisational expectations continue to grow as does the fiscal constraints to which we operate in. A conundrum that will only get more challenging.
- 1.1.3 The delivery and adoption of Council's 2021-2031 Long Term Plan was a significant milestone that was signed off in late June. Unlike a number of Councils, HDC had a clean audit opinion for the release of its Consultation Document in March. That audit process continued in June following Council's consultation and hearing of submissions. The Office of the Auditor General were particularly interested revisiting two significant areas of the LTP; Council's response to growth and the deliverability of Council's capital plan.
- 1.1.4 Subsequent to the adoption of the draft LTP for consultation, councils across New Zealand were advised of the level of funding support available from our transportation funding partner Waka Kotahi NZ Transport Agency. The level of funding confirmed was significantly less than what had been requested and significantly less than what had been assumed to be received in the LTP. The following table is an extract from the Waka Kotahi funding advice and compares to approximately \$81m of gross 2021-24 programme.

Activity class	2021-24 programme bid - requested total (Gross \$)	2021-24 programme with indicative funding approval (Gross \$)	2018-21 forecast allocation in August 2018 (Gross \$)
Local roads maintenance	\$89,192,000	\$62,281,000	\$59,669,000

Attached for the Committee's reference is the final LTP Audit Opinion (**Attachment 1**), Council's response to how it dealt with this late change in funding assumptions (**Attachment 2**) and Audit NZ's letter of representation (**Attachment 3**).

1.2 Treasury Update

1.2.1 Whilst this year is likely to be a record year in terms of capital spend, Council have had the benefit of receiving significant sums of funding from Government during the year in advance of expenditure being incurred, as well as having prefunded for capital spend. This has meant that Council has not had to borrow on a more regular basis throughout the year. However, there are a number of large infrastructure projects currently underway, especially three waters, that are requiring a large amount of funding.

1.2.2 In order to be able to meet cashflow requirements over the next 6 months and demonstrate sufficient liquidity, \$40m has been borrowed on 30 June 2021.

1.2.3 In addition to this is the requirement to ensure that Council remain within the debt and cover profile as per the treasury policy. This has historically been achieved through providing swap cover, however there are good opportunities to fix direct with the LGFA at rates better than what can be achieved. The following split is what Bancorp, Council's treasury advisors have recommended:

- \$10 million floating to April 2027 @ 0.81% (base rate or 90 day rate 0.34%)
- \$10 million fixed to April 2028 @ 2.04% (base or swap rate 1.83%)
- \$20 million fixed to April 2029 @ 2.20% (base rate or swap rate 1.99%)

1.2.4 Their supporting comment is: *"From a market perspective last week's surprise increase in New Zealand GDP of 1.6% for the March quarter (when the RBNZ was expecting a -0.5% print) caused the markets to bring forward the expected timing of the future OCR hikes. Market pricing is now implying a 96% chance that the OCR will be at 0.50% by April 2022, increasing to 100% in May and then a 24% chance that it will be at 0.75% by August 2022. Also last week the US Federal Reserve at its meeting left its target range for the Fed Funds rate unchanged at 0%-0.25% but signalled that the rate hikes could come as soon as 2023.*

1.2.5 *"Given the expectations for higher interest rates, we believe that for both market driven reasons and Hastings DC's specific circumstances, including its current credit rating situation, 75% of the new funding should be at a fixed rate. It should also be noted that Hastings DC has not entered into any fixed rate hedging for a significant period of time and therefore has had the benefit of very low floating base rates which has produced a very positive cost of funds outcome. We also believe that any hikes will not see the OCR return towards the lofty levels of the past, and in fact only small moves will have an immediate impact on household debt, thus still maintaining a reasonable exposure to floating rates will still benefit Hastings DC over the long run. The funding rates that we are proposing ranges between 0.80% and 2.20% (base rate + credit margin)."*

1.2.6 The strategy to fix \$30m of the \$40m will ensure Council is compliant with treasury policy, whilst the additional \$10m at floating will ensure that Council keeps the cost of funds as low as possible.

1.2.7 Further to this, it is intended through the July tender to borrow a further \$23m that will prefund maturing debt in May 2022. With this particular funding requirement, Bancorp have advised a

forward start bond, where the funding is done through the July tender and coincides with the maturing of the \$23m debt in May 2022.

1.2.8 As at July 2021 Council remains compliant with Treasury Policy.

1.3 IT Cyber Security

1.3.1 Following a report to the February Committee meeting, Officers were tasked with an action point to investigate a process to provide independent assurance for Council's IT systems to an appropriate level of security. At the April Committee meeting Officers advised that benchmarking and cyber penetrative testing had been scheduled for June and November 2021 respectively.

1.3.2 With the stark reminder given to all organisations in New Zealand with the Cyber attacks on the Waikato DHB the IMBT Team have revisited the assurance work they were going to undertake. This work has been bought forward and added to since this was last discussed with the Committee.

1.3.3 Cyber Security Benchmarking – LG SAM Compliance

- SAM Compliance is based on the NIST CSF model of Framework and Controls.
- The controls are assessed based on a pre-defined 5 tier maturity model
- 281 controls across 6 functions
- initial benchmarking nearing completion (80% complete)
- action plans from the benchmarking are being developed
- assurance & validation of the benchmark results to be undertaken
- a formal benchmarking report & action plan will be provided at the next Risk and Assurance Committee

1.3.4 Independent Security Testing – two suppliers

- **Internal - assumes we have already been breached** - An external organisation (Theta) will be undertaking an adversary simulation on Council's network. This simulates a real ransomware attack and provides Council with a report which identifies the key areas we need to secure further to reduce our risk.
- **External - Tests for any network vulnerabilities** - Additional Cyber security assessments to be undertaken by Crowe including a vulnerability assessment and external network penetration testing.

1.3.5 Audit NZ – Internal controls just reviewed last week with the report to come. Nothing of concern raised.

1.4 Insurance Renewals

1.4.1 With the change in insurance brokers last year to AON, Council's renewal date has shifted to 1 November for most of our policies rather than 1 July. As such the only renewal to report on is Council's Professional Indemnity and Public Liability Insurance (PI/PL).

1.4.2 Council has continued to secure the PI/PL cover through Marsh/JLT acknowledging that there is a "weathertight" exclusion and that where a claim starts as a weathertight issue it also excludes other defects that at some point in time might be discovered to co-exist with the "weathertight" defects in a single claim against the Council. There is an alternative through AON which does allow for the non-weathertight issues to be separated from the weathertight claim, however this option has proven to be considerably more expensive and a risk assessment discussion with the building consent management have assessed the risk as low when compared to the increased cost of the premiums.

- 1.4.3 Premiums for the PI/PL cover have increased to \$116,000 for 2021/22 up from \$86,000 last year. Increases in this class of liability insurance have been signalled to increase and this is in line with that.

1.5 Business Continuity Planning

1.5.1 Business Continuity Plans (BCPs)

Risk Assurance has developed and presented a new BCP format and approach at the seven Group Management meetings, and are currently in the process of meeting with the individual team managers per Group to draft these plans. The purpose of these plans will be to identify the critical services Council expects to be maintained at a minimal service level and how to slowly restore functions with lower levels of criticality, as well as key staff required.

1.5.2 Hazard Specific Planning

The Group BCPs will be followed up with Hazard Specific Emergency Management (EM) plans focusing on detailed procedures based on the 4Rs (reduction, readiness, response and recovery). These plans will include information from the operational teams pertaining to Council's services.

1.5.3 Emergency Management Exercises

Both the Group BCPs and Hazard Specific EM Plans will be used to roll out full-scale and/or desktop emergency management exercises.

1.6 Emergency Management Readiness

1.6.1 Incident and Emergency Management (I&EM) System

Work has been done to clarify the detailed functioning of the operational teams and how they will work together in a disruptive event. The operational teams will be part of the BCP Compass Project Team when a disruption has an impact on Council's own service delivery ability. During a local civil defence (CD) emergency the Coordinated Incident Management System (CIMS) Operations function will also be manned by the business as usual (BAU) operational team staff. This will ensure alignment and a smooth transition during a local single-agency response. When the situation turns into a regional multi-agency response, the Emergency Operations Centre (EOC) will be stood down and the operational teams that form part of the BCP Compass Project Team will then be deployed to fulfil the CIMS Operations function during the activation of the Group Emergency Communications Centre (GECC).

1.6.2 Early Warning System (EWS)

The new approach outlines a local EWS for adverse events and other hazard occurrences in the absence of a formal system on a national and regional level. The purpose is to provide more guidance to HDC's BCP Compass Project Team, Local Controller, Incident Management Team (IMT) members and other critical services' staff and/or external contractors/suppliers to make informed decisions should an adverse event occur within HDC's area of jurisdiction.

Two sources of information will be utilised. Internally, the operational lifeline support teams will monitor the early warnings and alerts and take action as needed and notify their BAU manager, if required. Externally, HDC will identify a hazard specialist that could provide technical warning information per hazard response through automatic alerts and websites. The operational teams will thus evaluate both sets of information provided and make an informed decision on whether it will be required to activate the BCP Compass Project Team.

1.6.3 Staff Preparedness Options

There are 51 staff members on the HDC IMT roster and training schedule, 20 of whom have been identified as potential staff with a role in the GECC.

Each CD rostered staff member will be provided with the basic Grab and Go bags, as part of their additional Civil Defence and Emergency Management (CDEM) responsibilities. Quarterly CIMS functionary catch-ups will be used to raise the profile and strengthen the engagement with the individual functionary teams.

1.6.4 Training

HDC will participate in the newly established Emergency Workforce Committee created by the Hawke's Bay (HB) CDEM Group, and will also provide staff for the multi-agency Regional EM Team during a regional response.

1.7 **Outstanding Actions**

- 1.7.1 Attached as **Attachment 4** are the outstanding actions from previous Risk and Assurance meetings.

2.0 Recommendations - Ngā Tūtohunga

That the Risk and Assurance Committee receive the report titled Group Manager: Corporate Update Report dated 5 July 2021.

Attachments:

1⇒	Audit Opinion LTP 2021-31	FIN-07-01-21-452	Under Separate Cover
2⇒	Council's disclosure on funding of transportation programme	FIN-07-01-21-453	Under Separate Cover
3⇒	Audit NZ Letter of Representation re LTP Audit	FIN-07-01-21-454	Under Separate Cover
4⇒	Risk & Assurance Status of Actions Sheet July 2021	CG-16-6-00083	Under Separate Cover

HASTINGS DISTRICT COUNCIL
RISK AND ASSURANCE COMMITTEE MEETING
MONDAY, 5 JULY 2021

Item 12

RECOMMENDATION TO EXCLUDE THE PUBLIC

SECTION 48, LOCAL GOVERNMENT OFFICIAL INFORMATION AND MEETINGS ACT 1987

THAT the public now be excluded from the following part of the meeting, namely:

13 Contractor Health & Safety Performance Report

The general subject of the matter to be considered while the public is excluded, the reason for passing this Resolution in relation to the matter and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act 1987 for the passing of this Resolution is as follows:

<i>GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED</i>	<i>REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER, AND PARTICULAR INTERESTS PROTECTED</i>	<i>GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF EACH RESOLUTION</i>
13 Contractor Health & Safety Performance Report	Section 7 (2) (h) The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. To protect privacy of commercial entities.	Section 48(1)(a)(i) Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.