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

Kaupapataka

Attachments Under Separate Cover

Te Rā Hui: Meeting date:	**Monday, 29 November 2021**
Te Wā: Time:	**9.00am**
Te Wāhi: Venue:	**Landmarks Room** **Ground Floor** **Civic Administration Building** **Lyndon Road East** **Hastings**

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TE KAUNIHERA Ā-ROHE O HERETAUNGA

Tuesday, 2 November 2021

Te Hui o Te Kaunihera ā-Rohe o Heretaunga
Hastings District Council: Strategy and Policy Committee Meeting

Te Rārangi Take

Report to Strategy and Policy Committee

Nā: From:	**Mark Clews, Principal Advisor: District Development**

Te Take: Subject:	**Napier Hastings Housing Capacity Assessment 2021 - National Policy Statement on Urban Development**

1.0   Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

The National Policy Statement on Urban Development 2020 (NPSUD) requires Tier 2 councils, which includes, Hastings District, Napier City and Hawkes Bay Regional Councils (the Council's), to undertake an assessment of the expected demand and supply of housing in their areas over the next 30 years.

1.2   The purpose of the housing assessment is to ensure councils planning and infrastructure decisions enable at least sufficient development capacity to meet expected demand for housing and to assess the impact of those decisions on the affordability and competitiveness of the local housing market.

1.3   The assessments must be undertaken every three years and in time to inform the Long Term Plan (LTP). The first assessment was required to be prepared this year (July), one year after the NPSU2020 was approved by Government. The NPSUD requires that Councils with overlapping or interrelated housing markets prepare a joint assessment and a jointly commissioned assessment has now been completed and is attached under separate cover.

1.4   The assessment is a comprehensive and highly technical piece of work, but one which will provide fundamental evidence based information for forthcoming planning processes such the replacement of the Heretaunga Plains Urban Development Strategy (HPUDS) in the form of a Future Development Strategy (FDS) component of a Regional Spatial Plan (RSP) and ultimately the District Plans and LTPs. Given the nature of the document, Councillors are not necessarily expected to familiarise themselves with the details contained within it. Instead an independent high level summary report has been prepared by Barker and Associates (Barkers), Urban and Environmental Planners, and this is attached as Appendix 1.

1.5   That report contains a number of recommendations for the Council(s) to consider, which potentially will impact on Council's immediate forward work programme and potentially lead into the next

Annual Plan, while the broader FDS/RSP processes referred to above unfold. Those recommendations are incorporated in the recommendations below albeit in a slightly modified form.

1.6   This report also signals some near term potential responses to some of the growth challenges foreshadowed in the Barker's report.

2.0   Recommendations - *Ngā Tūtohunga*

A)   That the Strategy and Policy Committee receive the report titled Napier Hastings Housing Capacity Assessment 2021 - National Policy Statement on Urban Development dated 2 November 2021, and the attached reports namely:

Memorandum to Hastings District Council, Napier City Council, Hawke's Bay Regional Council from Barker and Associates dated 23 September 2021 Re - Housing Assessment 2021 –NPSUD.

And

Housing Development Capacity Assessment 2021 – Napier District Council, Hastings District Council, and Hawke's Bay Regional Council by Market Economics Limited dated August 2021.

B)   That the Committee endorse the recommendations contained in the memorandum from Barker and Associates and instruct officers to progress those recommendations as follows through the District Development and or District Plan and Bylaws Sub-committees as appropriate and report back to the Strategy and Policy Committee as required:

(1)   That the Housing Capacity Assessment be published and made publicly available as required by the National Policy Statement on Urban Development 2020.

(2)   Implement an updated monitoring programme (in line with the requirements of the National Policy Statement on Urban Development 2020).

(3)   Continue to monitor and review the capital works programme for greenfields development over the next 5-10 years and precursor structure planning in the light of the report, the need to deal with the current backlog of housing demand and expectations for realising increasing intensification, to inform the next Annual Plan round.

(4)   Undertake a detailed review of the operative planning provisions to ensure the urban provisions are enabling growth, aligning with the National Policy Statement on Urban Development 2020 requirements and not unnecessarily constraining development potential and opportunities.

(5)   Complete the project brief and commission the Business Component of the Housing and Business Capacity Assessment.

(6)   Build on and translate the key findings and outcomes from the Housing Capacity Assessment and the outcomes of recommendations (3) (4) and (5) in the preparation of a Regional Spatial Plan, or review/replacement of the Heretaunga Plains Urban Development Strategy including:

(a)   Reviewing the infrastructure strategies based on the new growth projections, including confirming or otherwise the capacity of existing infrastructure that is uncertain at this time.

(b)   Considering whether an updated intensification strategy is required, building on the Medium Density Housing Strategy already adopted by the Council.

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(7)   That Officers prepare a report to Council regarding the allocation of funding for advancement of priority growth workstreams referred to in recommendation B3 above.

C)   Advise the Minister of Housing that a housing capacity deficiency is predicted in the long term due to uncertainty and limitations about the capacity of bulk service infrastructure and noting:

(1)   Even if that uncertainty is resolved through further investigation a possible deficiency may still exist.

(2)   The situation arises in part due to Statistics New Zealand's Sub-National Population Projections released in 2021, predicting significantly increased growth for the District over past projections, and the use of a medium-high projection for the assessment.

(3)   That any capacity issues that remain after due investigation are proposed to be addressed through the Councils normal Long Term and Annual Planning processes now the issues have been identified.

(4)   That the situation is also proposed to be addressed through recommendation B6.

(5)   That the Council may need financial assistance to address these long term issues, noting that the operational context is subject to potential change under the Governments Three Waters Reform proposals.

D)   Instruct Officers to insert Housing Bottom Lines as outlined in the report from Barker and Associates into the District Plan as required by the National Policy Statement on Urban Development 2020 as follows:

There is sufficient development capacity to meet expected demand for housing in Hastings over the short-medium and long term as follows:

Area	Housing Bottom Lines (number of dwellings)		
	Short to medium term (2020 to 2030) includes an additional margin of 20%	Long term (2031 – 2050) includes an additional margin of 15%	2020 – 2050 TOTAL (includes margins)
Hastings Environment	5,190	7,640	12,830

3.0   Background – *Te Horopaki*

3.1   The National Policy Statement on Urban Development 2020 (NPSUD) requires councils to plan for growth and ensure the delivery of a 'well-functioning urban environment' for all people, communities and future generations. To support well-functioning urban environments, the NPSUD requires Councils to improve the responsiveness and competitiveness of their land and development markets.

3.2   In particular, the NPSUD requires local authorities to provide 'at least sufficient development capacity' to enable sufficient housing in response to demand and to create more affordable housing. To demonstrate this, a Housing and Business Capacity Assessment (HBA) must be completed by councils every three years, with the first being due on 31 July 2021. A similar assessment is required

for business land in time to inform the next iteration of the LTP, so was not under the same time constraints, but is scheduled to be commissioned shortly.

3.3   The NPSUD requires that Councils with overlapping or interrelated housing markets prepare a joint assessment. Accordingly a Housing Capacity Assessment (HCA) was commissioned and funded jointly by the Councils, consistent with the joint approach to urban development management established in 2010 through the Heretaunga Plains Urban Development Strategy (HPUDS).

3.4   The required HCA has now been completed and is attached under separate cover. Two mandatory outcomes of the assessment that are required under the NPS are firstly; to set bottom lines for future housing provision in the Regional Policy Statement and District Plans and secondly, in relation to those bottom lines, to advise the Minister of Housing if a capacity deficiency is likely to occur in the short, medium or long term (3, 10 and 30 years).

4.0   Discussion – *Te Matapakitanga*

Housing Capacity Assessment

4.1   The current HCA was completed by Market Economics Limited (MEL). They have completed a number of such assessments across the Country under the current NPSUD and previously under the earlier NPSUD-C 2016 for both Tier 1 (larger metropolitan centres) and Tier 2 (larger regional centres) Councils. The project was managed on behalf of the three Councils by Barkers, who have some allied experience with the NPSUD, and they have also provided some independent advice in relation to what the findings mean for the Councils forward planning.

4.2   The MEL report reflects the technical nature of the assessments required under the NPSUD. The assessments are comprehensive in terms of not just total housing demand and supply, but also factors relating to size, typology, price, tenure and demographics including ethnicity implications. The report and the work behind it, including a model that estimated the capacity for intensification enabled by the District Plan and assessed as commercially viable for developers, will provide part of the evidence for the Regional Spatial Plan/FDS. In other words it is a technical resource rather than a policy document. Accordingly Council is not being asked to approve the document, but receive it and to take its findings into consideration as part of its forward planning processes.

Barkers have prepared a summary of the report findings and their high level independent advice of those mean for the Councils future work programmes.

Key Findings

4.3   The assessment was based on the Statistics New Zealand medium to high growth population projection. On this projection the headline conclusion for Hastings is that there is, on paper, **likely to be sufficient capacity in total to meet the growth anticipated in the short to medium term,** assuming that greenfield growth areas are delivered according to the current LTP programme, which was based on an earlier projection that more closely resembles the current Statistics New Zealand medium projection. **The extra capacity required is expected to be drawn from intensification opportunities enabled by the District Plan that are commercially feasible, plus some potential within rural residential zones and coastal settlements.**

4.4   In the long term however (i.e. beyond 10 years), there is either uncertainty about or actual limits to the infrastructure capacity needed to support otherwise sufficient commercially feasible opportunities to meet growth demands, when combined with planned greenfields developments included in HPUDS and the 30 Year Infrastructure Strategy. These infrastructural issues need to be addressed as part of the RSP/FDS and/or Councils normal LTP and Thirty Year Infrastructure Strategy processes. Under NPSUD Council is required to inform the Minister of Housing of the projected deficiency.

4.5   The conclusions about the sufficiency of the short to medium term capacity, while demonstrating compliance with the NPSUD, are finely balanced under the medium to high scenario. In addition they do not include provision for pent up demand (backlog), created by the extraordinary levels of

immigration driven growth over the past five years, that have not been able to be met by new housing construction. The higher growth expectations, coupled with this backlog, means the greenfield areas planned at the beginning of the programme are likely to be consumed more rapidly than anticipated in the LTP, creating the potential risk of gaps in the planned continuity of supply. This may result in uneven changes in the mix of greenfields and intensification, which the market may struggle to respond positively to. **In the absence of any change to the current greenfields programme, there would need to be a greater overall reliance on intensification making a much larger contribution to meeting housing needs. These issues may be a significant risk to housing supply and affordability if the market does not respond (in the way assumed in the capacity assessment) rapidly enough and a practical deficiency could materialise toward the end of the ten year programme.**

4.6   Accordingly officers have undertaken some further analysis on this point with a view to **rebalancing the desired mix of greenfields and intensification based development and its transition over the short to medium term.** This is intended to address these issues pending development of the RPS/FDS and the implementation of initial tangible outcomes for development from that process. **The objective here was to find the "sweetspot" that de-risks over reliance on the assumed capacity for significantly increased intensification to meet greater projected demand, while retaining sufficient restraint in greenfields supply to encourage higher density redevelopment and greater housing diversity.**

Possible Programme Changes

4.7   Attached as Appendix 3 are some officers briefing notes for the Chief Executive that support Council taking steps to be ready to make programme adjustments to address these issues, if monitoring demonstrates that the greater uptake rates predicted are actually occurring in the market (given there are other factors external to Council that influence supply/uptake).

4.8   Officers consider it prudent that Council should plan for the medium-high growth projection scenario that was used for the Housing Capacity Assessment. This gives Council some contingency (13% approx.) on top of the 20% NPSUD margin against even greater growth than is now projected under the medium growth scenario, which has traditionally been regarded as the most likely.

4.9   The capacity assessment is focussed on future growth and did not account for the accumulated backlog coming from a period of higher than anticipated growth. Given Councils objective on "Housing for our People" and its commitment to the collaborative placed based Housing Plan, Officers consider that Council's land supply and intensification programme should aim to make provision to help address this, even though the NPSUD does not require this. Officers have estimated the backlog at around 1250 dwellings (compared to the 750 households on the Social Housing Register requiring a suitable dwelling to live in) and a five year target to clear this does not seem unreasonable.

4.10   The current relative proportions of greenfield, intensification and rural housing development (45%, 35% and 25%) may be a reasonable objective for the Council to hold to in the short to medium term, even under the under the medium to high growth projection, pending the outcome of the Regional Spatial Plan/FDS. This would still result in a need to actively promote intensification to achieve the higher overall uptake rates that would be needed to maintain that share. In that respect it would be prudent to look at whether there are ways the District Plan can be tweaked to provide further feasible intensification capacity in the short to medium term, to increase the pool of realisable intensification opportunities to facilitate this shift.

4.11   On the basis of these assumptions a greenfield shortage could manifest itself from 2024-2025 on the current LTP programme. That would need to be addressed, by bringing areas in HPUDS and scheduled in the LTP and thirty year infrastructure strategy forward. Given that land development is not straight forward and delays can occur for a variety of reasons, the likely changes needed to Council's greenfields land development programme need to also be agile and adaptable. Council ideally needs to have interchangeable areas ready to go in the event of even higher growth or unforeseen delays in particular projects occuring.

4.12   Officers therefore consider that rebalancing of the programme should be prepared to advance both Lyndhurst Extension and Brookvale to give Council options in both Hastings and Havelock North, with consequential changes throughout the rest of the programme and accounting for likely new developments such as Irongate which Council has already decided to support. This reinforces and emphasises the points made to Council in May of this year concerning the advancement of structure planning for greenfields growth areas, although Council may need to review the conditions for these to reflect this new evidence base and changing circumstances.

4.13   To deliver the sweetspot, the current forward programme may need some adjustment based on monitoring over the next year or two. This means the following should be provided for prior to the Regional Spatial Plan/FDS process being completed:

- Bring forward Brookvale Stages 2 and 3, by 2024 and 2027

- Bring forward Lyndhurst Stage 3 and the Havelock Hills by 2025.

- Bring forward stages of Kaiapo Road and Irongate by 2026.

- Further staging can be considered as part of the Regional Spatial Plan/FDS implementation from 2028.

This is depicted below: The highlighted circle shows the pre Regional Spatial Plan/FDS focus.
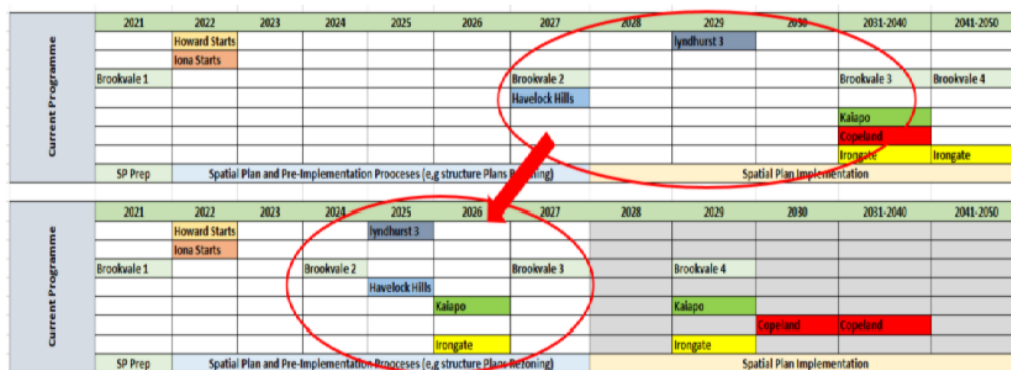
Note: Quarterly and Annual Monitoring can allow for these or further programme adjustments as required and a fresh Housing Capacity Assessment will need to be done to inform the next LTP in 2023/2024. This could mean bringing forward the remaining stages of Brookvale, Kaiapo, Irongate and Copeland Road and introducing some of the 860 lot capacity held in Reserve areas if even higher growth is anticipated at that time..

4.14   On this basis the estimated growth of 5630 new households[1] over the next ten years (6530 when the 20% competitiveness margin is added) can be met by development capacity for 6870 dwellings through greenfields, serviced feasible intensification and rural areas, which is slightly above the 20% required under the NPSUD. There will however, likely be a bigger deficit in the longer term for additional serviced intensification capacity, as well as greenfields and rural residential/rural capacity, which will need to be addressed through the RSP/FDS.

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[1] *This is different to the bottom lines which are not required to include backlog, but inlcude the required 20% competitveness margin. This is because a large part of the backlog response is expected to come from social housing providers some of which will be outside of the commercially feasible capacity the NPSUD is aimed at. The figure used in paragraph 4.14 includes the backlog (for the resons outlined in parapragh 4.9), but does not have the 20% competitivenss margin added, as it is not part of the predicted actual growth.*

4.15   For this plan to be able to be implemented, structure planning and rezoning processes would need to commence in earnest for Lyndhurst, Kaiapo Road and Irongate Road and completed as follows:

- Structure planning for Lyndhurst completed by the end of 2022.

- The structure planning for Kaiapo and Irongate completed by the end of 2023.

- Engineering/legal processes completed for Brookvale Stage 2 by the end of 2022.

4.16   This approach is summarised in the diagram below:

The Growth Game Plan

4.17   The above programme is not the only way to rebalance the programme and would not be cast in stone. Further refinement can occur through the District Development Sub-Committee as monitoring and other new evidence or circumstances arise; with agility and responsiveness being a key objective. Any substantive decisions on programme adjustment will need to come through the appropriate Council Committee e.g. changes to work priorities, District Plan, or capital programmes through the Annual Plan. It needs to be recognised that the adaptability and agility desired is dependent on the time and resources needed to get into a position where capital programme changes can be made quickly as shown in the preparedness plan below shared with Council during the preparation of the LTP:

Preparedness Plan

5.0   Options – *Ngā Kōwhiringa*

5.1   As the HCA is a mandatory requirement of the NPSUD the options is to receive the reports, notify the Minister of the long term deficiency identified due to infrastructure limitations. Council can make future decisions on potentially refining the Council land development programme as suggested or not.

5.2   Given the risks identified around housing supply continuity, officers consider that not investigating adjustments to the capital land development programme and precursor structure planning could result in further housing shortages and house price escalation.

5.3   Rebalancing the programme, is part of Councils normal activity leading into Annual Plan processes and no decisions or resolutions are required at this stage. The review of priorities and timeframes around structure planning will need further work to understand the capacity and resourcing needs and be reported back to Council in due course.

6.0   Next steps – *Te Anga Whakamua*

6.1   Apart from the mandatory requirement of the NPSUD relating to Housing Bottom lines and advising the Minister of a potential capacity deficiency, the next steps generally relate to further work and investigations as set out in the recommendations, including commissioning the Business Capacity Assessment by the three HPUDS partner Councils, to inform the RSP/FDS.

Attachments:

1	Napier and Hastings Housing Assessment Summary Report 2021-10-21 Final Barker and Associates	STR-4-2-21-993	
2	Napier Hastings Housing Capacity Assessment NPSUD Market Economics Limited FINAL VERSION	STR-4-2-21-986	Under Separate Cover
3	Briefing Notes on Responding to New Housing Demand October 2021	STR-4-2-21-991	

To: Hastings District Council, Napier City Council, Hawke's Bay Regional Council

From: Barker & Associates

Date: 23 September 2021

Re: Housing Assessment 2021 - NPSUD

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1.   Purpose

The purpose of this memo is to:

- Provide a summary of the relevant statutory context;

- Provide a high-level summary of the results of the housing capacity assessment that has been prepared under the National Policy Statement on Urban Development 2020 (**NPSUD**); and

- Provide information on the next steps to fulfil the NPSUD requirements.

This memo provides a simple summary of the housing assessment report for Napier Hastings urban area prepared by Market Economics. Please refer to that report for further details.

2.   NPSUD context

The NPSUD came into effect on 20 August 2020. It is part of the urban planning pillar of the government's Urban Growth Agenda. The purpose of the NPSUD is to require councils to plan for growth and ensure the delivery of a 'well-functioning urban environment' for all people, communities and future generations.

To support well-functioning urban environments, the NPSUD seeks to improve the responsiveness and competitiveness of land and development markets. In particular, the NPSUD requires local authorities to provide *'at least sufficient development capacity'* to enable sufficient housing in response to demand and to create more affordable housing. To demonstrate this, a Housing and Business Assessment (**HBA**) must be completed by councils every three years.

3.   What is a Housing Assessment?

As Tier 2 councils under the NPSUD, Hastings District Council, Napier City Council and Hawke's Bay Regional Council are required to complete a housing assessment.

The housing assessment is required to estimate the expected demand and supply of housing in Napier/Hastings over the next 30 years. The purpose of the housing assessment is to ensure councils are providing at least sufficient development capacity in its region/district to meet expected demand for housing. The housing assessment must also assess the impact of planning and infrastructure decisions on the affordability and competitiveness of the local housing market.

Expected housing demand must be estimated over the short (3 year), medium (10 year) and long term (30 year) and it must estimate the number of dwellings required by housing type and location. The

NPSUD requires the councils to add on a competitiveness margin, or buffer, onto the projected demand. This margin is 20% over the short and medium terms and 15% over the long term. The margin is added with a view to enable competition in the marketplace, and provide some resilience if higher than expected growth occurs.

Housing capacity must also be calculated over the short, medium and long term, based on whether it is plan enabled, infrastructure ready, and feasible and reasonably expected to be realised. Table 1 below illustrates how the NPSUD provides for these factors to change over time.

	Short term (3 years)	Medium term (10 years)	Long term (30 years)
Plan enabled	Zoned in the Napier / Hastings District Plans	*And* zoned in any Proposed District Plan (N/A for Napier Hastings)	*And* identified in a Future Development Strategy (i.e. HPUDS)
Infrastructure ready	Can be serviced with existing infrastructure	*And* can be serviced with planned and funded infrastructure (LTP)	*And* can be serviced with planned infrastructure (infrastructure strategy)
Feasible and reasonably expected to be realised	A feasibility model and/or other methodology to evaluate the amount of housing that the market will actually deliver.		

Table 1: Showing how housing capacity is calculated under the NPSUD.

The diagram below shows how the demand and capacity assessments interact under the NPSUD.
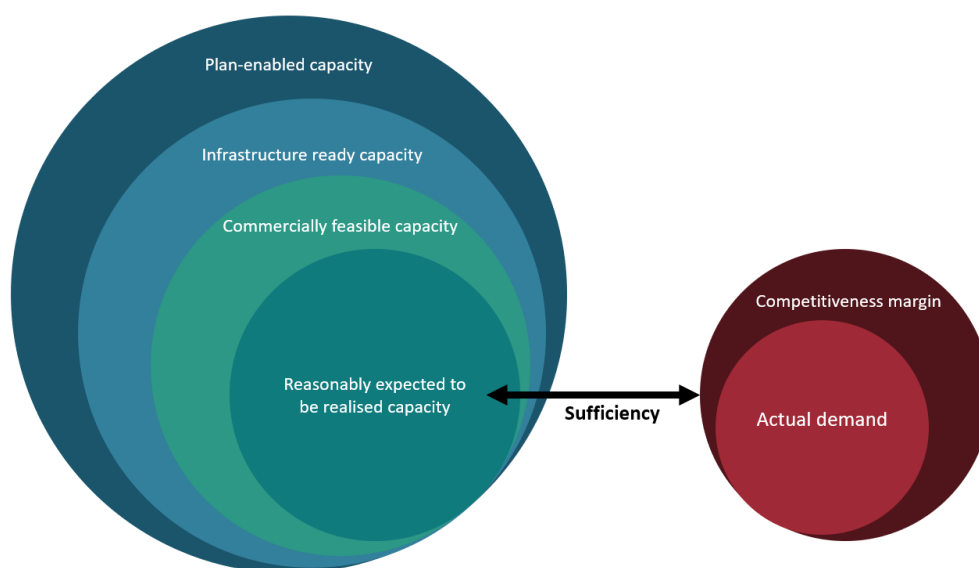
4.   What happens if there is a shortfall?

If the housing assessment shows that there is a capacity shortfall in the short, medium or long term, then the councils must immediately notify the Minister for the Environment. If the insufficiency is wholly or partly a result of the Napier and Hastings District Plans, then the councils must change those documents to increase development capacity, or consider other options for increasing development capacity and otherwise enabling development. We discuss this further below.

5.   Results/key findings

The results are described in terms of the demand and supply outlook. The development capacity is reconciled with demand following that to determine sufficiency.

5.1 Housing demand

The housing assessment provides an outlook of housing demand, broken down by household types, income groups and ethnicities. StatsNZ's recently released population projects underpin the outlook. The assessment uses the average between the medium-and high series population estimates.

The current housing demand is for detached dwellings, but the combination of shifting demographics and changes in housing costs (i.e. affordability pressures) means that a transition to higher density housing types is expected.

Key points regarding **Napier**:
- The population is estimated at 65,300 – 66,000 and is expected to grow to between 72,300 – 83,700 over the next 30 years;
- Household numbers (dwellings) are estimated at 26,430; and
- Households are currently skewed towards lower income bands with 43% earning less than $50,000.

Key points regarding **Hastings**:
- The population is estimated at 86,800 – 87,500 and is expected to grow to between 104,600 – 119,800 over the next 30 years;
- Household numbers (dwellings) are estimated at 31,300; and
- Households are currently skewed towards lower income bands with 39% earning less $50,000.

Table 2 below summarises the growth outlook[1].

	Hastings	Napier
2020 Population	86,000 – 87,500	65,300 - 66,000
2020 Households*	31,300	26,430
2023 Households (short term)	32,900 (+1,600)	27,400 (+970)
2030 Households (medium term)	35,700 (+ 4,400)	29,100 (+2,670)

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[1] The numbers in this table are rounded. For the purpose of calculating the housing bottom lines in table 7, unrounded numbers have been used. Table 6.1and 6.2 of the M.E. report contains the unrounded numbers used to calculate the housing bottom lines.

2050 Households (long term)	42,300 (+10,970)	32,600 (+6,200)
Housing bottom lines (cumulative long term) *Including competitiveness margin* *See Table 7 below*	12,830 dwellings	7,160 dwellings
* estimate		

Table 2: Growth outlook for Hastings and Napier.

5.2 Housing supply and affordability

The assessment considered the current dwelling composition and property values for both Napier and Hastings. Generally, houses in Napier and Hastings are relatively cheaper than the New Zealand average, but like the rest of NZ, house prices have seen very strong growth over the recent decade which is impacting affordability.

House prices have shifted 332% for Hastings and 284% for Napier over the last 20 years. These shifts were both higher than the New Zealand average. Prices have increased by 78% and 74% for Hastings and Napier respectively since June 2000, which is double the New Zealand rate.

Consent data reveals evidence of recent shifts in housing typologies and the effects of the price movements through:
- Observed shift towards higher density typologies, and with intermittent increases in retirement dwellings; and
- The weighted average size of consents (in square metres) is tracking down, influenced by higher density developments in response to price-affordability pressures, retirement village growth and recent increases in social housing construction.

Regardless of these movements however, detached houses still dominate activity and town houses, and other higher density typologies, still form only a small portion of the overall delivery. But a change is taking place.

In the future, housing prices are expected to increase in value, reflecting shifts in land values and the value of improvement, which will negatively affect affordability given the lower income average of the population:
- In Hastings, most properties currently fall in the $400,000 - $999,000 band and by 2050 only 38% of properties are expected to be below $700,000;
- In Napier[2], 61% of properties fall in the $400,000 - $600,000 band but this will shift over time. By 2050, the $700,000 - $1m band is expected to account for almost half (48%) of properties.

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[2] This information is based on CoreLogic data. This data appears to be lower than the rating information. The CoreLogic data is used to compare the trends against NZ-wide patterns. The commercially feasible analysis is _not_ based on the CoreLogic data and instead the rating information and sales information is used.

Importantly, the changing land values interact with development costs to change the construction economics. Over time, redevelopment and infill development options become more viable.

5.3 Development Capacity

The development capacity (i.e. supply) covers different aspects. This includes plan enabled capacity, commercially feasible capacity and infrastructure supported (or ready) capacity. The main points regarding these aspects follow.

Plan-enabled, Feasible and Infrastructure Ready

The two tables below show the estimated development capacity for Napier and Hastings over the short, medium and long term. The figures in the table are cumulative and are simplified (showing multiple categories in aggregate[3]). B&A and Market Economics make broad observations about the implications of these numbers, however, this does not replace the more fine-grained analysis that is contained in the Market Economics report.

Napier			
	Short (3 years)	**Medium (10 years)**	**Long (30 years)**
Plan-enabled capacity	**16,360**	**20,220**	**20,220**
Feasible capacity (greenfield)	1,151	2,118	3,064
Feasible capacity (urban)	2,578	4,890	10,300
Feasible capacity TOTAL	**3,729**	**7,008**	**13,364**
Infrastructure ready capacity	*All feasible capacity is infrastructure ready*		
Feasible and infrastructure ready capacity TOTAL	**3,729**	**7,008**	**13,364**

Table 3: Napier's plan-enabled, feasible and infrastructure ready development capacity.

For Napier, this analysis shows that plan-enabled capacity stays relatively constant over the medium to long term, after increasing over the short to medium term. This is because the planning rules are based on the Napier District Plan. In reality however, the planning rules will change considerably over a 30-year period. Some increase in plan-enabled capacity is observed given that there are no density controls in the Napier District Plan residential zones, and the housing assessment assumes that housing types will become more intensive over time.

Urban feasible capacity increases over time. This increase is due to increasing land values, which opens up redevelopment opportunities across more sites as well as the move towards higher densities. All

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[3] By aggregating the results, some finer nuances are masked and some categories are combined.

greenfield capacity is assumed to be feasible. In Napier, infrastructure capacity is not identified as a core constraint on feasibility.

Hastings			
	Short (3 years)	Medium (10 years)	Long (30 years)
Plan-enabled capacity	**11,290**	**11,290**	**11,290**
Feasible and infrastructure ready capacity (greenfield)	1,152	1,680	2,667
Feasible capacity (Redevelopment)	5,550	5,980	8,395
Feasible and infrastructure ready capacity (Redevelopment)	**3,495**	**3,735**	**3,815**
Feasible and infrastructure ready TOTAL	**4,647**	**5,415**	**6,482**
Unconfirmed infrastructure capacity over the long term (30 year): +3,065			

Table 4: Hastings's plan-enabled, feasible and infrastructure ready development capacity.

For Hastings, as above, plan-enabled capacity is constant over time, reflecting the Operative District Plan rules, which include density controls. Feasible capacity also increases over time trending towards 75% of the plan-enabled capacity in the long term. There will be at least two District Plan reviews prior to this time, so this matter is not particularly material to the overall outcome. Like Napier, feasible capacity increases over time within the urban area, reflecting the general trends in land values and development patterns.

Some drop off can be observed between feasible capacity, and capacity that will be supported by infrastructure. A provisional amount of additional capacity that *may* be serviced by infrastructure is shown. However, that needs to be confirmed through additional testing and analysis by the Hastings District Council infrastructure team.

Reasonably Expected to be Realised

The NPSUD also requires an assessment of whether development capacity is 'reasonably expected to be realised' (**RER**). The key purpose of this is to understand whether the feasible and infrastructure ready development would be taken up by the development sector. The RER capacity is then contrasted against the expected demand.

The RER component is a way to test how the feasible capacity aligns with the type of properties that the market could demand in future, as well as the supply side, considering development costs, and

development trends. Importantly, the RER capacity is not a forecast of how development activity will take place.

The reasonableness of achieving the feasible capacity is considered by looking at several aspects, like: historic development patterns in the mix of housing typologies, the broad location of development (greenfield vs brownfield) as well as the trends observed in other NZ cities that are further along the growth curve. This analysis helps us understand if the capacity that is modelled as feasible could actually be delivered in local market conditions.

The RER is not an absolute position or a guaranteed outcome, but is a broad guide of how the market might deliver housing. In light of this, the Councils may want to undertake some further analysis to inform any changes to the mix of greenfield and intensification over the short to medium term, which may be needed to ensure that there is adequate supply of land for housing.

5.4 Reconciling supply and demand

The tables below reconcile the estimated demand for housing including the competitiveness margin over the short, medium and long term, with the feasible, infrastructure ready and reasonably expected to be realised development capacity over that period. These tables include the total housing estate[4] in Napier and Hastings and therefore the dwelling numbers are higher than the dwellings numbers outlined in the tables above. It is important to note that the sufficiency test is about meeting new demand for housing and does not included any existing housing shortage assessment, so Council and Government initiatives (such as the Hastings Housing Strategy) to resolve current housing shortage issues that have built up over time over the short to medium term remain critical.

Napier
The analysis suggests that Napier has sufficient development capacity over the short, medium and long term even when the competitiveness margin is added to demand. The analysis also shows that there is significantly greater demand for housing up to $399,000 than the market is likely to provide generally as a result of lower household incomes in Napier.

		Demand			Capacity			
		3y	10y	30y		3y	10y	30y
Napier	Base demand	27,400	29,050	32,550	RER Capacity	27,400	29,100	32,600
	+Comp. Margin	27,600	29,400	33,100		27,600	29,600	33,650

3y	10y	30y
☑	☑	☑

Table 5: Napier development capacity.

Hastings
Hastings has sufficient development capacity over the short and medium term to meet demand plus the competitiveness margin. However, in the long term a deficiency is identified. This is due to the strong growth in the demand side, as well as the effects of infrastructure capacity constraints. This

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[4] The total housing estate is used because the is churn in the market – some households buy 'new' dwellings and when they move, those dwellings open up for other households to occupy. This filtering process continues across new and existing dwellings.

deficit remains even if the unconfirmed infrastructure capacity is included in the sufficiency calculation.

		Demand			Capacity				
		3y	10y	30y		3y	10y	30y	
Hastings	Base	32,920	35,650	42,290	RER to accommodate *Unconf. Infras*.	32,950	35,700	37,950	
	+Comp. Margin	33,240	36,200	43,290		33,400	36,250	39,000 *42,100*	

3y	10y	30y
☑	☑	☒

Table 6: Hastings development capacity.

The infrastructure ready capacity for the housing assessment was derived from the infrastructure strategy and associated funding set out in the Hastings LTP 2021-2023. The LTP was based on a series of growth projections for Hastings that are significantly lower than the growth projections contained in the housing assessment – this difference is due to the higher growth pathway identified in the recently released population projections (from StatsNZ).

To resolve this issue, additional infrastructure planning is required based on the latest growth projections contained in the housing assessment. This could be addressed comprehensively either through an HPUDS review for Napier Hastings, which would essentially be a 'Future Development Strategy' in NPSUD terms; or if it more appropriate to do so, on a wider regional basis through a Regional Spatial Strategy ("**RSS**") for Hawke's Bay as it emerges through Government's reform of the resource management system. Either of those processes would provide the vehicle for integrating land use and infrastructure planning and funding decisions. Hastings District Council may wish to undertake some early preparatory work to inform this wider planning exercise.

It is also important to note that over the medium to longer term the assessment assumes a greater take up of intensification opportunities, represented by the feasible urban capacity, earlier than may have been anticipated under the existing growth plans, due to the higher projected growth rate.

Related to this, the Housing Assessment highlights a gap in the greenfield capacity pipeline toward the end of the 2023-2030 period (for the combined programme), but for Hastings that gap is earlier (around 2023-2025) and for Napier it is later (around 2027-2030). Some element of development activity is likely to continue through the gaps, with developers working to smooth delivery.

During these gaps, the Housing Assessment places greater reliance on intensification in the urban area in order to meet expected demand. Further work may be required to understand if this is realistic and achievable in local market conifitions, or if a steadier supply greenfield land is required to improve alignment between market demand and supply.

6. Housing Bottom Lines

The NPSUD requires that a housing bottom line for the short, medium and long term be included in the relevant regional policy statement and district plans as soon as practicable after the housing assessment is made publicly available (Clause 3.6).

The purpose of housing bottom lines is to clearly articulate the amount of development capacity that is sufficient to meet the expected demand, as identified through the housing assessment, plus a competitiveness margin.

Table 7 below, identifies the housing bottom lines for Hastings and Napier based on the findings from the housing capacity assessment. These are <u>not</u> expressed cumulatively.

	Hastings	**Napier**
Short term (2020 – 2023)	1,920	1,190
Medium term (2023 – 2030)	3,270	1,990
Long term (2030 – 2050)	7,640	4,010

Table 7: Housing Bottom Lines.

The housing bottom lines must be inserted into the Hawke's Bay Regional Policy Statement, Napier District Plan and Hastings District Plan without using the Schedule 1 process as soon as possible.

We recommend that the housing bottom lines are inserted as an objective in the respective plans. Our suggested wording is as follows:

There is sufficient development capacity to meet expected demand for housing in [Napier Hastings / Napier / Hastings] over the short-medium and long term as follows: [choose which is relevant]

Area	Housing bottom lines (number of dwellings)		
	Short to medium term (2020 to 2030) includes an additional margin of 20%	**Long term (2031 – 2050)** includes an additional margin of 15%	**2020 – 2050 TOTAL (includes margins)**
Napier-Hastings environment [RPS]	8,370	11,650	20,020
Hastings environment [Hastings DP]	5,190	7,640	12,830
Napier environment [Napier DP]	3,180	4,010	7,190

7. Next steps and recommendations

The following is a summary of the key next steps for the housing assessment, and the key recommendations for additional work:

- Publish the housing capacity assessment and make it publicly available;

- Implement a monitoring programme (in line with the NPSUD requirements);

- Prepare the business component of the HBA to inform the upcoming RSS or HPUDS review and in any case prior to the 2024 LTP. The business assessment must estimate the demand from each business sector for additional business land in the region over the short, medium and long term;

- Prepare an RSS, or undertake the HPUDS review in accordance with the requirements of the NPSUD, which builds on and translates the key findings and outcomes from the housing assessment. Additional tasks that can be undertaken as part of that include:

  - Reviewing the infrastructure strategies based on the new growth projections. This could include more immediate preliminary work by Hastings District Council;

  - Considering whether an intensification strategy is required, building on the work that has already been done in this space by the Councils.

- Undertake a detailed review of the operative planning provisions to ensure the urban provisions are enabling growth, aligning with the NPSUD requirements in terms of encouraging growth both up and out, and ensure they are not unnecessarily constraining development potential and opportunities;

- As part of the FDS/RSS, consider the timing of greenfield growth over the medium term, taking into account the market expectations around transitioning to intensification set out in the Housing Assessment.

OUR GROWTH GAME PLAN
Finding the "sweetspot"

1. Let's plan for the medium-high growth projection scenario as the starting point for our sweetspot- it gives us some buffer (13% approx.) on top of the 20% NPSUD margin – that's 30% more than the medium growth scenario, which has traditionally been regarded as the most likely.

2. We should also plan to address the accumulated backlog (coming from a period of higher than anticipated growth) even though some of that is likely to be addressed by social housing providers. The sweetspot assumes a five year target to clear this backlog, estimated at around 1200 dwellings and does not discount the social housing component adding a further contingency.

3. That's the sweetspot we should plan for but Council could stretch this further by testing the High Growth scenario (which would give another 13% buffer). Probably best to monitor this for now and adjust the programme if required latter on.

4. The sweetspot assumes the current relative proportions of greenfield, intensification and rural housing development hold true under the medium to high growth projection and on this basis a greenfield shortage could manifest itself from 2024-2025 on the current LTP programme – our sweetspot needs to address this potential greenfield shortage situation.

5. We also know that land development is not straight forward and history shows us the inevitable delays which can occur for a variety of reasons – we need to have a programme that's agile and adaptable (Howard Street and Iona are two examples of potential risk exposure for us).

6. The sweetspot therefore needs to have interchangeable areas ready to go. The programme below looks to advance the necessary planning for both Lyndhurst and Brookvale to give us other options in both Hastings and Havelock North.

7. To deliver the sweetspot the current forward programme therefore could need some adjustment based on monitoring over the next year or two. In short that means the following should occur prior to the spatial plan outcomes being available for implementation:

    ▪ Bring forward Brookvale Stages 2 and 3, by 2024 and 2027

    ▪ Bring forward Lyndhurst Stage 3 and the Havelock Hills by 2025.

    ▪ Bring forward stages of Kaiapo Road and Irongate by, by 2026.

    ▪ Further staging can be considered as part of the spatial plan implementation from 2028.

This is depicted below: The highlighted circle shows the pre spatial plan focus.
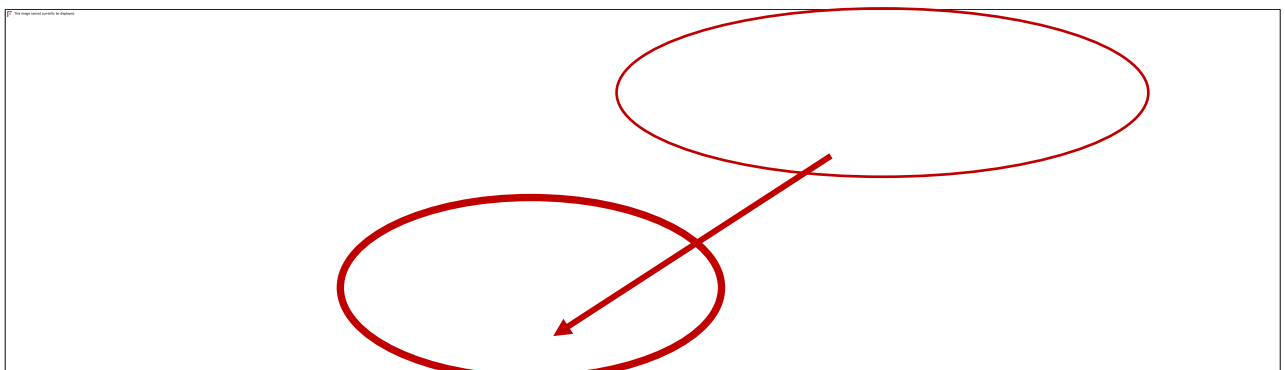
Note: Quarterly and Annual Monitoring can allow for these or further programme adjustments as required and a fresh Housing capacity Assessment will need to be done to inform the next LTP in 2023/2024. This could mean bringing forward the remaining stages of Brookvale, Kaiapo, Irongate and Copeland Road and introducing some of the 860 lot capacity held in Reserve areas.

So In Summary – Our High Level Game Plan is:

The Growth Game Plan

DEMAND
- Based on medium-high growth scenario
- includes 20% capacity margin
- includes backlog over 5 years

That's 30% more than the traditional medium growth scenario (excluding backlog)

We are planning for this demand

we project 6,530 MORE HOMES BY 2030

CAPACITY
- Based on existing planned growth areas
- Includes planned rural and intensification areas
- Accelerates Lyndhurst, Kaiapo and Brookvale

Our programme has this capacity

we can enable 6,870 MORE HOMES BY 2030

THE SUPPLY MIX
- HPUD's Targets for Hastings/Napier area by 2045
- Our focus will be to intensify

Greenfield 35%
Intensification 55%
Rural 10%

The housing mix changes over time...

Within 10 Years
Greenfield 40%
Intensification 35%
Rural 25%

Beyond 10 Years
Greenfield 35%
Intensification 55%
Rural 10%

BEYOND 2030

The Spatial Plan will determine future growth responses

-
-

8. <u>What does this mean in terms of actions required?</u>

   - Structure Planning and rezoning processes should commence shortly for Lyndhurst, Kaiapo Road and Irongate Road. In particular Structure Planning for Lyndhurst should be completed by the end of 2022. The structure planning for Kaiapo and Irongate would also need to be completed by the end of 2023.

   - Engineering and legal processes need to be completed for the whole of Brookvale by the end of 2022 as well.

9. <u>What shape are we in to get this done – does anything need to change?</u>

   - Additional in-house or consultancy support will be needed. However industry capacity is very short at present (what's our strategy to respond)?

10. Can we still mitigate our financial risk exposure – what does that look like?

   ▪ A financial risk analysis will be needed to inform the next Annual Plan – if programme
      changes are confirmed.

GROWTH CAPACITY – WHATS IN THE TANK?

Zeroing in on the "sweetspot"

In Summary:

- Having reviewed various forecast growth demands, the Housing Capacity Assessment concluded that we have sufficient urban development capacity to meet the demand scenarios in the short to medium term (3-10 years).

- More investigation is required to assess our longer term capacity due to the lack of certainty regarding potential infrastructure servicing constraints (noting that further infrastructure will also be required to support our identified intensification areas). Over half of our longer term capacity has some uncertainty (which may be able to be resolved with more investigation) in respect of infrastructure servicing.

- In the short to medium term the capacity conclusion is however, subject to some uncertainty and there are questions in officers minds about the influence of pent up demand or backlog arising from the recent period of higher than anticipated growth.

- "Backlog" or "pent up demand" and assumptions have been added into our demand scenario (although this is not specifically required) – this provides us some buffer around various uncertainties (such as slow market adoption and acceptance in respect of intensification), and some form of oversupply may help with price easing and assistance to those trying to enter the market.

- In terms of backlog its proposed to use the range of 1,000 to 1,500 dwellings which whilst more than the social housing register (750 households), this provides some buffer as noted above.

- It is estimated that about 45 - 50% of total housing demand will need to be met by intensification over the next ten years depending on the amount of backlog included - greater than the 35% currently being experienced; at 50% this equates to circa 310 dwellings per year for 10 years (3,100 dwellings total) or 70% higher than in recent times – this is the intensification and here lies a significant challenge and potential risk.

- That challenge is made more difficult as the greenfield programme is somewhat front loaded. It's likely that the desired transition from greenfield to intensification under the current programme could be too sharp for the current market to deliver (i.e. easier greenfields will get delivered first). It's also challenging given 25% of the intensification is in commercial settings with greater challenges to overcome.

- Given the challenges above a transitional sweetspot (greenfield to intensification) needs to be determined. Suggested changes to the LTP growth programme (i.e. bringing forward some greenfield areas) is our best lever to manage this transition. The suggested programme amendments (discussed latter) would see the ten year programme try to achieve a balance of 40% greenfield, 35% intensification and 25% rural.

- Despite the above challenges, assuming infrastructure issues can be addressed we could still be broadly on track to meet the (greenfield/intensification/rural) targets in HPUD's (greenfield 35%, intensification 55%, rural 10%) over the longer term (beyond 10 years), although the effect of bringing forward the greenfield opportunities would mean around another 2,250 greenfields sites would be needed on these proportions beyond the ten year period

Supporting Notes

1. Our capacity for growth is defined by what is in our LTP for greenfield areas, what our District Plan allows in our existing urban area, and what can and does go on in the rural areas in response to growth demand.

2. The National Policy Statement on Urban Development Capacity (NPSUD) requires us to assess our capacity to meet forecast growth demands over the short, medium and long term being 3, 10 and 30 years.

3. Stats NZ population growth forecasts provide a range (sensitivity) between high medium and low scenarios. Stats NZ sub-nation population forecasts were released earlier this year, i.e. not in time for our LTP, but our LTP forecast are very close to their medium growth scenario.

4. After a period of extraordinary immigration driven growth over the last five years the latest scenarios see a dropping back from 2021-2023, and steadying after that, but at a higher levels than previously published.

5. The Housing Capacity Assessment Report received recently compares our capacity to meet a growth demand mid-way between the Stats NZ Medium and High Scenarios.

6. The report concludes that we have sufficient feasible urban development capacity within our existing urban areas, rural residential zones and coastal settlements when combined with our LTP scheduled greenfield growth areas to meet that demand scenario in the short to medium term (3-10 years).

7. In the long term our feasible intensification capacity is limited by infrastructure capacity, which reduces otherwise feasible capacity by 4581 units (of a total of 7520), 3055 of those may be feasible, but the infrastructure capacity for these is uncertain and requires further investigation. Even then a further infrastructure will be needed to support a projected additional 1500 intensification units, in the absence of any new greenfield growth areas being added to the programme.

8. In the short to medium term the capacity conclusion is subject to some uncertainty and there are questions in officers minds about the influence of pent up demand or backlog arising from the recent period of higher than anticipated growth as well as a risk of slow adoption by the market to the feasible intensification opportunities modelled in the capacity study.

9. While the NPSUD does not specifically require backlog to be dealt with in a commercially founded capacity assessment, it would accord with its intent to provide head room capacity for the market to allow some extra supply to facilitate price easing and allow some households that were forced out of the property market due to the earlier demand pressure to return, and for filtering up the property market to occur.

Intensification Targets

10. In order to meet demand in the short to medium term the greenfield capacity is augmented by the rural and intensification capacity. Developers will prefer greenfield development and in the first instance while the rural/rural residential demand component is more limited by price and lifestyle choices. This mean that the intensification component is effectively left to make up the rest of the balance and this creates some potential volatility and uncertainty for the intensification uptake expectations depending upon the size and nature of the greenfield programme delivery.

11. On the basis that these greenfield opportunities are taken up first and rural retains its current share at 25%, the remaining demand segment to be met by intensification is approximately 2060 or

around 43%, compared to 35% currently, while greenfield would be 32% against 40% currently. – in other words this relationship would flip around. This would represent an uptake rate for intensification averaging 210 per year or 17% higher than those experienced over last few years (despite the investments undertaken by Kainga Ora over the last few years).

12. The proportions would shift to 50% and 25% if a backlog demand of 1200 dwellings was added (see below), an uptake rate of 310 per year or 70% higher than in recent times, but because the competiveness margin is intended to apply for capacity purposes, rather than real demand, the actual uptake impacts, may be overstated.

13. In addition the greenfield programme is somewhat front loaded with new capacity in the first three years becoming available, so greenfield/intensification shares over the first three years in theory would drop from 60% and 15% to 16% and 59% over the following seven years (or 44% and 31% over the first three years and 14% and 61% over the following seven with the backlog added). While in practice the developments will not all occur and be provided and taken up in such a rapid fashion, the point is the transition from greenfield to intensification under the current programme could be too sharp for the current market to respond effectively.

14. In addition available 25% of the feasible intensification capacity available over the initial ten year period around is in commercial environments. There is a risk associated with over reliance on this capacity as uptake will require larger investors and developer reticence may be greater than in residential settings, at least to begin with.

15. It may be less risky from a market perspective to rebalance the programme to deal with market backlog and transitioning issues by bringing forward some of the planned greenfield capacity earlier in the programme, without providing so much greenfield capacity that the intensification objective is undermined by the easier opportunities greenfield redevelopment represents.

Rebalancing

16. A balance based on the current pattern, which is in itself closer to the HPUDS transition, (after allowing for a greater share of rural development than HPUDS predicted in 2010 and 2017) is preferred. This still represents a challenge for intensification as the higher growth rates and backlog expectation will mean higher uptake rates than have currently been experienced will be needed.

17. That would see the ten year programme try to achieve a balance of 40% greenfield, 35% intensification and 25% rural closer to the 44%,31%, 25% starting point referred to in paragraph 12 above). This would also reflect the likelihood that the greenfields developments planned in the first three years are not likely to be all consumed within that period but should extend into 2024 at a minimum.

18. While it will be a matter form the regional spatial plan a longer term transition as envisaged by HPUDS to achieve a 35% greenfield (in appropriate places), 55% intensification and 10 % rural balance will still be achievable once the infrastructure issues have been addressed, although the effect of bringing forward the greenfield opportunities would mean around another 2,250 greenfields sites would be needed on these proportions beyond the ten year period.

Backlog

19. For the purpose of finding the programme sweetspot a range of between 1000 and 1500 dwellings could be applied to the medium, medium-high and high growth scenarios. This compares with 750 households on the Social Housing register as representing the base value for any estimate.
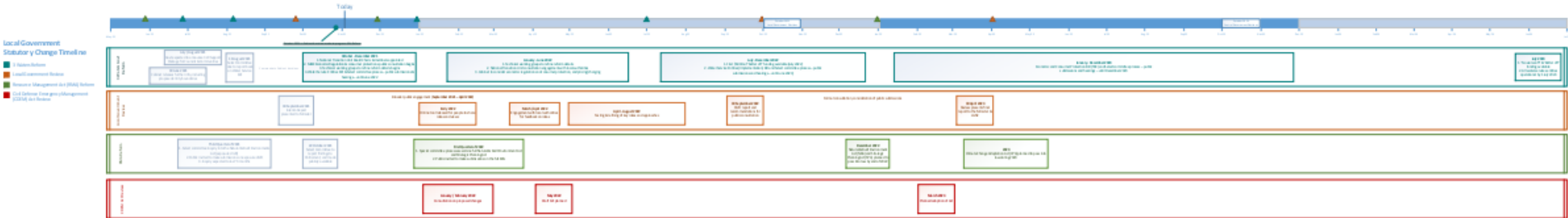
Item 5

Assessing the opportunities for local government in the Future for Local Government Panel's interim report: *Ārewa ake te Kaupapa*
Draft policy analysis prepared by Dr Mike Reid on 6 October 2021

Background
Three months after its establishment, the Future for Local Government (FFLG) Panel has released its interim report, *Ārewa ake te Kaupapa*. This report sets out the range of matters that will be addressed in its final report and recommendations on the future for local government. LGNZ has prepared this paper to help councils engage with the review and, in particular, highlight pathways and opportunities to ensure the review addresses the issues of most concern and results in a transformative future for local government in Aotearoa New Zealand.

The interim report is essentially a scoping report, setting out the Panel's view of the major issues that it needs to address for its substantive report and recommendations. As required by the terms of reference, the interim report was presented to the Minister of Local Government for her views and approval ahead of its public release.

The report consists of two main sections. The first, "Context for change" introduces a comprehensive list of factors that, taken together, in the Panel's view justifies the case for change to what local government does and how it works. The second, "Where to from here?", sketches some very broad (and a few very specific) options for what that local government future might look like. Amongst the more specific options is a section on "early opportunities". These highlight current developments, such as the health reforms, that might offer opportunities for greater local government involvement.

The opportunity
In relation to local government, reviews tend to be very specific, frequently examining narrow matters such as funding or financial adequacy or efficiency. The FFLG review is not confined by a narrow problem definition. It is much more open-ended than previous reviews and has the potential to cover a much broader canvas, providing local government with a real opportunity to identify the most important issues are and how they should be resolved. The Panel itself has acknowledged this broad scope, as the following statement highlights:

> (The review) is an opportunity to look beyond fixed structures and roles, to design a system of local governance that is built on relationships; is agile, flexible and sustainable enough to meet future challenges, even those that are large and unpredictable; has the right mix of scale and community voice; harnesses the collective strength of government, iwi, business, communities and others; maximises common benefit and wellbeing; and creates the conditions in which communities can thrive into future generations.

Given prominence in the quote as well as in the substance of the report, is the concept of local "governance" rather than local "government" *per se*. In fact, more attention is given in the paper to the processes of local governance and how it might be strengthened than to the institution of local government itself. The discussion on local governance is important to the achievement of community outcomes and wellbeing and takes us back to the original Local Government Act 2002 (LGA) that required councils to facilitate local governance processes. Before it was changed in 2010, the LGA 2002 legitimised councils' central role in local governance.

This shifting focus, away from local governance and wellbeing to more efficient services, reflects the degree to which local government is essentially a "taker" of the policies and programmes that central governments decide to impose. In other words, the major challenges that councils face are less to do with the capability and capacity of local government and more to do with deficiencies in

the legislative framework that gives them powers. We look forward to seeing these issues examined in depth in the Panel's final report.

Not just another stakeholder
While *Ārewa ake te* kaupapa acknowledges the importance of local governance, it tends to see councils as just one amongst a range of local organisations, such as not-for-profit groups and Iwi/Māori.

More attention could be given to the authorising environment. Authorising environment refers to the body or organisation which has the mandate to give effect to the people's will and which gives legitimacy to the subsequent governing processes. To avoid local governance becoming a competition for public funding, the local authority, with its democratic mandate, that needs to step up as the mediating organisation.

The role of councils is not just to promote wellbeing, but to act as critical (and democratically guided) mediators for communities as they debate and decide what is important for them, within the bounds of a national direction framework. Councils are able to this because they are an established tier of government in their own right, but are limited in how far they can act by the authorising environment.

LGNZ will do more work on the role councils and other organisations play in local governance to contribute to the Panel's final report and assist councils in their submissions.

Context for change
The Panel argues that change is needed in order to create thriving communities, protect the delicate balance of natural ecosystems, build towns and cities that people love, support social cohesion, reflect identity, create belonging, provide leadership and coordination, and effectively manage community assets into the future. It then reinforces the case for change by highlighting the following, that:
- councils lack the levers to fulfil their "wellbeing" purpose;
- the framework fails to encourage collaboration or innovation;
- the institution of local government fails to embody Te Tiriti o Waitangi;
- some local authorities are facing significant financial and capacity challenges;

All are broad claims and many in local government will agree with some, if not all (although the conclusion that councils fail to innovate appears unjustified and unwarranted). However, these are not necessarily issues that can be resolved by change at the local level alone. Almost all of them reflect failures by successive governments at the national level, which have not given councils the necessary regulatory tools, necessary funding sources, legislative framework nor a sufficiently empowering authorising environment that encourages responsiveness.

It would be helpful if submissions on this section provided examples of the way in which successive government policies have impacted negatively on communities (creating unfair expectations on councils) and the way in which the existing statutory framework constrains councils' ability to respond. It will also be helpful to the Panel to identify governing approaches that take a "bottom-up" and "place-based" approach to identifying and meeting local needs – approaches able to provide the information needed for more effective health, social and education services.

Trends in wellbeing
The sub-section on trends and local wellbeing concludes with a series of observations about what this might mean for local governance. The trends highlighted include climate change and its impact

on communities; susceptibility to natural hazards and other shocks the impact of demographic change, and the impacts of science and technology. It is not at all clear, other than climate change, that these trends reflect anything other than business as usual, being just as relevant on multiple occasions over the 180 years of our local government history. The final report would benefit by a richer and more bespoke description of the trends likely to affect wellbeing in the future, such affordable housing, demography and inequality.

The Panel's proposed solution for addressing these trends involves a local government that practises coordinated, agile, sustainable and anticipatory governance. This, however, could be undermined by the proposed changes to the RMA. These are likely to reduce many, if not most, of the decision-making powers that city and district councils require if they are to exercise anticipatory governance. The removal of the communities' powers to create sustainable and local carbon futures for their towns and cities needs a more comprehensive examination and must be considered in depth in the final report. It is an area that councils may want to address in their responses.

Similarly, the sub-section on "the main pressures on local government" relies too much on anecdote and would benefit from more thoughtful council feedback. For example, the suggestion that small councils lack capability, and that such a lack can only be addressed through amalgamation, needs to be closely examined and is an issue that councils might like to address in their submissions. International evidence among OECD countries shows extensive evidence of where councils have innovated around the challenge of scale without having to resort to amalgamation. These include shared services, outsourcing, and franchising etc., and many of these arrangements are employed by councils in New Zealand today.

Place of Te Tiriti
The Minister of Local Government has asked the Panel to consider the place of local government in the context of Te Tiriti o Waitangi as well as relationships with local Iwi/Māori organisations. The Panel is aspirational in its view that:

> In a fully functioning Treaty relationship, local government and iwi are natural partners: both are intimately concerned with wellbeing of people and places, and both have intergenerational responsibilities. With new approaches, they can become powerful allies in creating conditions for mutual benefit and shared prosperity that endure into the future.

The discussion highlights both the RMA and three waters as critical areas for Iwi/Māori interest in local government. However, the significance of their potential removal from direct democratic influence is not developed; something that could be helpfully addressed through council submissions. Without a direct involvement in the management of three waters and the environment, the level of interest by Iwi/Māori in forming relationships with local government is likely to vary considerably.

The report makes it clear that local government is not the Treaty partner and reinforces the understanding, also held by LGNZ, that the Crown's Te Tiriti obligations flow down to councils and any other institutions that act on its behalf. We would note, however, that outside regulatory roles, there are very few delegated or devolved functions that councils actually undertake. The fact that many in the community, including Māori citizens, confuse local government with the Crown reflects on the poor state of civics education in our schools – an issue for the Panel's final report. Lack of understanding about the nature of local government, and especially its constitutional role, is not just limited to individuals. Crown agencies can also get it wrong; for example, the Waitangi Tribunal's suggestion that functions be concentrated in fewer councils to reduce the consultation burden on

Iwi overlooks the democratic rationale for local government. However, its suggestion that funding be made available to build Māori/Iwi capacity should be supported.

The discussion is not helped by the failure of the interim report to fully describe the nature of local government as a legitimate form of government. Much of the discussion sees councils only in expedient terms, as convenient providers of services, yet councils are critical to the fulfilment of Article 3 of Te Tiriti o Waitangi. They are critical mechanism for the exercise of Māori citizenship rights. Amongst its functions, local government gives effect to the rights that Māori hold as citizens and provides a forum through which matters that Māori citizens have in common with other citizens can be addressed – working with other local citizens to make decisions about the wellbeing of the collective. This point underscores a fact that is often overlooked in this area, namely that Māori citizens are also part of the community, rather than being wholly distinct from it.

Māori interests that are not shared by other citizens should be addressed through "by Māori and for Māori" mechanisms – and councils have very broad powers to delegate and devolve responsibilities, as well as enter into agreements and contracts, to facilitate such processes. The review would benefit from council feedback highlighting such examples.

Where to from here?

Interestingly, having spent more than half the report (30 pages) making the case for change, the section of the paper dealing with the question, "where to from here?" runs to a mere four and half. Yet it is a section of the paper that, more than any other, is likely, and deserves, to attract interest from local authorities.

The answer to the question "Where to from here?" is framed as "rethinking local governance". This is extremely important to councils as their ability to promote wellbeing and influence community outcomes depends not only on themselves but other organisations in our towns and cities, as well as on citizens themselves. This case is well made by the Panel. What is not addressed with the same level of detail, however, are the contributions of central government agencies and departments, and citizens themselves. (In fact citizens are largely invisible throughout the 60 pages leading to the impression that governance is very much a technocratic exercise.)

Noting the Panel's statement *"It is an opportunity to look beyond local government and consider local governance, encompassing all organisations with rights and responsibilities to guide their communities"*, when making submissions councils might like to reflect on the way in which they work alongside the other organisations that also contribute to wellbeing and local governance processes, including the impact of their democratic mandate. The Panel will benefit from actual examples of co-governance and co-production at the local level, including collaborative approaches with Iwi/Māori.

To give added value to the final report it is important that councils address the role of and value of citizen engagement, and the way in which local government's purpose to enable citizen participation is given effect to. Similarly, they could examine the extremely influential role (given New Zealand's high level of fiscal centralisation) that government agencies have on local outcomes. The FFLG review will benefit from suggested mechanisms for aligning central government expenditure in localities with the visons and priorities agreed through the process of local governance.

Priority questions

The interim report begins with a series of priority questions which underpin the discussions in both the context and opportunity sections. It is important to note that the Panel explicitly frames its task as "designing the most effective system of local governance for New Zealand's future", not the most

effective system of local government. These are not mutually exclusive and it will be up to councils and their representative bodies to ensure that the Panel addresses both in its considerations. They questions are:

1. How should the system of local governance be reshaped so it can adapt to future challenges and enable communities to thrive?
   This question is concerned less with local government than with the way in which local governance operates and what is required to both enhance its effectiveness and how the processes will embody the Treaty partnership – not something that is easily understood given that governance by definition lives outside both the public and private sectors. Nor is it entirely clear, yet, how central government can hope to influence the nature of governance in the myriad of communities that make up Aotearoa New Zealand.

2. What are the future functions, roles and essential features of New Zealand's system of local government?
   This is the question that most councils, in the first instance, will focus on. The Panel's statement "This will require determination of which current functions should be retained and which should not; what new functions and roles local government should take on (for example, in housing, health or other social service provision) will be welcome. It is important that the Panel hears from councils on this question.

3. How might a system of local governance embody authentic partnership under Te Tiriti o Waitangi, creating conditions for shared prosperity and wellbeing?
   The Panel notes that it sees local government and iwi as having the potential to operate as natural partners given that they are both intimately concerned with places and communities. It is explicit in its desire to know more and to engage with Iwi/Māori and local governments on how partnerships and co-governance arrangements can be developed in order to meet shared objectives for prosperity and wellbeing.

4. What needs to change so local government and its leaders can best reflect and respond to the communities they serve?
   The scope of work envisaged to answer this query, namely better community involvement, inclusiveness and stronger leadership, is ultimately totally inadequate to the task. The real questions to be asked in relation to this priority should deal with the way in which the existing system of local government supports its elected representatives, the potential barriers to entry and whether or not the existing framework enables elected members to be "good local politicians". Contributions from councils would be welcome on these topics.

5. What should change in local governance funding and financing to ensure viability and sustainability, fairness and equity, and maximum wellbeing?
   The Panel's aspirations are excellent, in particular their commitment, following recommendations on functions and roles, to consider whether or not councils have the right mix of funding and financing tools available to meet their responsibilities in the long term. It is also pleasing that they intend to examine the principled basis on which funding decisions are made, such as the balance of the beneficiary and exacerbator pays principles alongside others, for example the impacts on local autonomy.

Process from here
During the development of their final report and recommendations the Panel intends to offer online and in-person workshops and wānanga, webinars, online surveys and crowd sourcing opportunities,

stakeholder conversations, and local government meetings, so that we encourage widespread participation.

Key Panel period of engagement are:

- September 2021 to April 2022 - broad exploratory kōrero about the priorities.
- Early 2022 - release of an online tool to help people share ideas and views.
- March/April 2022 - connect with local authorities to share our thoughts and get feedback on key ideas and opportunities.
- April to August 2022 – focus on testing and refining key ideas the future for local governance and democracy.

In addition, LGNZ will also encourage and support councils to take part in the Panel's discussions and a strategy to do this is under development.

The Future for Local Government Review provides an opportunity to rethink local governance for the future.

It is an opportunity to look beyond fixed structures and roles, to design a system of local governance that is built on relationships; is agile, flexible and sustainable enough to meet future challenges, even those that are large and unpredictable; has the right mix of scale and community voice; harnesses the collective strength of government, iwi, business, communities and others; maximises common benefit and wellbeing; and creates the conditions in which communities can thrive into future generations.

Over the next 30 years, New Zealand will change a great deal.

The country will have a larger, more diverse population. Technology will change the way people live, work, move around, do business, and relate to each other. Climate change will require us to adapt and reshape our economy and lives. The Treaty of Waitangi partnership will move into a new phase with increasing focus on enduring, mutually beneficial relationships.

Much else is likely to change in ways that cannot yet be predicted.

All of these trends have implications for New Zealanders' quality of life, for the places and communities we live in, and for the ways in which those places and communities are governed.

Change can create challenge, and also opportunity. It invites us to ask: how might things be done better, in order to build trust in local democracy and improve New Zealanders' wellbeing and prosperity?

About this report

The title draws inspiration from Pacific traditions about the importance of communal gathering places, in particular marae ātea (ceremonial spaces) and ahurewa (ritual spaces) where important activities and discussions are undertaken.

'Ārewa ake te Kaupapa' can be literally translated as 'raising the platform'.

'Kaupapa' is often used in Aotearoa to reflect a platform for, or topic of, discussion, though it also has associations with the body of a korowai (feather cloak). The raising of the kaupapa can reflect the purpose of the mahi (work).

In these ways, the title alludes both to the place-making and community building functions of local government, and to the place of this report as a foundation for future discussion.

The Future for Local Government Review is an independent Ministerial review established in April 2021 to consider how New Zealand's system of local democracy and governance will need to evolve over the next 30 years, in order to improve the wellbeing of New Zealanders, and actively embody the Treaty partnership.

This interim report sets out the broad direction and priority questions for the review, in order to support engagement about the future of local governance and democracy. This work will lead to a further report with draft recommendations in 2022.

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Introduction

The Future for Local Government Review was established in April 2021 by the Minister of Local Government. Its overall purpose is to consider how New Zealand's system of local democracy and governance will need to evolve over the next 30 years in order to improve the wellbeing of New Zealanders, and actively embody the Treaty partnership.

This report is the beginning of a conversation about how that might occur. Over the next 12 months there will be many opportunities for public input about what creates wellbeing for communities, and how local governance might operate to support wellbeing.

Why review local governance?

The system of local governance and democracy is under review for several reasons.

Local government responsibilities and demands have increased greatly since the 1989 reorganisation and the Local Government Act 2002, resulting in significant funding and capability challenges. Over the next 30 years those pressures will increase further as local authorities respond to complex issues such as the local impacts of climate change.

Planned resource management and three waters reforms also call into question the broader functions and roles of local government, while other reforms in health and education have implications for local governance and wellbeing.

The relationship between local government and Māori is being re-examined, as the country moves towards a new phase in the Treaty of Waitangi relationship.

Although most New Zealanders enjoy good quality of life, existing governance structures – including local and central government – are not delivering wellbeing for all. Many issues that are felt at a local level, such as poverty and inequity, and environmental degradation, can be expected to worsen if not addressed in a coordinated manner.

This review provides an opportunity to address all of these issues and ensure that the system of local governance is fit for the future. More broadly, it is an opportunity to consider how local democracy and governance might change in order to maximise wellbeing and prosperity for all communities.

Local government and local governance

Our terms of reference ask us to consider the future of local governance in New Zealand.

Local *government*, in the context of this review, refers to the local authority structures established by statute.

Local governance refers more broadly to the system by which communities are governed – in essence, who makes decisions, how they are made, and who the decision-makers are accountable to.

In any place or community, local governance can involve many decision-makers including central government, local authorities, iwi, hapū and Māori organisations, business and community organisations, and others.

What are we reviewing?

This review is taking a broad look at New Zealand's system of local democracy and governance.

In that context, we are considering the functions, roles, and structures of local government; relationships between local government, central government, iwi, Māori, businesses, communities, and other organisations that contribute to local wellbeing; how the local governance system might authentically embody the Treaty partnership; whether current funding arrangements are sustainable, equitable, and maximise wellbeing; and what might need to change so that local government and its leaders most effectively reflect and respond to the communities they serve.

In accordance with our terms of reference, we are not reviewing the Government's planned resource management or three waters reforms, but we will consider the implications of those and other policy decisions for the local government sector.

Similarly, we will consider the implications of recent public sector reforms, Climate Change Commission advice, Productivity Commission recommendations, Waitangi Tribunal recommendations, and reports on local government elections and financing.

A three-stage review

The Future for Local Government Review is an independent, two-year Ministerial review.

The review panel comprises: Jim Palmer (chair), Penny Hulse, Gael Surgenor, Antoine Coffin, and Brendan Boyle. John Ombler served as a panel member from April to July 2021.

The review process is taking place in three stages, and will involve engagement with local and central government, iwi, the business sector, community organisations, young people, and the wider public. The three stages are as follows.

The review process

2021 ● Early soundings

This first stage has involved initial scoping and early engagement with some (mainly local government) organisations to help us take a future-focused look at the local governance system and identify priority questions and lines of inquiry. This interim report reflects the results of that work, and signals our broad lines of inquiry for the next stage.

2022 ○ Broader engagement

The next stage of our review will involve a broader public engagement about the future of local governance and democracy in New Zealand, alongside research and policy development. After completing that work, we will report to the Minister of Local Government with draft findings and recommendations. Under our terms of reference, that report is due by 30 September 2022.

2023 ○ Formal consultation and final report

The third stage will involve formal consultation about our draft recommendations. We will consider public submissions, before we deliver our final report in April 2023.

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Why does this review matter?

Effective local governance is essential to New Zealanders' lives and wellbeing. Local authorities play a critical role in the country's system of democracy, providing for people's voices to be heard in the leadership of their communities and the delivery of local services and assets.

Local authorities also help create the environments we live in. Their activities determine the extent to which communities' basic needs such as clean air and water are met. They influence the places and homes we live in, the strength and cohesion of our communities, how we move from place to place, our health and safety, how prosperous we are, how we spend our time, the health of our democracy, the strength of Te Tiriti relationships, and our sense of shared identity.

The big issues facing New Zealand are all experienced at a local level. Inequity, climate change, employment and economic participation, housing, racism and discrimination, environmental harm, and challenges with physical and mental health and many other issues play out at local and sub-national levels, and solutions require local action.

Ineffective local governance can create or exacerbate challenges. Effective local governance can create the conditions in which communities prosper and thrive.

"Local government is one of the most important institutions our species has created for expanding human wellbeing."
Professor Paul Dalziel[1]

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1   Future for Local Government Canterbury Mayoral Forum Workshop: May 2021

Priority issues

This review is an opportunity to rethink local governance, to find new approaches that can meet the challenges of the future and create conditions in which communities will prosper and thrive.

Successive reviews into aspects of local governance have found that some local authorities face significant financial and capability challenges; relationships and partnerships are not as strong as they could be; and the system as a whole is not set up to deliver the best outcomes for local communities.

Over the next 30 years these challenges are likely to grow and become more complex. The local governance system of the future will need to prepare for and respond to climate change, emerging technology, changing demographics and community expectations, earthquakes, floods, pandemics, social and economic inequities, and more.

This review is an invitation to look beyond existing structures

It is an opportunity to create a system in which the many organisations that contribute to local wellbeing can work together to more effectively address challenges and deliver shared goals and aspirations, now and into future generations.

It is an opportunity to consider how roles and responsibilities can best align with inherent strengths and capabilities, and to build a system that is agile and flexible, reflects local voices, embodies partnership under Te Tiriti o Waitangi, and delivers better lives for all of this country's diverse communities.

Planned reforms to resource management and three waters provide some indication of a possible future for local governance. But those reforms address only some of the issues facing communities, and provide only one possible direction for reform.

What we have heard so far

During this initial phase of the review we have met with representatives of local and central government, some iwi, business groups, central government representatives, experts in relevant disciplines, and others. These initial soundings have helped us to shape our priority issues and broad lines of inquiry. During this initial phase of engagement several themes have emerged.

With respect to the current system, we heard:

▸ The current system of local government is under pressure – some local authorities face significant funding and capacity issues, and all face onerous compliance requirements.

▸ The relationship between local and central government is characterised by misunderstanding and mistrust. It needs work to build trust, so both can maximise their contributions to local wellbeing.

▸ Current arrangements place too many consultation and engagement demands on iwi and Māori without improving Māori wellbeing.

▸ Current arrangements do not ensure that diverse communities are adequately represented or involved in decision-making. As a result, local authority decisions do not effectively represent all community interests.

▸ Current approaches to local governance are not fully meeting business sector needs, or effectively fostering innovation at a local level.

With respect to future systems of local governance, we heard:

▸ New and better systems of local governance are needed, in order to address challenges in the current system and maximise wellbeing.

▸ Any reforms should build on existing and inherent strengths, including local knowledge and the place-making role of local authorities.

▸ Local voice and community leadership will continue to be important, even if some functions are delivered at a larger scale.

▸ One size does not fit all – any new local authority structures should be tailored to meet the needs of diverse communities and circumstances.

▸ The system of local governance should foster innovation at a local level by businesses, community organisations and other partners.

▸ In a reshaped system of local governance, iwi and local authorities can be stronger partners – by working together at local and iwi rohe levels they can boost shared prosperity and wellbeing.

▸ New approaches to funding and financing mechanisms will be needed to ensure local authorities are viable and sustainable, and to improve equity.

▸ Changes to representation and electoral arrangements should be considered in order to strengthen local democracy, decision-making, and leadership.

Priority questions

In designing the most effective system of local governance for
New Zealand's future, several key questions will need to be considered:

1   **How should the system of local governance be
        reshaped so it can adapt to future challenges and
        enable communities to thrive?**

2   **What are the future functions, roles and essential
        features of New Zealand's system of local
        government?**

3   **How might a system of local governance embody
        authentic partnership under Te Tiriti o Waitangi,
        creating conditions for shared prosperity and
        wellbeing?**

4   **What needs to change so local government and
        its leaders can best reflect and respond to the
        communities they serve?**

5   **What should change in local governance
        funding and financing to ensure viability and
        sustainability, fairness and equity, and maximum
        wellbeing?**

In coming months, we will engage with communities and organisations
around the country about these questions as we consider how the
future system of local governance might most effectively create
conditions that maximise wellbeing and prosperity.

Local government at a glance

New Zealand has 78 local authorities who are responsible for democratic local decision-making and community wellbeing.

These local authorities vary widely in territory, population and capacity – from large urban authorities, such as Auckland Council, to district councils serving small town or rural populations.

11   Regional Councils

Regional councils are primarily focused on the physical and natural environments within their boundaries. They have power to make by-laws over regional forests, parks, reserves, recreation grounds, and water supply, and have statutory responsibilities for environmental regulation, resource management planning, land and maritime transport, regional biosecurity, and other environmental activities. Regional councils can take on other functions, but only with the agreement of the territorial authorities in their region.

61   Territorial Local Authorities (not including unitary authorities)

Territorial local authorities include district and city councils which have broad functions relating to local wellbeing. They own and manage local infrastructure such as roads, drinking water, wastewater, and stormwater networks, local parks, libraries, and sport and community facilities. Typically, they also undertake economic and community development functions, run community events and programmes, and support community organisations.

They have significant regulatory functions relating to land use, building, food safety, liquor control, and other matters, and they have power to make by-laws over matters of public health and safety, public nuisance, and offensive behaviour.

In some cases, investments and infrastructure assets are managed through council-controlled organisations. Such structures seek to create separation between the political bodies and entities dedicated to furthering their shareholders' objectives and investment returns.

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6 Unitary Authorities (including Auckland Council)

New Zealand's six unitary authorities are responsible for both regional council and territorial authority functions. The unitary authorities are Auckland, Gisborne, Marlborough, Nelson, Tasman, and Chatham Islands.

Auckland Council is Australasia's largest local authority, with a population exceeding 1.7 million (about one third of New Zealand's population).

Auckland has 21 local boards, several of which serve populations that exceed 100,000. The Independent Māori Statutory Board assists the Auckland Council by promoting issues of significance to mana whenua and mataawaka, and monitoring the Council's compliance with statutory provisions referring to the Treaty of Waitangi.[2]

110 Community Boards

Many of New Zealand's territorial authorities have community boards which represent the interests of particular communities and advocate on their behalf. They have been established for a range of reasons, and vary in size, functions, delegations, and geographical coverage.

$11.8 billion Annual Operating Spending (June 2020 Year)

The local government sector is large. Total expenditure represents about 4.8% of New Zealand's GDP, and total rates income represents about 2.6% of GDP.[3]

The sector has more than 1600 elected members and 25,000 full-time equivalent staff. Many others, such as iwi, contractors, volunteers, businesses and community organisations also contribute to local government activity.

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2   Auckland Council Act 2009, section 81
3   Statistics New Zealand (2021), Local Authority Statistics March 2021; Statistics NZ (2020), Gross Domestic Product June 2020

Local Authorities by Population

Statistics NZ Sub-national Population Estimates June 2020

Largest

Auckland

1.7m

Median

Horowhenua

36,000

Smallest

Chathams

760

Local Authorities by Land Area (km^2)

Statistics NZ Land Area by Territorial Authority 2020

Largest

Southland

29,600km^2

Median

Whāngārei

2,700km^2

Smallest

Kawerau

24km^2
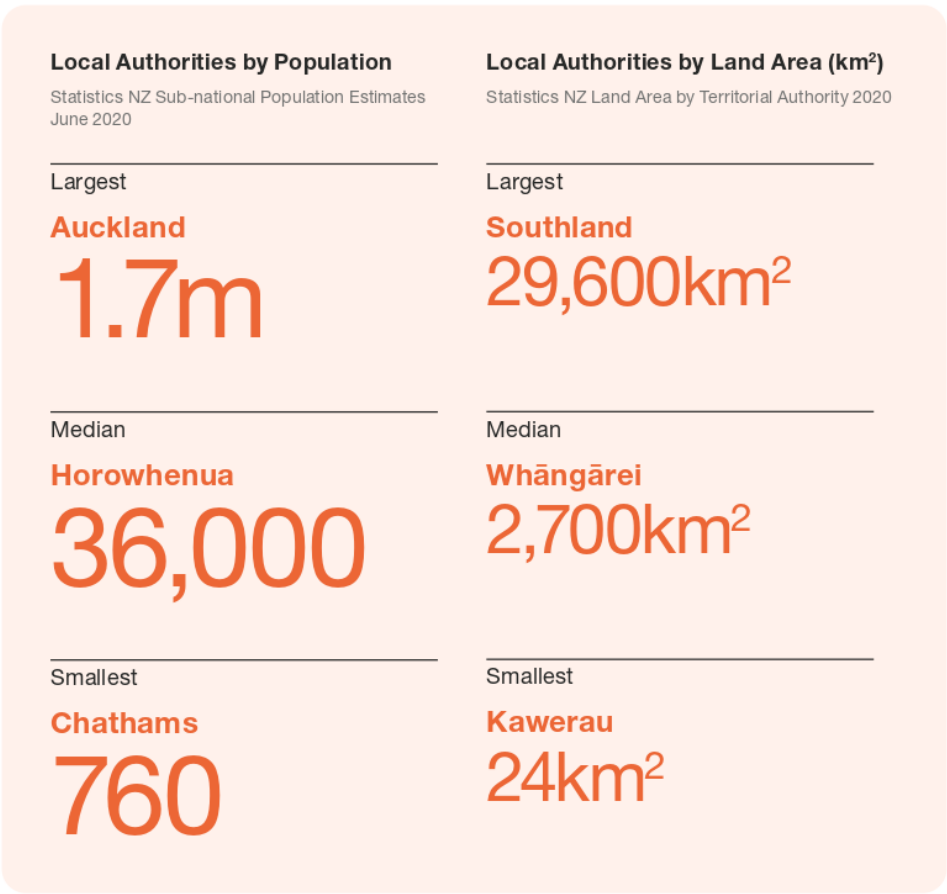
Local authorities range greatly in size, land area, financial capacity, and by many other measures – from Auckland, serving a population of 1.7 million, with an annual operating budget of $4.4 billion, to the Chatham Islands, serving a population of 760, with an annual operating budget of $8 million.[4]

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4   Operational expenditure: Auckland Council Annual Report 2019/20; Chatham Islands Council Annual Report 2019/20.

The context for change

New Zealand's current local government structures deliver significant value to their communities, but they are under pressure.

Even though wellbeing is a statutory purpose of local government, local authorities do not possess all of the levers they need to maximise wellbeing in their communities. They operate in a framework that does not encourage collaboration or innovation, or authentically embody Te Tiriti o Waitangi. Some local authorities are facing significant financial and capacity challenges.

Local authorities are striving to create communities that are thriving and prosperous, to protect the delicate balance of natural ecosystems, to build towns and cities that people love, to support social cohesion, to reflect identity and create belonging, to provide leadership and coordination, and to effectively manage community assets and services. If they are to fulfil these roles with maximum effect, now and into the future, change will be needed.

The wellbeing dimension

The future wellbeing of New Zealand communities depends at least in part on effective local governance. Under the Local Government Act 2002, one of the purposes of local government is to promote social, economic, environmental and cultural wellbeing in local communities.

This review is being conducted to determine how local authorities might need to evolve in order to deliver on that purpose over the next 30 years.

Under current local governance arrangements, local authorities make significant contributions to local wellbeing, but neither they nor central government on their own can address the most significant wellbeing issues facing local communities, or to address all of the challenges that might emerge in the future.

A more collaborative approach will be necessary in future to meet these challenges and create conditions in which communities can thrive over the next three decades.

Current local government contributions to wellbeing

Local authorities contribute to wellbeing in their communities in many ways, most visibly by creating and sustaining the environments in which people live, work, do business, and connect with each other.

The vast bulk of local government spending is focused on infrastructure, the environment, and facilities and services – including roading and transport services, drinking water and wastewater, waste management, planning and urban development, natural and ecological enhancement, and provision of parks, gardens, sports fields, and facilities such as libraries, and community and recreation centres.[5]

These facilities and services play critical roles in local wellbeing. They provide for basic needs; keep people healthy and safe; allow people to move around and connect with each other; enable work and business activity; support family, neighbourhood and community connections; and create environments in which people can exercise and relax. An attractive, well-functioning physical and natural environment can lift mood, reflect identity, create a sense of belonging, and attract skills, tourism and commerce.

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5   Productivity Commission (2019), Local Government Funding and Financing, pp 32-33, 43-44

Some local authorities also support wellbeing in other ways – for example, through economic development and tourism promotion, housing and homelessness programmes, and community building activities or partnerships.

While local government creates an environment and conditions, much of what contributes to local wellbeing depends on the actions of others – including central government, businesses and industries, iwi and Māori organisations, non-government organisations, and communities.

To address challenges and create thriving communities, aligned and coordinated action will be needed.

What do we mean by 'wellbeing'?

Although the Local Government Act provides that local authorities are responsible for social, economic, cultural and environmental wellbeing, none of these terms is defined.

There are many perspectives on what 'wellbeing' means, and many frameworks for understanding and measuring wellbeing. When we use the term, we intend it to be understood broadly, to include everything that makes a good life, not only for individuals, but also for their whānau and families, their neighbourhoods and communities, and for future generations.

This includes, among other things, living in a clean and healthy environment, having basic needs met, being physically safe and secure, experiencing connection with others and a sense of belonging, being able to participate and contribute, being able to express yourself and your identity, experiencing yourself as valued and valuable, and having opportunities to prosper and live to your full potential.

In many cultures, these dimensions are understood in collective or communal terms, or through the lens of ancestral connections with the human, natural and spiritual worlds. For some, wellbeing will depend on ability to nurture and care for those connections – for example (in Te Ao Māori) by exercising kaitiakitanga, manaakitanga, and rangatiratanga.

All elements of wellbeing are interconnected – influencing one will have impacts on others, and influencing the wellbeing of one person will have impacts on their relatives and those they are connected to.

Current challenges to local wellbeing

By global standards New Zealand is an affluent nation with high wellbeing. Even after the impacts of Covid-19, many New Zealanders continue to live comfortable and relatively prosperous lives.

In global surveys, New Zealand and its cities consistently rank among the highest in the world for happiness and overall quality of life.[6] And in surveys of New Zealand cities, the vast majority of residents see their city or local area as a great place to live, and have positive views of their overall quality of life and their family/whānau wellbeing.[7]

But that broad picture masks some major challenges and inequities in the economic, social, cultural, and environmental wellbeing of New Zealanders and New Zealand communities. Some examples follow, all of which involve wellbeing challenges that are felt at a local level and can be influenced at least to some degree by local governance.

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6   New Zealand ranked 14th in the world in the 2020 United Nations' Human Development Index, and 9th in the 2021 World Happiness Report. In Mercer's annual Quality of Living Survey, Auckland and Wellington consistently rank among the world's most liveable cities.

7   Quality of Life in New Zealand's Largest Cities Survey 2020

Climate change

Impacts of climate change are already being felt in many New Zealand communities – through rising average temperatures, increasing frequency of severe storms and flooding in some parts of the country, and increasing incidence of droughts and wildfires in other places. These impacts reduce economic output and impose significant costs on local communities.

Environmental degradation

New Zealand faces significant environmental challenges. Many indigenous species are threatened, indigenous habitats are declining, and pollution of the environment is growing. Many of the country's lakes and rivers are polluted due to runoff from urban areas, farms, and forestry.[8]

Economic performance

New Zealand was once among the world's most prosperous nations. But since the 1960s, relative incomes have been declining, and average incomes are now below the OECD average. This is despite relatively high levels of employment and education.[9]

Poverty and Inequity

Wellbeing and prosperity are not shared equitably among New Zealand communities. Just over 129,000 children live in households that experience material hardship, which means they cannot afford basic needs.[10] Māori are, on average, more likely to experience social and economic deprivation, as are people from New Zealand's Pacific communities.[11] There are also significant inequities across age, gender, family type, and region.[12]

Housing

New Zealand house prices have been rising steadily since the early 1990s. While property owners have grown wealthier, others have been shut out of home ownership while facing housing insecurity and steadily growing rental costs. Overcrowding is an increasing issue, and nearly 1% of New Zealanders are homeless or otherwise severely housing deprived.[13] Rates of home ownership are now at their lowest level since the 1950s.[14]

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8   Ministry for the Environment (2020), Our Freshwater 2020
9   OECD Better Life Index (2021): New Zealand
10   Statistics New Zealand (2021), Child Poverty Statistics: Year ended 30 June 2020
11   Statistics New Zealand (2021), Child Poverty Statistics: Year ended 30 June 2020; Te Puni Kōkiri (2019), An Indigenous Approach to the Living Standards Framework, pp 4, 33-36
12   New Zealand Treasury (2020), Living standards Framework Dashboard: Multidimensional Wellbeing
13   Statistics New Zealand (2021): Housing in Aotearoa: 2020, pp 12, 101-103
14   Ibid

Health

Most New Zealanders regard their health as relatively good, and life expectancy is above the OECD average.[15] But 30% of adults are obese, and many New Zealanders face health challenges such as heart disease, diabetes, and cancer.[16] There are significant inequalities in health outcomes (including longevity), and some people cannot afford basic health care.[17]

Mental Wellbeing

Many New Zealanders have experience of mental distress, ranging from everyday stresses and anxieties to acute episodes of depression and other severe mental wellbeing challenges. Experience of poor mental health is becoming significantly more common among young New Zealanders.[18] Social connections, exercise, new experiences, and opportunities to give can all be significant factors in supporting mental wellbeing.[19]

Some of these issues have local causes, and all have local impacts on environmental, cultural, social and economic wellbeing. There is considerable variance from place to place, particularly for material deprivation.

New Zealand's local authorities have statutory responsibility for promoting wellbeing, but they don't control all of the policy and other settings necessary to address these issues. For example, with respect to housing, local authorities' planning and infrastructure decisions can influence supply of land but they have limited influence on demand factors such as population growth, changes in household composition, and incentives to invest in housing.[20]

Similarly, local authorities can create environments that are attractive to skilled staff, businesses and investors, and tourism, but they cannot control the broader market and regulatory forces that determine national economic performance and prosperity. The environments created by local authorities can also support healthy lifestyles, social connections, and mental wellbeing, but local authorities have little involvement in other aspects of public or community health.

Effective responses to these issues will require coordinated or at least aligned action at national, sub-national, regional, and local or community levels, involving central and local government, and also iwi, the business community, community organisations, and others. Though there are exceptions, current responses to these issues do not typically take this 'ecosystem' approach, but rather focus on single issue responses at national or local level.

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15   OECD Better Life Index (2021): New Zealand
16   Ministry of Health (2021), New Zealand Health Survey 2019/20
17   Ministry of Health (2019), Wai 2575 Māori Health Trends Report; Ministry of Health (2021), New Zealand Health Survey 2019/20
18   Government Inquiry into Mental Health and Addiction (2018), He Ara Oranga: Report of the Government Inquiry into Mental Health and Addiction; Richelle Menzies and others (2020), Youth Mental Health in Aotearoa New Zealand: Greater Urgency Required
19   Government Inquiry into Mental Health and Addiction (2018), He Ara Oranga: Report of the Government Inquiry into Mental Health and Addiction; Mental Health Foundation (2021), Five ways to mental wellbeing
20   Productivity Commission (2012), Housing Affordability Inquiry; Tax Working Group (2018), Future of Tax: interim Report; Welfare Expert Advisory Group (2019), Whakamana Tangata: Restoring Dignity to Social Security in New Zealand

Future trends and local wellbeing

Over the 30-year timeframe of this review, some future trends can be discerned, though long-term impacts on local wellbeing are not necessarily predictable.

Impacts of climate change mitigation and adaptation

Existing forecasts tell us that the impacts of climate change are likely to become more severe, with increased risk and severity of floods, droughts, wildfires and extreme weather events. On those forecasts, coastal inundation will create risks to tens of thousands of homes and buildings, as well as to roads, airports and rail networks. The economic, social, and cultural costs of adaptation are likely to be high.[21]

New Zealand communities also face a major economic and social transition as we implement mitigation measures and adapt to a low carbon future. The Climate Change Commission has laid out a pathway which includes (among other things) reducing emissions from transport, energy, building, agriculture and waste; strengthening market incentives; and enabling emissions reductions through changes to urban form and infrastructure.

The Commission has noted that there are potential long-term economic benefits from innovation, and nearer term health and environmental benefits from insulating homes, shifting transport modes and reducing air pollution. But the transition will also impose costs, particularly to people working in high emissions industries, and people living in places that are directly affected by climate change. People who experience material deprivation have less capacity to cope with environmental risks such as climate change and natural hazards.[22]

But these forecasts do not factor in all potential impacts of or responses to climate change. Impacts could worsen or lessen depending on many factors including political and economic decisions at a global scale. Under more severe global scenarios, food and water scarcity could drive mass population movement with unpredictable but significant implications for countries like New Zealand.

Natural hazards and other shocks

Many parts of New Zealand are susceptible to hazards including earthquakes, floods, wildfires, and risks associated with volcanic eruption. These events can have severe and ongoing impacts including loss of life, impacts on property and livelihood, and ongoing stress. While the timing of such events is not necessarily predictable, the risks are known and can be prepared for.

Likewise, recent experiences have shown the risks and impacts on local wellbeing of pandemics and economic shocks arising from global events.

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21   Ministry for the Environment (2018), Climate Change Projections for New Zealand, p 13
22   Massey University Environmental Health Intelligence New Zealand (2021), Socioeconomic deprivation profile

Impacts of demographic change

New Zealand's population is projected to grow to about 6.2 million by 2048, and to become increasingly diverse. Growth is projected across most regions, but is forecast to be highest in Auckland and Waikato – regions that already face significant pressures on infrastructure, housing, and their environments. Some regions with relatively high levels of socio-economic deprivation are forecast to grow, including parts of South Auckland.[23] Conversely, in some regions there is a possibility of population loss.[24]

New Zealand's population is forecast to age significantly, particularly for New Zealanders of European descent. This has potential implications for housing and the built environment, health and disability services, economic performance, financing of national and local services, and overall wellbeing.[25]

New Zealand's population is already very diverse with many cultures, languages, and countries of origin. In the next 30 years that diversity will increase. For example, by 2043, people from New Zealand's Asian communities are forecast to make up 26% of the population, Māori 21%, and Pacific communities 11%.[26] As the century progresses these more youthful populations will provide increasing shares of New Zealand's labour force and tax revenue. Supporting these communities to thrive therefore has major implications for New Zealand's long-term wellbeing. Conversely, without appropriate support, existing disparities might worsen.[27]

160+

Number of ethnic or cultural identities among New Zealand people.

Statistics NZ Ethnic group summaries

Impacts of science and technology

Changes in science and technology will likely have significant impacts on future wellbeing – including where, how, and whether we work; how we travel; how energy is generated and used; how we communicate and connect with others; how we entertain ourselves; how we learn and earn; how people shop and do business; how we maintain health; how we feed ourselves; and much more.[28]

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23   Statistics New Zealand (2020), National population projections 2020(base)-2073; New Zealand Deprivation Index
24   Statistics New Zealand (2020), National population projections 2020(base)-2073
25   Treasury (2019), The economic and fiscal impacts of our ageing population; Natalie Jackson (2019), The implications of our ageing population;
26   Statistics New Zealand (2021), Population projected to become more ethnically diverse; Statistics New Zealand (2021), Subnational population projects 2018(base)-2048
27   Te Puni Kōkiri (2019), An Indigenous Approach to the Living Standards Framework, p 4
28   For discussions about technological change and how it might impact people's lives, see New Zealand Productivity

Ārewa ake te Kaupapa   The context for change   23

While some future trends are difficult to foresee, others are clearly discernible. There will very likely be much greater use of renewable energy, with potentially significant implications for energy networks. The vehicles of the future are not only likely to be fuelled from renewable sources but also self-driving, with implications for future design and delivery of transport networks.[29]

The long-term trend is towards even greater digital connectivity and rapid advances in computing power – including further advancements in augmented and virtual reality, artificial intelligence, the internet of things, and brain-computer interface. These changes are likely to have significant impacts on many areas of life, including how we work, do business, shop, access services, and engage with one another.[30]

What are the implications for local governance?

In order to maximise social, economic, environmental and cultural wellbeing now and into future generations, new approaches to local governance will be needed. Conventional approaches and techniques for policy-making are not responsive enough for an increasingly fast paced, complex environment where societal values are rapidly evolving and new challenges regularly arise.

Under the current system, local authorities hold few of the levers that drive wellbeing and prosperity in their communities. Many of those levers are held by central government, the business sector, iwi, or others. Future responses will require new approaches that bring together the many organisations that contribute to local wellbeing, to align and coordinate their responses to wellbeing issues.

Other reviews have already drawn this conclusion, in respect of particular issues. The Climate Change Commission placed particular emphasis on the need for partnerships between local and central government, iwi and Māori, the business community, communities and others, in order to manage the transition to a low carbon future and adapt to climate change impacts.[31]

Recent social policy reviews have emphasised the importance of coordination at a community level in responding to issues such as child poverty, health, mental health, welfare dependency, and crime. Consistently, these reviews have pointed out that social issues are interconnected, and have argued that responses should be led by communities.[32]

The Productivity Commission has also referred to the need for a closer relationship between central and local government, involving agreed principles for the relationship and a 'genuine co-design approach'

         Commission. (2020). Technological change and the future of work: Final report; OECD. (2019), OECD employment outlook
         2019: The future of work; McGuiness Institute (2021). Mission Aotearoa: Mapping our future, Discussion Paper 2021/01
29   Ministry of Transport (2018). Public Transport 2045: A working paper on urban transport in the shared mobility era
30   McKinsey & Company (2021). The top trends in tech (www.mckinsey.com)
31   Climate Change Commission (2020), Ināia Tonu Nei, p 225
32   Welfare Expert Advisory Group (2019), Whakamana Tangata: Restoring Dignity to Social Security in New Zealand;
         Government Inquiry into Mental Health and Addiction (2018), He Ara Oranga: Report of the Government Inquiry
         into Mental Health and Addiction; Department of Prime Minister and Cabinet (2019), National Engagement on
         New Zealand's First Child Youth Wellbeing Strategy; Te Uepū Hāpai i te Ora Safe and Effective Justice Advisory
         Group (2020): Turuki! Turuki: Transforming our criminal justice system

when central government is developing regulations that local authorities will have to implement.[33]

Recent public sector reforms have aimed at breaking down siloes and creating a unified public service which responds to social, economic, environmental and cultural challenges in an integrated way. As yet, those reforms have not taken account of the full potential of local government in developing co-ordinated responses to community wellbeing, though they are aiming to build a stronger central government presence and relationships at regional levels.[34]

"Central government needs to work closely with local government to deliver low emission outcomes."
Climate Change Commission[35]

The need for agile, sustainable, and anticipatory approaches

Some of the issues that will influence future wellbeing in New Zealand communities can be foreseen and planned for. The Climate Change Commission has emphasised the importance of coordinated planning for the transition to a low carbon economy, and for adaptation measures including managed retreat from coastal areas.[36] Transition planning is also possible for future urban growth or decline, to take account of matters such as future housing and infrastructure needs, and workforce and skills requirements. It is important to prepare for earthquakes, floods, pandemics, eruptions, and economic shocks, even though it is not possible to know when and where they might strike, or how severe they might be.

As well as planning and preparing for foreseeable trends and events, a future system of local governance will need the agility and capacity to respond to what cannot be foreseen, drawing on the capabilities of local authorities, central government, and others as needed, and adapting as new challenges and issues arise. While major reforms are sometimes needed, a more agile and adaptive approach is preferable in an increasingly complex and fast-paced world. A future system of local governance will also need capacity to gather and effectively analyse wellbeing data at national and community levels, and to anticipate and share knowledge about future trends. The Living Standards Framework and He Ara Waiora provide ways of understanding and measuring wellbeing, as do other frameworks such as Te Whare Tapa Whā, Pacific Fonua and Fonofale models, and United Nations Sustainable Development Goals. The OECD's anticipatory innovation governance model also provides one possible approach to understanding and responding to new trends as they are emerging.[37]

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33   Productivity Commission (2021), Insights into Local Government, p 29
34   Te Kawa Mataaho Public Sector Commission (2020), Public Service Reforms
35   Climate Change Commission (2020), Ināia Tonu Nei, p 226
36   Climate Change Commission (2020), Ināia Tonu Nei, p 226, 230-231
37   OECD (2021), Anticipatory Innovation Governance: What it is, how it works, and why we need it more than ever before

Challenges to local government

The current system of local government is under pressure. Even without planned reforms, the local government sector was facing significant pressures, which were raising questions about structures, roles, funding, and relationships.

Since the 1989 reorganisation, and since the Local Government Act 2002 was enacted, local government and the environment within which it operates has changed greatly. Local authorities have greater responsibilities. They must meet higher regulatory and community standards, and more complex engagement, decision-making and accountability requirements. They must respond to rapid evolution of technology. And they are also required to deal with increasingly complex social, cultural, economic, and environmental issues.

Some local authorities are experiencing significant funding and financing pressures. Many face capacity constraints, and many see their relationship with central government as strained or virtually non-existent at a national level. These pressures constrain local and central government in their ability to support thriving communities.

The main pressures on local government

The local-central government relationship

One of the most common themes in our early engagement has been that the local-central relationship needs work. This partly reflects statutory, structural and financing issues, which are discussed below, but it also reflects a culture of mistrust between central and local government.

At governance, management and staffing levels there is little cross-pollination between central and local government, and much mutual misunderstanding about respective roles.

The Productivity Commission has reported that central government "needs to substantially increase its understanding of the local government sector", and that central government fails to acknowledge local authorities' independence, frequently treating them as agents of central government who can be expected to unquestioningly implement national policies.[38]

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38   Productivity Commission (2021), Insights into Local Government, pp 14-15

Existing structures can contribute to the lack of mutual understanding. It is difficult for central government to effectively engage with 78 local authorities, and equally difficult for those authorities to engage with and respond to the 30 or more government agencies.

Varying capacity and capability

Local authorities vary a great deal in size and scale, from Auckland Council with an annual budget exceeding $4.4 billion to small rural councils with a few dozen staff and budgets in the low millions.[39]

Even for smaller local authorities, responsibilities include management of large infrastructure, financial management, governance, land use planning, environmental impact assessment, economic modelling, and engagement with diverse communities.

To carry out their roles, local authorities require not only financial capacity, but also the ability to attract and retain the necessary skills and competencies among elected members and staff. One common theme of recent reviews is that some local authorities (in particular those serving smaller populations) lack the capacity and capability to carry out all of these functions effectively, and can struggle to attract and retain the necessary staff.[40] We heard similar concerns in some of our early engagement. On occasions local authorities have attempted to address these issues by proposing amalgamation with neighbouring authorities, but these proposals have not won community support.

Financial pressures

Local authorities are under constant pressure to manage growing demand while maintaining rates at levels that are politically acceptable to their communities.[41]

Local authorities face varying demands. Some have rapidly growing populations or demand from tourism, while others are responsible for large geographic areas and have small and shrinking populations. Cost pressures also arise from community demands, age and quality of existing infrastructure, and threats from earthquakes and other hazards. Local authorities' ability to manage these pressures can be hampered by regular headlines about rates increases and negative perceptions about their financial management.[42] This fails to reflect a reality that council spending has increased broadly in line with household incomes and has continued to mainly focus on services that are seen as the traditional domain of local government, such as transport, drinking water and wastewater, planning, and local facilities.[43]

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39   Auckland Council Annual Report 2019/20; Chatham Islands Council Annual Report 2019/20.
40   Resource Management Review Panel (2020), New Directions for Resource Management in New Zealand; Review of the Three Waters Infrastructure Services (2017), Initial key findings
41   Productivity Commission (2019), Local Government Funding and Financing; Review of the Three Waters Infrastructure Services (2017), Initial key findings
42   Local Government New Zealand (2015), A Survey of New Zealanders' Perceptions of Local Government
43   Productivity Commission (2019), Local Government Funding and Financing, pp 32-33, 42-43

The combination of cost pressures and community perceptions has meant that necessary infrastructure upgrades have not always been carried out, and that towns and cities have not developed new infrastructure to accommodate growth.[44] Delays in funding infrastructure can limit business activity, contribute to growth in house prices, and have other negative impacts.

The 'unfunded mandate'

One source of cost pressures is the so-called 'unfunded mandate', in which central government imposes obligations or transfers responsibilities to local authorities without means to fund those activities.[45]

This includes costs arising from new health or environmental standards, such as those requiring drinking water treatment or stormwater and wastewater network upgrades, or earthquake strengthening of buildings. It also includes pressures that arise when central government delegates regulatory enforcement responsibilities to local authorities without providing means for them to recover their costs.

Overlapping and conflicting responsibilities

Local authorities have responsibilities under numerous Acts of Parliament, all with differing objectives and processes. Alongside a general (but undefined) responsibility for social, economic, environmental and culture wellbeing, they are charged with managing land use planning, food safety, building, and much else.

Many of these Acts impose distinct consultation and engagement requirements, including the highly prescriptive requirements in the Local Government Act. Altogether, in the view of the Productivity Commission, the sector operates under "a complex web of legislation which is poorly integrated, hard to administer, and not delivering the intended outcomes".[46]

This statutory complexity is reflected in on-the-ground relationships. In order to advance wellbeing in their communities, local authorities deal with many government agencies, each with their own structures and objectives. Many agencies have regional structures which do not align with regional or local authority boundaries, or iwi rohe.

For some of their functions local authorities are autonomous and directly accountable to their communities; for others they have little or no discretion and are accountable to central government. More broadly, the Local Government Act provides for powers of Ministerial intervention in local government under some circumstances.

Some see this 'dual accountability' system as raising questions about local government autonomy, and about the constitutional relationship between local and central government.[47]

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44   Productivity Commission (2019), Local Government Funding and Financing, pp 41-42
45   Productivity Commission (2019), Local Government Funding and Financing, pp 6-7, 201; Local Government NZ (2020), Local Government Funding and Financing, pp 4-5; David Shand (2019), Local Government Role and Autonomy: some additional perspectives (The Policy Observatory, Auckland University of Technology), p 8
46   Productivity Commission (2019), Local Government Insights, p 13
47   For example, Local Government NZ (2017), LGNZ's plan for a prosperous and vibrant New Zealand, p 34. Mike Reid (2018), Saving local democracy: an agenda for the new government, Auckland University of Technology, p 17

"Local government is not an 'agent of central government', and central government should stop approaching things in this way."
Productivity Commission[48]

Representation and engagement

Most New Zealanders neither vote in local elections nor take part in local authority decision-making. Participation in local elections has declined in the last two decades to just over 40%.[49] Elected councils are not fully representative of their communities, and do not always possess the range of experience needed to provide effective governance. Despite some improvements in recent elections, Māori remain under-represented.[50]

Very few people take part in formal consultation processes, and those who do are skewed towards older people with property interests.[51] In some areas, iwi and Māori have raised concerns about lack of involvement in decisions that affect their rights of tino rangatiratanga and kaitiakitanga. Current arrangements do not deliver on the full potential of the Treaty partnership.

Overall levels of public satisfaction are low: in one 2019 survey of five major cities, only 30% said they were confident in council decision-making, and only 31% believed the public had influence on council decisions.[52]

While some local authorities go to considerable lengths to engage with their communities, the overall evidence is that local decision-making is not as democratic as it could be, that some sectors of the community cannot make their voices heard, and that decisions may not be as representative or effective as they could be.

Impacts of climate change on local authorities

Several emerging trends are likely to increase pressures on local authorities, and, in particular, to challenge their financial sustainability.

The Climate Change Commission has warned that cost pressures are likely to grow as local authorities respond to climate change. Demand on stormwater networks will increase, and rising sea levels will threaten buildings and infrastructure (such as roads and water networks) in low lying coastal areas. In its view, local authorities will need central government funding to manage this transition.[53]

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48   Productivity Commission (2019), Local Government Insights, p 29
49   Department of Internal Affairs, Local Authority Election Statistics 2019; Local Government New Zealand, Final voter turnout 2019; Jack Vowles (2021), Local Government's Māori Representation Gap
50   Vowles (2021), Local Government's Māori Representation Gap
51   Productivity Commission (2019), Local Government Funding and Financing, pp 93, 113, 118
52   Quality of Life Survey 2020
53   Climate Change Commission (2021), Ināia Tonu Nei, pp 230-231; Productivity Commission (2019), Local Government Funding and Financing, pp p 227

The Commission has also emphasised the importance of central and local government pursuing the same climate objectives – which requires a closer and more effective working relationship, statutory alignment, clarity around roles, and central government supporting local authorities and building capacity where needed.
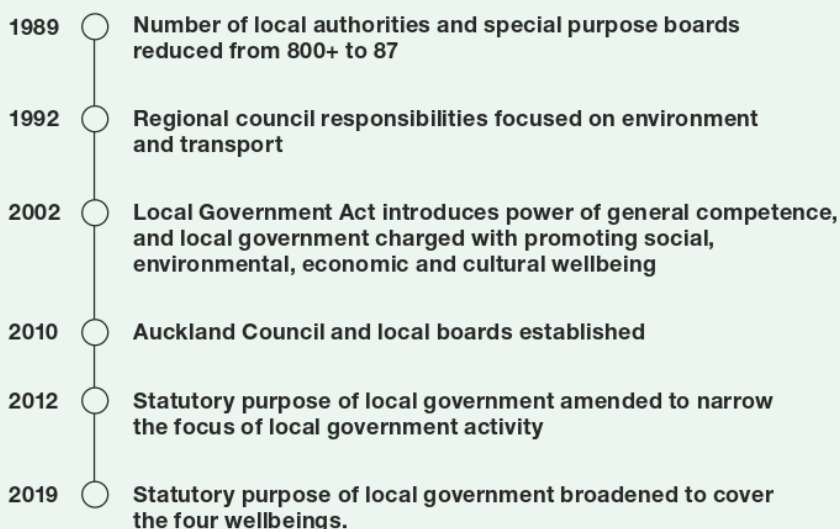
Information and Communications Technology

The local government sector is also likely to face major challenges in managing future information technology requirements. Local authorities are complex organisations which manage multiple databases and information systems, and engage with their communities online in numerous ways.

In coming years there will be considerable demand on the sector to align systems, digitise records, manage increasingly complex cybersecurity issues, and develop systems that provide customers and residents the best and most seamless online services. This can be expected to impose significant costs and demands on local authorities, including those which already face staffing and capacity constraints.

Local government reforms since 1989

Since a major reorganisation in 1989, the local government sector has been through several further reforms which have included changes of purpose and introduction of numerous new consultation and financial requirements.

Year	
1989	**Number of local authorities and special purpose boards reduced from 800+ to 87**
1992	**Regional council responsibilities focused on environment and transport**
2002	**Local Government Act introduces power of general competence, and local government charged with promoting social, environmental, economic and cultural wellbeing**
2010	**Auckland Council and local boards established**
2012	**Statutory purpose of local government amended to narrow the focus of local government activity**
2019	**Statutory purpose of local government broadened to cover the four wellbeings.**

What are the implications of proposed reforms?

The government has a significant reform agenda across several policy areas, including resource management, three waters, health, education and other sectors, all of which have significant local implications.

The resource management and three waters reforms have particular impacts on local government. The reviews that preceded the resource management and three waters reforms highlighted significant challenges facing the local government sector, including issues with capacity, capability, and misalignment.

The Resource Management Review Panel found that the current system is too complex, involving too many agencies which serve different constituencies and have conflicting responsibilities. It found that the current system fails to adequately provide for Māori interests or values, and does not provide incentives for good decision-making. It also found that some local authorities lack the capacity and capability to manage complex planning and compliance roles.[54]

Similarly, a 2017 review of three waters found that many local authorities were struggling to meet regulatory responsibilities, with the result that 20% of New Zealand's drinking water supplies did not meet required standards. Some local authorities also lacked the capability and financial capacity to maintain and upgrade large water infrastructure assets, and made trade-offs between affordability, resilience, and public safety.[55]

The question of scale

Both reviews sought to address these issues by transferring responsibilities from local authorities to sub-national bodies. The three waters reforms, if implemented as planned, will transfer management of water assets to multi-region bodies. A new layer of national regulatory oversight has already been established.

The resource management reforms propose to transfer planning and regulatory responsibilities to regional levels. The Resource Management Act Review Panel expressed a clear preference for local government "rationalisation along regional lines", which, in its view, would bring improved efficiency, economies from pooling of resources, and better coordination.[56]

These reforms, if implemented as planned, will have significant implications for all local authorities, and could threaten the financial sustainability of some.

While these reforms propose to transfer functions to sub-national bodies, other reviews have emphasised the importance of local voice in responding to health and social issues. Reviews of mental health, welfare, crime reduction, and child and youth wellbeing have all called for power to be transferred to communities so they can tailor services to their needs.

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54   Resource Management Review Panel (2020), p 6
55   Review of the Three Waters Infrastructure Services (2017), Initial key findings for discussion with the Minister of Local Government
56   Resource Management Review Panel (2020), p 6

Planned health reforms highlight the tensions that must be balanced in determining how to allocate services to national, sub-national or local levels. The reforms involve establishment of Health New Zealand and a new Māori health authority in place of regional health boards, with the aim of improving quality of care and national consistency. They also involve the establishment of a new national public health agency within Health NZ.

Yet the reforms also promise that communities, including iwi and Māori, will have greater roles in shaping and designing primary health services to meet their needs. Local authorities already have responsibilities for community engagement and planning, and already play important roles in community health through many of their roles – from provision of recreation facilities to regulation of alcohol sales. Their roles should be considered in the design of community health services.

Implementation of the planned reforms

Implementation of the resource management and three waters reforms will impose significant pressure on local authorities, and will have implications for many aspects of their operations including leadership and culture, financial viability, information systems, and much more.

It is vital that local authorities are supported through the transition period, to ensure, for example, that they have sufficient capability to manage the necessary changes and any new responsibilities.

It is also important that there is coordination between the various reform programmes, including this review. Coordination is needed to ensure that:

▸   reforms (especially in resource management) do not close down options before there has been adequate time for broad consideration about the future structures and functions of local government;

▸   reform programmes do not place unnecessary pressures on local authorities, or on other partners such as iwi which will be heavily involved in new three waters and resource management systems; and

▸   reforms leverage existing strengths from local government reform – for example, by building on existing contributions of local government to public health, and by creating opportunities for local government to support community-led design of local health services.

What are the implications for local governance?

Any redesigned system of local governance will need to address current and emerging pressures, and take account of the impacts of planned reforms. Addressing these pressures will mean:

▸   Taking steps to break down mistrust between local and central government, and instead building a culture based on mutual respect and collaboration, consistent with a spirit of unified public service.

▸   Designing the system to allocate local government functions and roles at the most appropriate scale, whether that is community, town or city, sub-national, or national levels, while providing flexibility and supporting collaborative approaches, and acknowledging that local authorities may still vary in scale.

▸   Ensuring the statutory and policy framework clearly defines functions, roles and expected wellbeing impacts; aligns objectives; simplifies processes and responsibilities; and provides clear direction and accountability for all agencies involved in local governance and service delivery.

▸   Improving alignment of boundaries for agencies involved in sub-national or local governance, including central and local government, and iwi rohe.

▸   Ensuring that all local authorities have sufficient capability and financial capacity to carry out the roles and functions allocated to them. This might involve central government providing some services to support effective local governance. It might also involve funding or other support for local authorities to address major challenges such as climate change, or to implement national policy priorities.

▸   Seeking representation and engagement arrangements that more effectively reflect all interests and communities including iwi/Māori, provide voice for those whose interests are currently under-represented, and support effective governance and decision-making.

▸   Exploring new approaches to local democracy that have potential to build public trust and confidence, and support all communities to be involved in decision-making and have their interests represented.

Te Tiriti o Waitangi at a local level

How can New Zealand's system of local governance most effectively embody the Te Tiriti o Waitangi partnership? One of the purposes of this review is to identify ways in which local government can actively embody Te Tiriti o Waitangi / the Treaty of Waitangi partnership over the next 30 years.

The partnership is likely to evolve a great deal in that time, as New Zealand's population changes, the country moves beyond settlement of historical grievances, and iwi become increasingly influential over wellbeing and economic development within their rohe.

In a fully functioning Treaty relationship, local government and iwi are natural partners: both are intimately concerned with wellbeing of people and places, and both have intergenerational responsibilities. With new approaches, they can become powerful allies in creating conditions for mutual benefit and shared prosperity that endure into the future.

The Treaty partnership

On one level, Te Tiriti o Waitangi was an agreement to share authority in Aotearoa. It recognised the existing rights of iwi and hapū to manage their own affairs, including full authority over environmental, social, cultural, and economic relationships. And it recognised the Crown's right to govern for the benefit of all New Zealanders.[57]

On other levels, Te Tiriti was about relationships, and about expectations of prosperity. It was an agreement to establish new relationships, or deepen existing ones, in ways that would create conditions for commerce, trade, and sharing of knowledge and ideas, to the benefit of Māori and non-Māori alike.[58]

Through much of New Zealand's history, the Treaty relationship has not lived up to that original promise. Instead, the government progressively asserted authority over Māori communities, undermining their systems and institutions of self-government, transferring land and other resources out of Māori hands, denying Māori economic opportunities, and leaving a legacy of entrenched inequality.[59]

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[57]   Waitangi Tribunal (2011), Ko Aotearoa Tēnei (2011), Te Taumata Tuarua, vol 1, pp xxiv-xxv, 17; Waitangi Tribunal (2018), Te Mana Whatu Ahuru, Part I, p 181; Waitangi Tribunal, He Maunga Rongo (2008), vol 1, pp 166, 173

[58]   Waitangi Tribunal (2018), Te Mana Whatu Ahuru, part 1, pp 180-181, 182-183

[59]   Waitangi Tribunal, Te Mana Whatu Ahuru (2018), Part I, pp 190-191; Waitangi Tribunal, Te Urewera (2017), vol 1, p 140; Belich, Making Peoples: A History of the New Zealanders, pp 277-278; John Williams, Politics of the

Local authorities are a significant part of this colonial story. As the non-Māori population grew and expanded after 1840, local councils and boards followed. Many of their responsibilities overlapped with Māori rights and responsibilities in relation to land, rivers, harbours, fisheries and other parts of the environment.

These early local authorities were dominated by non-Māori, and typically showed little interest in Māori rights or views. Alongside the activities of land court and land purchase agents, rating and local taxes became a means of dispossessing hapū of their lands and economic base.[60] The Waitangi Tribunal has found that the Crown's devolution of powers to local authorities without appropriate safeguards harmed Māori communities and was in breach of rights under Te Tiriti.[61]

For long periods in New Zealand's history Māori communities have sought to maintain self-governing institutions at hapū, iwi and national levels, even as local authorities and government institutions were exerting authority. In the early and mid-20th century, the government recognised Māori Councils with rights of local self-government including by-law making powers.[62] Those councils continue to operate today, alongside iwi authorities and other Māori organisations.

Much has changed in the last 50 years, including establishment of the Waitangi Tribunal, incorporation of Treaty principles into numerous statutes, settlement of most historical claims, and increased political representation.

Māori-owned businesses form a major and rapidly growing part of New Zealand's economy, producing an estimated $17 billion in GDP in 2018. Much of this business activity is generated by self-employed Māori businesspeople or Māori-owned small and medium enterprises.[63]

Māori labour force participation is also increasing at a far faster rate than the rest of the population, in part reflecting a much younger demographic profile.[64]

Many iwi operate major business operations which provide employment in their rohe and also support initiatives in education, training, housing, the environment, marae development, and much more.[65]

Changes to the political system since the 1990s have resulted in significant increases in Māori representation and influence, particularly at a national level.

Nonetheless, at national and local levels, the partnership remains well short of what was originally agreed, both in terms of Māori rights and in terms of expectations of mutual benefit, equity, and shared prosperity.

New Zealand Maori 1891-1909

60   Waitangi Tribunal, Te Mana Whatu Ahuru (2019), Part IV, chapter 19.1; Waitangi Tribunal, The Wairarapa ki Tararua Report, p 888]; Waitangi Tribunal (2008), He Maunga Rongo, p 1405
61   Ibid
62   These events are described in several Waitangi Tribunal reports; in Aroha Harris and others (2015), Tangata Whenua: A History; Vincent O'Malley (1998), Agents of Autonomy; and John A Williams (1968), Politics of the New Zealand Maori. Twentieth century laws providing for some degree of local self government by Māori communities include the Maori Councils Act 1900; Maori Social and Economic Advancement Act 1945; and Maori Community Development Act 1962
63   BERL (2018), Te Ōhanga Māori 2018: The Māori Economy 2018, pp 14-15, 17
64   Ibid, pp 13, 21
65   For example, see Waikato Tainui Annual Report 2019/20

For example, Māori continue to experience considerably higher levels of social and economic deprivation than non-Māori;[66] and to experience far greater levels of racism and discrimination.[67]

Te Taiao (the natural environment), for which hapū throughout New Zealand have kaitiaki responsibilities, is also in a poor state. Many species are endangered, rivers and waterways are polluted, and greenhouse gas emissions have risen steadily in recent decades.[68]

Local government and Māori

At a local government level, the Treaty relationship still falls short of meeting Māori aspirations and expectations. Current statutory and institutional arrangements do not provide for adequate Māori representation or input into decision-making, or for sufficient protection of Māori rights, interests, and wellbeing.[69]

Māori representation

Over the course of New Zealand's history, local authority representation and decision-making has been dominated by non-Māori voices. Despite recent improvements, there is evidence that Māori remain under-represented on a population basis.[70]

Since 2001, local authorities have had the power to establish Māori wards or constituencies, but most attempts to do so have been overturned. A law change in 2021 leaves decisions about wards and constituencies in the hands of local authorities.

As a result, more than 30 local authorities are now planning to introduce Māori wards to increase representation and ensure a Māori voice in local decision-making. The Waitangi Tribunal has recommended that all local authorities have provision for Māori representation.[71]

Tino rangatiratanga and local authority decision-making

Te Tiriti provides for hapū, iwi and Māori to exercise tino rangatiratanga (full authority) in relation to their own affairs.[72] It encompasses rights to manage relationships in accordance with tikanga (Māori law and norms), and therefore in accordance with values such as manaakitanga (care for people), and kaitiakitanga (care for the natural and physical worlds).[73]

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66   Te Puni Kōkiri (2019), An Indigenous Approach to the Living Standards Framework; Te Uepū Safe and Effective Justice Advisory Panel, Turuki! Turuki! Transforming New Zealand's Criminal Justice System

67   Cherryl Smith, Rāwiri Tinirau and others (2021), Whakatika: A Survey of Māori Experiences of Racism; Jagadish Thakur (2021), Aotearoa-New Zealand Public Responses to Covid-19, Massey University; Human Rights Commission/Nielsen Research (2021), Te Kaikiri me te Whakatoihara i Aotearoa i te Urutā Covid-19: Experiences of Racism and Xenophobia in New Zealand during Covid-19

68   Te Puni Kōkiri (2019), An Indigenous Approach to the Living Standards Framework

69   Waitangi Tribunal (2008), He Maunga Rongo, pp 1575, 1591; Waitangi Tribunal (2018), Te Mana Whatu Ahuru, part IV, chapter 19.1; Waitangi Tribunal (2010) The Wairarapa ki Tararua Report, pp 897, 1062

70   Jack Vowles (2021), Local Government's Māori Representation Gap

71   Waitangi Tribunal (2010) The Wairarapa ki Tararua Report, chapter 15.11.2

72   Waitangi Tribunal (2018), Te Mana Whatu Ahuru, part I, pp 155-156, 187-189

73   Waitangi Tribunal (2018), Te Mana Whatu Ahuru, part I, pp 34-39, 156-158; Waitangi Tribunal, Ko Aotearoa Tēnei (2011), Te Taumata Tuarua, pp 22-23

Current statutory provisions applying to local government – including the Local Government Act, Resource Management Act, the Land Transport Management Act and other statutes – do not provide for the exercise of tino rangatiratanga or application of tikanga to local decision-making. Rather, most provide for local authorities to consult and engage with Māori while balancing tino rangatiratanga alongside other interests.[74]

Co-governance arrangements have emerged in recent decades, but usually in the context of Tiriti settlements, and then in relation to specific geographical features such as the Whanganui and Waikato Rivers.

At times, local authorities and iwi have adopted other mechanisms for iwi input into decision-making, including relationship agreements, and iwi representation on committees. Again, these have often applied to resource management, though there are some examples of broader council-iwi partnerships to create regional plans and pursue wellbeing initiatives.

In our early engagement with iwi, we heard that local government currently does things that iwi and Māori could do. Current arrangements limited Māori autonomy, which also limited the ability of iwi and Māori to take steps that would secure wellbeing for future generations.

Planned reforms to resource management and three waters create much stronger statutory obligations to give effect to Te Tiriti, along with provisions for joint decision-making and statutory protection for Te Mana o te Wai (the health and mauri of fresh water) and Te Oranga o te Taiao (the health of the natural environment). If implemented as currently planned, these reforms will apply specifically to water and resource management, rather than the whole local government system.

Consultation demands on iwi and Māori

In practice, consultation and engagement obligations can impose significant burdens on iwi without necessarily leading to better outcomes for Māori, or effectively responding to Māori concerns. In our early engagement we heard that the government and local government sectors needed to be more 'joined up' in their relationships with iwi and Māori.

The Waitangi Tribunal has recommended that the government should fund capacity building among iwi and Māori to ensure they are able to participate in council decision-making. It has also recommended "concentration of functions in fewer local authorities, so the burden of Māori having to form effective relationships with many different bodies is lessened".[75]

While the planned reforms to resource management and three waters appear to strengthen Treaty rights, they will also increase the demand on iwi and Māori communities.

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74   Waitangi Tribunal (2008), He Maunga Rongo, pp 1575, 1591; Waitangi Tribunal (2010) The Wairarapa ki Tararua Report, pp 897, 1062
75   Waitangi Tribunal (2010) The Wairarapa ki Tararua Report, pp 1062-1063

"Current generations are only able to plant seeds for future generations."
Quote from iwi engagement

Relationships and cultural competence

Iwi representatives and Māori have told us that some local authorities are unable to form effective partnerships, because councillors and staff lack the necessary cultural competence, or lack understanding of Te Tiriti and New Zealand's history.

We also heard that local governance structures can create barriers to long-term relationships. The nature of political cycles can mean that relationships form but are not sustained across time, and that policies or agreements are not always followed through to implementation.

The place of local government in Te Tiriti partnerships

Under current laws, local government is not regarded as a partner in the Treaty relationship.[76] Yet local authorities are creatures of statute, and, in many respects, they act on behalf of central government. During our early engagement, some iwi representatives told us that they see central and local government as "one and the same", especially when they are carrying out delegated functions.

The Waitangi Tribunal has found that any statute that devolves powers or functions to local authorities must impose clear Treaty obligations and ensure that those obligations are met.[77]

What are the implications for local governance?

Any future local governance arrangements will need to give authentic expression to the Te Tiriti relationship at a local level, and also support iwi and Māori aspirations for the wellbeing and prosperity of their people, and the health of the natural environment. Among other things, this could mean:

- Considering how the statutory framework for local governance might recognise and give effect to tino rangatiratanga, and incorporate Te Ao Māori values and principles.[78]
- Clarifying the place of local government in the Te Tiriti partnership.
- Considering structures and mechanisms for partnership and shared decision-making over matters that are significant to Treaty rights and iwi and Māori wellbeing.
- Creating opportunities for local authorities and iwi / Maori to collaborate in order to advance wellbeing in their communities.
- Providing for community-led and 'by Māori for Māori' approaches to address social and economic development.

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76   Local Government Act 1977, section 4; Waitangi Tribunal (2010) The Wairarapa ki Tararua Report, p 891
77   Waitangi Tribunal (2011) Ko Aotearoa Tēnei, Te Taumata Tuatahi, p 110
78   Waitangi Tribunal (2018), Te Mana Whatu Ahuru, part IV, chapters 21.5.4, 21.7

- ▸ Ensuring that iwi and Māori have sufficient representation in any local governance structures to protect their rights and advance their aspirations.
- ▸ Taking steps to increase the capacity of iwi and Māori to share in local authority decision-making.
- ▸ Recognising that one size does not fit all – iwi, hapū, Māori organisations and rōpū (groups) vary in size, capacity, territories, and interests and aspirations.
- ▸ Taking account of iwi and Māori rights and interests when determining local authority structures and boundaries.
- ▸ Training and upskilling local authority elected members and staff to ensure that local authorities provide a culturally safe and respectful environment for Māori.[79]

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79   Waitangi Tribunal (2010), The Wairarapa ki Tararua Report, pp 1062-1063

The Future for Local Government Review provides an opportunity to rethink local governance for the future.

It is an opportunity to look beyond fixed structures and roles, to design a system of local governance that is built on relationships; is agile, flexible and sustainable enough to meet future challenges, even those that are large and unpredictable; has the right mix of scale and community voice; harnesses the collective strength of government, iwi, business, communities and others; maximises common benefit and wellbeing; and creates the conditions in which communities can thrive into future generations.

Rethinking local governance

How might a future system of local governance more effectively contribute to community wellbeing? Many organisations contribute to local governance and wellbeing.

Local authorities create the spaces in which people live their lives. They shape the conditions in which people live, work, relax, play, and do business, and their services determine whether local environments are healthy, safe, easy to navigate, and attractive; and whether they create conditions in which people and communities can thrive.

Local authorities also represent their communities and reflect local voices. Because of their place-based focus, they can 'see across' issues that affect their communities and locations.

Businesses and industry provide employment and incomes, and access to goods and services including food, clothing, homes, and utilities. Their activities are of fundamental importance to wellbeing in their communities, and of particular importance to the wellbeing of their employees.

Business activity also plays a central role in creating the environment and atmosphere in town and city centres. Businesses build new communities and homes.

Iwi, hapū and Māori play vital and growing roles in advancing wellbeing within their rohe. Some iwi are major employers, and play critical roles in supporting education and training, housing, environmental restoration, and other activities that support wellbeing.

Some are leaders or partners in the governance and management of rivers, waterways, and other environmental features. Iwi, hapū and Māori bring knowledge, perspectives and values that support care for people and places, and healthy balance in all relationships.

Community organisations play many roles in their communities – connecting people for shared activities such as sport and recreation or artistic expression, providing vital support services during times of need, uniting communities to address common causes, and creating opportunities to contribute and experience a sense of meaning and purpose.

Family, whānau, friends and relatives, and neighbours all play critical roles in personal, social and cultural wellbeing.

Central government activities are of critical importance to local communities – providing schooling, health care, transport, income support, policing, and much more.

Communities thrive when all of these organisations play their roles to maximum effect. Current and future challenges – climate change, housing, mental health, or responses to technological change – cannot be addressed by individual agencies, but only through new and collaborative approaches.

Any future system of local governance will need to move beyond existing structures and siloes, and consider governance as a shared endeavour in which many players contribute and deserve a voice.

This will require new, more flexible ways of organising, and new ways of relating, in order to build trust, and act in common cause.

New approaches to collaboration

Our early soundings, and other research, suggests there is considerable interest in the local government sector for pursuing new and collaborative approaches in order to maximise wellbeing.

We have heard that local leaders want to play greater roles in dealing with pressing issues such as climate change and social deprivation in their communities, by building more effective partnerships in which central and local government, iwi, businesses, community groups and residents all collaborate to identify priorities and implement solutions.

International research suggests that collaborative approaches can be more effective than conventional responses to complex and rapidly evolving policy issues. 'Mission-led' approaches, for example, can allow communities (with sufficient funding and support) to find innovative and effective solutions that central government agencies would not have considered.[80]

Building on these approaches, the Organisation for Economic Cooperation and Development has championed 'anticipatory innovation governance', which encourages continuous local adaptation and experimentation as a means of addressing complex policy problems as they are emerging, and, in particular, as a means of addressing issues that are too complex or evolve too quickly for orthodox policy responses.[81]

Research also suggests that collaborative approaches are most effective when they are supported by 'anchor' or 'backbone' partners who bring others together and guide action. Other key enablers include influential leaders and champions, adequate and sustainable funding sources, and consensus on urgency for change and direction of travel.[82]

80   Mariana Mazzucatto and Georgia Gould (2021), Mission-Driven Localities (Project Syndicate)
81   OECD (2021), Anticipatory Innovation Governance: What it is, how it works, and why we need it more than ever before
82   Government Inquiry into Mental Health and Addiction (2018), He Ara Oranga: Report of the Government Inquiry into Mental Health and Addiction, p 120

Within the right framework and sufficient support, local authorities can be well placed to play cornerstone or anchor partner roles, because of their broad view across places and communities. Similarly, iwi and Māori, or community organisations, might choose to play such roles.

Collaborative approaches are already emerging in New Zealand, even in a local governance environment that is not conducive to supporting it. Local authorities, iwi, community organisations, central government and businesses are finding ways to work together, share decision-making, and try new approaches to resolve challenging issues.

Some examples include:

- Iwi and community leadership of integrated planning approaches which bring whole communities together to determine future goals and priorities – for example, Te Tauihu Intergenerational Strategy and the Waikato Wellbeing Project
- Pacific Skills Shift, a partnership between MBIE, Auckland Council (UpTempo), Auckland Unlimited, and Pacific non-government organisation The Cause Collective supporting Pacific people to gain job skills and micro credentials to help them move into higher quality and more sustainable employment
- Social procurement that leverages local authorities' purchasing power for positive social and economic outcomes, for example, through the supplier diversity intermediary Amotai which supports fair inclusion of Māori and Pacific-owned businesses in public sector supply chains
- Integrated approaches that take advantage of place-based redevelopment projects to also advance economic development, civic innovation and social connectedness
- Iwi led wellbeing initiatives that bring together local authorities, business, and communities to tackle pressing social issues such as housing deprivation and crime – for example, the Ruapehu Whānau Wellbeing Initiative
- Collaborative business/council/government projects to create jobs in rural areas
- Co-design and participatory democracy approaches to development of council strategies, policies and programmes.

These collaborative approaches have typically relied on highly motivated local leadership, and on willing support partners – hence the involvement of iwi in many projects. While such 'green shoots' initiatives have emerged in New Zealand, not all are sustainable in the current operating environment. Leadership, shared vision, culture, relationships, and sustainable funding are all likely to be important ingredients in a more adaptive and collaborative system of local governance.[83]

83   Government Inquiry into Mental Health and Addiction (2018), He Ara Oranga: Report of the Government Inquiry into Mental Health and Addiction, p 120

The future for local governance

This review is an opportunity to step outside existing structures and systems, and consider what wellbeing might look like for New Zealand communities in the future, and how that best might be delivered.

It is an opportunity to look beyond local government and consider local governance, encompassing all organisations with rights and responsibilities to guide their communities.

It is an opportunity for local and central government to build mutual understanding and trust, and find new ways to align objectives and collaborate on the basis of shared commitment to public service.

It is an opportunity to consider how New Zealand's business sector can innovate together with local government to contribute to local wellbeing.

It is an opportunity for New Zealand's system of local governance to embody Treaty partnership and draw on the strengths of all cultures to find uniquely New Zealand ways of working together and making decisions that advance the wellbeing of present and future generations.

It is an opportunity for communities to lead in creating solutions that meet their needs.

Our early engagement suggests a strong interest in new approaches, along with a commonly held view that change should build on existing and inherent strengths, and enhance connections between communities and governance.

There is common agreement that local authorities have a vital and continuing role to play in creating the conditions in which communities can thrive. But that role is likely to change. Planned reforms have raised questions about local authority functions and structures, and have therefore created an opportunity to innovate.

We have an open mind about future local authority functions, structures, and boundaries. We do, however, see local governance as an ecosystem with many contributors and moving parts, which is likely to be most effective when there is collaboration for common purpose.

Any redesigned system is likely to have certain key features:
‣   It will be built on open and respectful relationships.
‣   It will be aligned – the organisations involved in creating local wellbeing will have shared missions and will operate in an environment that supports collaboration.
‣   It will be effective and sustainable – the organisations involved will have sufficient funding, capability, and support to carry out their missions.
‣   Functions and roles will be allocated at the right scale, reflecting inherent strengths and capabilities, taking account of the subsidiarity principle, and acknowledging that one size does not fit all.
‣   It will be flexible and agile, capable of scaling up or down and transferring functions as new challenges emerge.
‣   It will build on Te Ao Māori and mātauranga Māori, and embody genuine Treaty partnership based on shared wellbeing for future generations.

- It will be inclusive – providing for diverse voices to be heard, and all with interests in local wellbeing to participate in decision-making.
- It will be fair – taking account of all needs and interests, delivering benefits for whole communities, and protecting the interests of future generations.
- It will be transparent and accountable – decision-makers will be answerable to their communities.

Over the next year we will be seeking the views of communities, iwi, business, local authorities, government agencies and others on how such a system might be designed.

Priority questions

What are the broad themes that will guide our engagement and work on the future for local governance and democracy? Over the next year we will be engaging with New Zealand communities and organisations over the future of local governance and democracy.

This will include engagement with the local government sector, business and industry, iwi and Māori, youth, communities, and central government.

The following broad themes reflect our terms of reference, and will provide a foundation for our engagement and future work.

In broad terms – and consistent with our terms of reference – we expect to consider what the future system of local governance might look like, and then to consider related questions about functions, representation arrangements, funding, and so on.

We intend these priority questions to open conversations about the future system of local governance, and how it might most effectively create the conditions in which New Zealand communities can thrive even while addressing the significant changes and challenges that are likely to arise in future.

We are open to hearing about other possible lines of inquiry or emphasis as we continue our engagement.

1 How should the system of local governance be reshaped so it can adapt to future challenges and enable communities to thrive?

The future wellbeing of New Zealand communities will depend on the actions of many people and organisations – including individuals and their whānau, businesses, iwi and Māori organisations, community organisations, local and central government, and many others.

In line with numerous other recent reviews, we see greater coordination, alignment and collaboration between these various players as essential in order to advance common goals such as shared prosperity, environmental health, and resilience to future shocks and challenges.

We also see considerable potential for that coordination and alignment to occur through community-led and place-based approaches. Current approaches are all too often disjointed and misaligned, and fail to take full advantage of strengths of the various players involved, including local authorities, iwi and Māori organisations, businesses,

and community groups. New approaches will be necessary to meet the complex challenges that are likely to arise in future.

During the next phase of our review, we will be considering what might be required to create a system of local governance that is fit for the future, and can adapt to future challenges and create conditions in which communities and businesses can thrive.

We expect this to have implications for every aspect of the local governance system. We will be asking, for example, what might be needed to create a system in which all players can effectively work together towards common goals, and how the system might genuinely embody the Treaty partnership. We will also be asking what the answers to these questions might mean for local governance structures; functions and roles; funding and financing mechanisms; lines of accountability; mechanisms for community representation and involvement in decision-making; and planning and decision-making processes.

Just as importantly, we expect to explore questions about culture and leadership, and how relationships are fostered. For example, what conditions might be needed to build trust and mutual understanding between the many organisations that contribute to local governance and wellbeing? And what conditions might be needed to create more effective working relationships between government and business, local and central government, local government and iwi/Māori, and local government and communities? In particular, what will be needed to rebuild trust between local and central government, and build more effective working relationships that contribute to common objectives and reflect a shared spirit of public service?

We are also interested in exploring other themes – for example, what might be needed to support agility, flexibility and responsiveness across the local governance system, so new challenges can be addressed in a coordinated and effective manner, and at appropriate scale; what conditions might best support innovation and purposeful experimentation so solutions can be tailored for local circumstances and then learnings shared across the whole system; and what roles might businesses, community organisations, local authorities and others play in supporting innovation.

In broader terms: what systemic changes are needed so local governance can best create conditions that maximise social, economic, cultural and environmental wellbeing?

2 What are the future functions, roles and essential features of New Zealand's system of local government?

Within a future system of local governance, local authorities will continue to play an important part in creating conditions for local wellbeing. But that does not mean existing local authority structures, functions, roles, and boundaries will necessarily be the best fit for the future.

In broad terms, as discussed above, this review will need to consider how local government might best complement and align with other organisations that contribute to community wellbeing. Within the local government system, we will also have to consider the best structures, and best allocation of functions and roles so that local authorities can maximise their contributions to community wellbeing and adapt to meet future challenges.

This will require determination of which current functions should be retained and which should not; what new functions and roles local government should take on (for example, in housing, health or other social service provision); whether any functions or roles would be better carried out by central government, iwi, or communities; or others; and how these matters might evolve over time.

It will also require consideration of the scale at which any functions might be carried out, the relationships between different functions, what scope there is for shared or collaborative approaches and for flexible approaches that can adapt as circumstances change, and how allowance might be made for the diversity of New Zealand's communities and local authority structures.

Existing reviews and reform programmes have variously prioritised economies of scale and scope, sub-national and regional coordination, national equity and standards, capacity and capability, rights under Te Tiriti o Waitangi, and community-led design and delivery as factors in determining the appropriate scale at which functions should sit.

Determining appropriate structures, and allocation of functions and roles, will require careful balancing of these and potentially other criteria, along with acknowledgement that New Zealand's communities are very diverse, and that one size will not fit all. It is important that existing reform programmes leave room for these matters to be appropriately considered across the local governance system as a whole.

In practice, most issues are likely to require a mix of national, sub-national and local or community action, and the challenge will therefore be to allocate responsibilities in ways that take advantage of inherent strengths, while also ensuring alignment and collaboration across the whole system.

One important element of a future system of local government will be the statutory framework, including the purpose and responsibilities of local government, accountability arrangements, and clarity about the relationship between central and local government.

Also important will be the roles of national organisations that support local governance (such as the Local Government Commission, the Local Government Financing Agency, and the Department of Internal Affairs); as well as the national or shared support services available to local government, for example, through information systems, financing mechanisms, training and advocacy, and innovation and learning.

3 How might a system of local governance embody authentic partnership under Te Tiriti o Waitangi, creating conditions for shared prosperity and wellbeing?

Te Tiriti o Waitangi can be viewed as an agreement to share authority in New Zealand, as a guarantee of Māori rights, and as an agreement to found a relationship based on expectations of shared benefit and prosperity. To embody partnership under Te Tiriti, a future system of local governance would need to respond to all three levels.

How the partnership might evolve necessarily depends on the aspirations of hapū, iwi and Māori, and on their future relationships with central government. It can also be expected to evolve over time, as the Māori population and economy grows.

Within the framework of a fully functioning Treaty relationship, we see local government and iwi as having potential to operate as natural partners. Both are intimately concerned with places and communities, both have potential to exercise significant influence on local wellbeing, and both – with new approaches – might therefore become powerful allies in creating conditions for mutual benefit and shared prosperity.

During the next year we will be engaging with iwi and Māori organisations, and seeking to understand how the partnership might evolve at a local level. We expect to hear about and consider many elements of the relationship including how tino rangatiratanga might be exercised at a local level over matters affecting the wellbeing of Māori communities and rohe (territories); how the responsibilities of iwi / Māori and local authorities might co-exist; what future partnership or co-governance arrangements might develop; how relationships between iwi / Māori and local authorities might most effectively be managed; how capacity might be built and resourced in iwi and Māori organisations to support effective engagement with local authorities; and how statutory processes for engagement and iwi / Māori involvement in decision-making might be aligned and be made more coherent so they do not create unnecessary burdens on iwi and Māori, or on local government.

We would also expect to hear about and consider matters such as how Māori communities and interests can most effectively be represented on local authorities and in local authority decision-making; how Māori rights, interests and values (such as manaakitanga and kaitiakitanga) can most effectively be protected in local authority decision-making; how Māori members might be effectively supported to fulfil their roles as elected representatives; and how all local authorities might ensure that they build sufficient cultural competence to provide culturally safe and respectful working environments for Māori members and staff.

Most broadly, we would expect to consider what scope there is for iwi / Māori and local authorities to work together in order to meet shared objectives for prosperity, environmental health, equity and equality, and social and cultural wellbeing.

4   What needs to change so local government and its leaders can best reflect and respond to the communities they serve?

Within a future system of local governance, we expect local authorities to continue to play an important role in leading and reflecting the views of their communities.

At this stage of our deliberation we have an open mind about future local authority structures, and about representation and governance arrangements. Scale, functions and roles might all be important considerations in determining those arrangements.

Whatever arrangements we ultimately recommend for local authorities, we expect leadership to play an important role. Leadership and coordination will be important in the long term, and during the transitional period in which resource management and three waters reforms are being implemented.

With respect to local democracy and governance, we expect to pursue four broad themes:

▶   how the system of local democracy can provide for more effective and meaningful community involvement in decision-making, given current low levels of trust, confidence and involvement;

▶   how the system can ensure that all communities and interests (including Māori, Pacific and Asian peoples, younger people, and renters) are more fairly and equitably represented in local authority decision-making and leadership;

▶   how the system can provide for effective leadership and governance, including stewardship over assets and finances; and

▶   how confidence and trust in the system can be rebuilt.

These broad themes are not particular to local governance in New Zealand, but rather are common to governance arrangements across the country and internationally.

Addressing these broad themes will require consideration of the implications of demographic change and diversity, and economic trends such as changing patterns of property ownership. It will also require consideration of the potential impacts of new technology on citizen participation and engagement, and potentially on the operation of future elections – bearing in mind that the available technologies are likely to change a great deal over 30 years.

We will consider whether there are potential benefits to be gained from new models of community engagement and participation, including active citizenship approaches, and participatory or deliberative models; And, if so, when and how those options might be effective, and what conditions would be required to make them effective.

We will give broad consideration to local authority electoral arrangements, including the recommendations made by Parliament's Justice Committee in its 2016 and 2019 reports concerning the local electoral system and the operation of local elections.

5 What should change in local governance funding and financing to ensure viability and sustainability, fairness and equity, and maximum wellbeing?

Local authorities vary considerably in financial strength. Many face financial pressures – some arising from growth, some from having small populations with high per capita asset costs, and some from central government decisions that impose additional costs without commensurate funding.

Any future system of local governance is likely to face greater tests – from climate change adaptation, future infrastructure and information technology requirements, and shocks such as disasters, pandemics, and global recessions.

Future local authorities will need to be designed and sized in a manner that ensures financial viability and sustainability, including sufficient capacity or support to absorb shocks and respond to local challenges, while also continuing to contribute to community-led governance and local well-being. They will also need to be adaptive, resilient, and wise stewards of community assets.

These factors will all contribute to our consideration of the future shape of the local governance system, including the appropriate functions and roles of local authorities at different scales.

Having addressed functions and roles, we will then be concerned with ensuring that local authorities have the right mix of funding and financing tools available to meet their responsibilities in the long term.

This will include principled consideration of the mechanisms available, including rating, user charges, taxes and other sources. It will also include consideration of funding and financing sources. This might include consideration of when local authorities' funding obligations should be shared across local government, or with other partners; and when central government co-funding of local government activity might be justified – as recommended by the Productivity and Climate Change Commissions for large challenges or shocks, and for local services with national benefits.

More broadly, the next phase of our review is likely to include high level consideration of the principled basis on which funding decisions are made, including appropriate balance of the beneficiary and exacerbator pays principles alongside others such as efficiency, transparency, equity, and impacts on local government autonomy.

We are interested in the place of equity in this mix, including inter-generational equity, and horizontal equity within and between communities including matters such as ability to pay. We are also interested in how benefits are determined and allocated; and in the incentives created by funding decisions and the resulting impacts on prosperity and wellbeing.

Future local authorities will continue to require appropriate mechanisms for financial planning and accountability. We see scope to consider whether transparency and accountability can be assured in more flexible and meaningful ways than at present.

Finally, we reiterate that we see local authorities as one part of a future system of local governance, alongside other partners such as iwi and Māori organisations, businesses, community organisations, and many others. There are broad questions to be answered about how central and local government funding might most effectively be used within that system to maximise overall prosperity and wellbeing. Other reviews have advocated for local communities to be resourced and supported to design and develop their own initiatives, especially for disadvantaged communities where current programmes and services are not achieving significant impact.

Our decision-making principles

The following principles will guide our responses to these priority questions and engagement.

How we will approach our work

We will seek to:

▶ Be bold, looking beyond traditional responses and instead address the systemic or root causes of issues with local governance.

▶ Build open, honest and respectful relationships.

▶ Base recommendations on high-quality analysis and insights, informed by evidence including the lived experiences of the people we engage with.

▶ Use strengths-based thinking, which acknowledges and builds on inherent strengths and capabilities, and considers appropriate scale and scope relative to these strengths.

▶ Be inclusive, providing for diverse voices to be heard.

Principles to shape the system change

We will pursue ideas that:

▶ Maximise positive impact at a system level.

▶ Draw on the strengths of the existing system of local government and democracy.

▶ Strengthen conditions to enable iwi/Māori and other partners to take action with local government.

▶ Build greater resilience, supporting local government to adapt to future challenges so they can create the conditions in which their communities can thrive.

▶ Are inclusive and equitable, delivering benefits for whole communities, and protecting the interests of future generations.

▶ Draw on Te Ao Māori and mātauranga Māori.

▶ Provide a clear, sustainable and affordable pathway.

Early opportunities

What early opportunities are there to build on existing strengths and address current challenges in a context of reform? During the coming year we will be engaging widely to seek input on New Zealand's future system of local governance.

We expect that to lead to broad recommendations for reform, applying to structures, functions, and many other elements of the system. It is important that this work takes place in a broad and coordinated manner that takes account of the whole local governance system.

Nonetheless, we see opportunities for immediate steps that can benefit the local governance system and local communities while paving the way for future reform. These include opportunities to build capacity and trust among partners in local governance, to strengthen innovation across the local governance system, and to leverage existing local government strengths.

We also see it as important that existing reform programmes take place in a coordinated and aligned manner that take account of potential implications for future local governance reforms.

Resource management reforms

Planned resource management reforms provide for the establishment of new regional governance and decision-making structures for spatial planning and natural and built environment planning. We acknowledge the need for central government to press ahead with resource management reforms, and see potential for significant benefits from spatial planning approaches that bring central government, local government, and iwi together and support collaborative action. However, we caution that any new structures should be transitional, since we believe that local government reform will see new structures recommended.

The transitional arrangements must be designed with appropriate political accountability and funding mechanisms in place for plan-making, approval, legal defence, and implementation and enforcement, a strong role for iwi and hapū in decision-making, along with sufficient space for diverse local community voices and views in decision-making processes.

It will take a number of years and considerable staff and planning resources to prepare a new regional plan that incorporates all existing regional and district plans. This will require technical staff expertise and considerable effort from the political representatives and iwi involved. Capacity is not currently present at either a regional or local level, nor with iwi. Collaboration and partnership will be required to deliver the

plans, and the structures adopted should build on the learnings from the operation of regional land transport committees and the emerging urban growth partnership models.

Until this review is completed and decisions made about future local governance structures, we consider that regional and unitary councils will be best placed to host their regions' Regional Spatial Committees (that includes representatives of territorial authorities, Iwi and central government) and a Natural and Built Environment Committees. To fund the region's share of these processes, there will need to be agreement among the respective parties.

Health reforms

Central government cannot solve some of our key public health issues alone – for example, obesity, mental illness, pandemics, and misuse of substances. Greater coordination and collaboration will be required between central and local government, health providers and consumers, iwi and others.

The planned health sector reforms have a significant local component which provides an early opportunity for greater local government involvement, in order to provide for strong community voice and participation.

The reforms aim to achieve national consistency in health care and public health, while also ensuring that primary and community services are tailored to local needs. Locality networks (including health providers and consumers) and iwi-Māori partnership boards will have input into design and decision-making about local services.

Local authorities currently play significant roles in public health, through activities that support healthy lifestyles (such as recreation and sports facilities, parks and reserves, active transport networks, and land use and place-making functions); mitigate harm (for example, through regulation of alcohol, gambling, food safety, and hazardous substances); support social cohesion (for example, through provision of community facilities and programmes). Some local authorities already partner with central government on programmes to promote active communities.

Local authorities are therefore well placed to support community participation in design of and decision-making about locality networks, and more broadly to work with central government in shaping a public health system that leverages existing local authority contributions and takes account of community aspirations and needs. One option is to establish a joint central-local government steering committee which could have input into the design of public health services and locality networks.

Supporting digital capability and capacity

Independent local authority investment decisions have created an environment of dispersed information and communications technology (ICT) systems, with little or no regard to interoperability or sharing of applications or platforms. This is true of both the back office or enterprise systems as well as any customer-facing applications. We are concerned that the proliferation of systems and the lack of

interoperability is impacting effectiveness and efficiency, and might also be a barrier to future integration opportunities, both data and otherwise. The different timetables of local authority ICT investment mean that combined investment does not occur.

In coming years, local authority ICT systems are likely to require significant investment to support the transition to new three waters and resource management systems, ensure better data security, and meet growing community expectations. This is likely to include a need for significant digitisation of council information. In addition, effective responses to climate change will require councils to capture and share data at levels beyond current capacities. Current systems of data collection, storage, security and retrieval vary widely and in many cases are not fit to manage for future demands. This exposes local authorities, and the whole country, to significant risks and unnecessary costs.

Central government has recognised the benefits of joined-up investment in systems and capabilities for information-sharing, digital identity and security, and to establish stronger evidence bases for decision-making and prioritisation. Opportunities exist to extend this across the wider system to local government. Adopting shared systems approaches at national or sub-national levels could take advantage of scale, increase efficiency, align and strengthen systems, address digital inequities across the country, and meet future needs. Apart from the potential cost benefits, we see gains in effectiveness and in presenting a unified view both to, and for, the citizen.

We note that any system change must be matched by appropriate governance mechanisms and incentives for individual agencies to work collectively.

Future investment in enterprise systems should be made with regard to an accepted standard ICT architecture across local government so that over time there is alignment of systems - ideally a common architecture will enable maximum flexibility across local and central government and enable decisions about function and form to be independent of any ICT system constraints.

Central government is currently facing this issue as part of the health and vocational education reforms - there is an opportunity to learn from and potentially leverage off, any future investment decisions that seek to create a unified ICT environment for these sectors. Few existing local authorities have the funding and leverage to justify significant investment in new systems. Therefore, this should be explored in a partnership funding model between central and local government to find the 'investment sweet-spot' where both effectiveness and efficiency can be balanced. Similarly, there will be lessons to learn from Auckland Council's ICT rationalisation process on what is needed to achieve large scale, complex but vital system change.

In the short term, there should at the very least be an initial stocktake of existing systems and preparation of a roadmap for transition together with an appropriate business case. In addition, there is an opportunity for local government to work with the Government Chief Digital Officer (Department of Internal Affairs) to identify common opportunities and possible co-investment.

Supporting new and collaborative approaches to local wellbeing

Some local authorities are already experimenting with collaborative, community-led approaches to local wellbeing.

Working alongside iwi, community organisations, businesses, and others, they have (among other things) sought to address issues such as housing deprivation, sustainable employment, and supplier diversity, or to develop shared visions for future development. Collaborative approaches of this nature can uncover new, locally-led solutions to complex policy problems, which can then be shared across the local governance system.

Such approaches do not need to wait for major systemic, structural or legislative change. Rather, they can develop now. Effective and innovative leadership is a key ingredient, alongside clarity of vision, sustainable resourcing, and sufficient willingness and incentive to experiment.

We see potential to stimulate locally-led collaboration and innovation of this nature by leveraging a portion of the planned three waters transitional funding. Current criteria would need to be broadened for this purpose.

In addition to the potential for direct benefits and learnings from such projects, there is potential to build community and local governance capability to adapt as new challenges emerge; to build stronger relationships between local government, business, iwi and other partners to support innovation and wellbeing goals; and to develop a culture that enables and encourages innovation – all of which are likely to be important ingredients in an agile system of local governance that can meet the needs of future generations.

Iwi capability and capacity building

Iwi and hapū participation in local government processes, structures and functions is essential, yet current approaches place great strain on their ability to participate effectively at the level required.

There are numerous statutory provisions requiring local government engagement with tangata whenua (including iwi authorities) and Māori. These provisions differ from statute to statute, and operate in isolation from one another, creating engagement processes that are demanding and disjointed, even when for iwi the interconnections are clear.

Planned reforms (including resource management, three waters, and Māori wards) will further increase the roles of iwi and hapū in local authority representation, governance, decision-making and participation, adding to existing demands.

We see a need to address the capacity of iwi and Māori organisations to take part in these engagement processes. This will require dialogue between central government, local government, iwi and Māori, with a view to developing a national framework for capacity building. This framework could map out what would be required for iwi to exercise rangatiratanga in their relationships with local government, and options to enable and appropriately resource this, including capacity and capability building.

Issues to consider would include where a larger role for iwi might be desirable and how this can be supported, and where the right interface might be with central and local government.

Māori wards

At the 2022 local elections there will be a significant influx of councillors representing Māori wards. To ensure they are supported and can maximise their contributions, several steps would be helpful, both within councils and across the local government system.

At a council level, further training is needed to lift the cultural competence and knowledge of elected members and staff well beyond current levels, and to support a culturally safe, respectful and effective working environment for new elected members. A national support network could help to ensure that new councillors can share experiences and are effectively supported by their peers. National support may be needed so local authorities can build the competence and knowledge they need to work effectively with hapū, iwi and Māori organisations.

At present there is no single organisation with responsibility for providing that national support, or more broadly for overseeing local authorities' relationships with iwi and Māori or building bridges between local government and Māori.

While relationships will necessarily differ from place to place, we see potential for benefit from national support. Possible options include Te Maruata (the Māori Committee of Local Government NZ), Te Arawhiti – The Office for Crown-Māori Relations, or another provider.

Local government impact statements

A common view among local authorities is that central government regularly imposes costs or obligations on communities without adequate consideration of the impacts. More broadly, we have heard that the local-central relationships are characterised by mutual misunderstanding.

As one element of a more collaborative and trusting working relationship, central and local government could build on existing regulatory impact statements, by jointly developing local government impact statements that assess the impacts of government decisions on local authorities.

Joint development of these statements could:

▸ increase transparency about the impacts of new regulatory requirements, and about cumulative impacts;

▸ build trust and mutual understanding between central and local decision-makers;

▸ create potential for dialogue about how local government might contribute to solutions, and about innovative approaches that could achieve desired outcomes without imposing unfunded cost burdens on local authorities.

As part of our broader work programme, we will be considering how trust can be built between local and central government, and how the two sectors can work together more effectively and with greater alignment of purpose.

Our approach to engagement

We'll be actively seeking a diverse range of views as we develop our recommendations for the future of local governance and democracy. In the coming months we will be engaging widely about the future of local governance and democracy. We want to understand the issues, and hear a diverse range of perspectives that stretch our thinking about what is possible.

We want to hear about people's hopes for the future of their communities and how their local places can be enhanced to improve their wellbeing, as well as their ideas about how decisions should be made, how they can participate more easily in local democracy, and how local services are delivered.

We will be engaging with iwi and Māori, community leaders and groups, business people, young people and a wide range of other diverse communities in our cities, towns and rural areas, as well as those who are already part of the local government system.

Local governance and democracy affects everyone, so it's important to us that everyone can have a say.

Alongside our research and policy work, the voices and experiences we hear will inform us as we develop options and recommendations for our draft report to the Minister of Local Government in 2022.

Our commitment

We want to hear from a diverse range of voices. We will be open to what we hear. We're ready to be challenged and to engage in hard conversations.

We'll use innovative approaches to ensure that our engagement processes are accessible, actively seek out new or less frequently heard voices, and do not impose undue pressure on diverse communities, including iwi and Māori.

Our engagement programme

Our engagement programme will include online and in-person workshops and wānanga, webinars, online surveys and crowd sourcing opportunities, stakeholder conversations, and local government meetings, so that we encourage widespread participation.

▸ September 2021 to April 2022 will be a time for broad exploratory kōrero about our priority questions through wānanga, workshops and online, with a range of groups and communities.

▸ In early 2022 we'll release an online tool to help people share ideas and views.

▸ In March/April 2022 we will also connect with local authorities to share our thoughts and get feedback on key ideas and opportunities.

▸ From April to August 2022 we will be focused on testing and refining key ideas and approaches for the future for local governance and democracy.

Our programme will evolve over the year. We'll need to be flexible and try to use digital channels, work with existing networks and draw on the innovative engagement approaches of others, as we manage the challenges of changing Covid-19 Alert Levels.

After this initial phase of engagement we will be preparing a draft report for the Minister of Local Government, containing options and recommendations. The draft report is currently due by 30 September 2022. We will then undertake formal consultation and receive submissions before completing our final report to the Minister in April 2023.

Keep connected

Join the conversation on social media.
Instagram – @futureforlocalgovernment
Twitter – @futureforlg
Facebook – facebook.com/TeArotake
LinkedIn – linkedin.com/company/te-arotake

Sign up for our newsletter here.

Share your thinking with us,
by making a submission online
futureforlocalgovernment.govt.nz

Email us at futureforlg@dia.govt.nz

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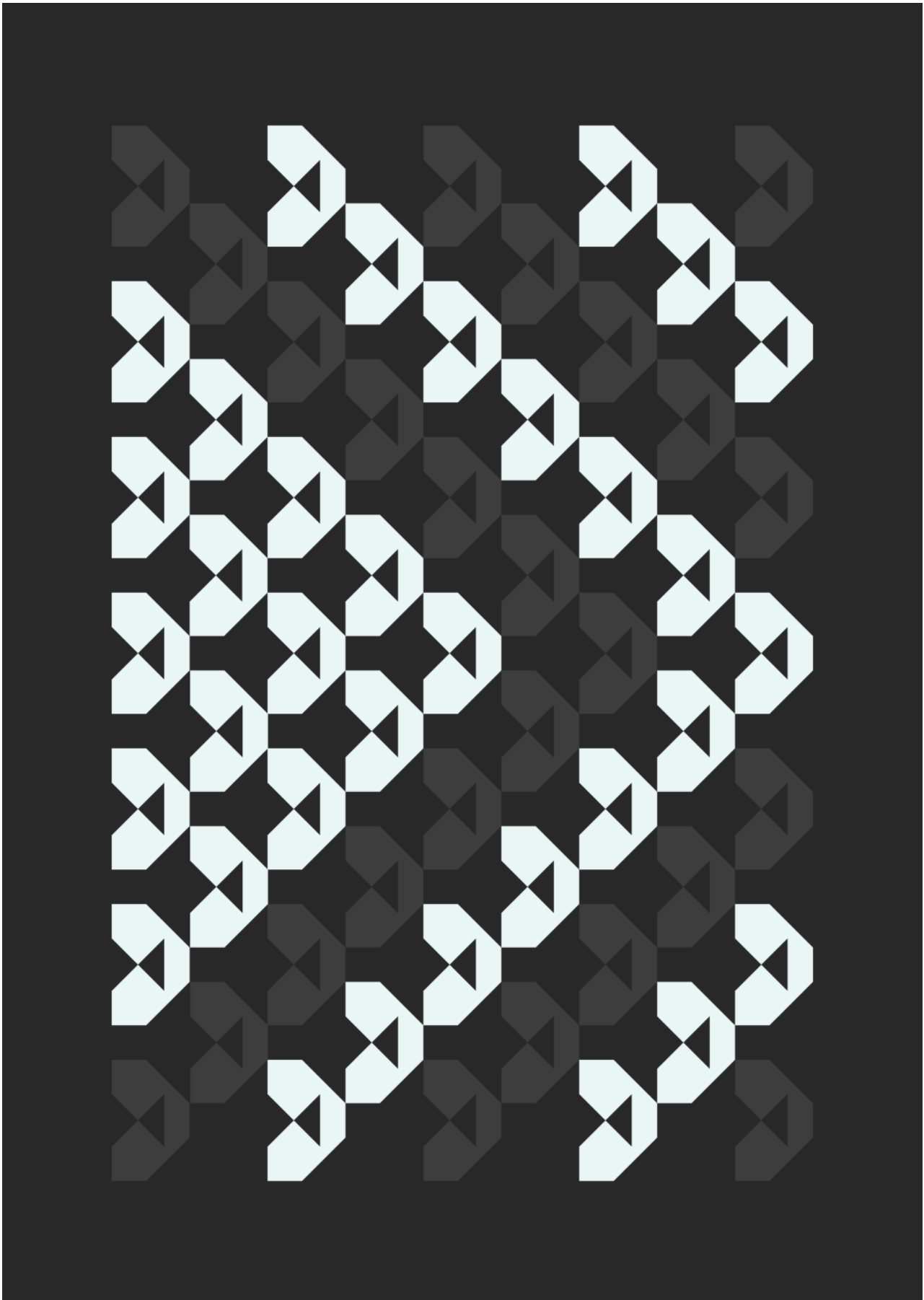
10.9. Our Core Services

Context:

Local Infrastructure which contributes to public health and safety, supports growth, connects communities, activates communites 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 create a safe and healthy environment for people, which promote the best use of natural resources and which are responsive to community needs. Key focus areas:

- Maintaining assets.
- Managing growth.

Appetite | Averse | **Conservative** | Measured | Justified | Flexible |

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.

Tolerance & Measures

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

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 -5% and +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.				

Hastings District Council
Enterprise Risk Management
Policy & Framework

Policy expert	Risk and Corporate Services Manager
Policy owner	Council
Owner Department	Corporate
Approval date	XXX 2021
Version	5.1
Review date	XXXX 2022

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Change history

Amendment (s)	Date	Updated by and authority
First Release	12 Sep 2012	Updated by Business Service Manager. Authorised by Leadership Management Team
Annual Review V1.1 Minor changes to text for clarification	16 Sep 2013	Updated by Business Service Manager.
Full Review V2.0 Overview of risk management updated to reflect ISO 31000 standard. Guiding principles from the ISO 31000 standard included in risk framework. Roles and responsibilities, and conflict of interested included in Policy section. Need for risk management to be integrated in to all business activities reinforced throughout.	9 Feb 2017	Updated by Business Service Manager.
Audit & Risk V2.1 Protection of personal safety added to policy objectives. Risk matrix included as Appendix 1.	28 Feb 2017	Updated by Business Service Manager. Confirmed by Audit & Risk Subcommittee.
PWC feedback incorporated V2.2 CE commitment statement added Reference to Risk Handbook included. Enhancements include; - Annual policy review, principles moved to Policy section, risk process overview included, Additional guidance relating to consultation and treatment plans. Risk register management and monitoring Glossary of Terms added.	11 May 2017	Updated by Business Service Manager.
Purpose amended to include community outcomes	21 Jun 2017	Updated by Business Service Manager. Confirmed by Council
Draft removed. Version published	13 Jul 2017	Updated by Business Service Manager. Approved by Council 13 July 2018
Annual review. Moved to new policy template: - 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.	3 Aug 18	Updated by Risk and Corporate Services Manager. Approved by Council 31 January 2019
Annual review: - Architecture section updated to reflect current structure. - Risk appetite section added and tolerance statements included.	10 July 20	Updated by Risk and Corporate Services Manager. Approved by Council 8 December 2020
V5 changes include: - Supporting documentation listed 3 LOD model included in the framework. - Reference to the HDC Water Safety Plan included. - Opportunity risk descriptions added and community impact scale added. - Risk Appetite statement updated to match LTP.	17 Nov 21	Updated By Risk and Corporate Services Manager.

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

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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

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

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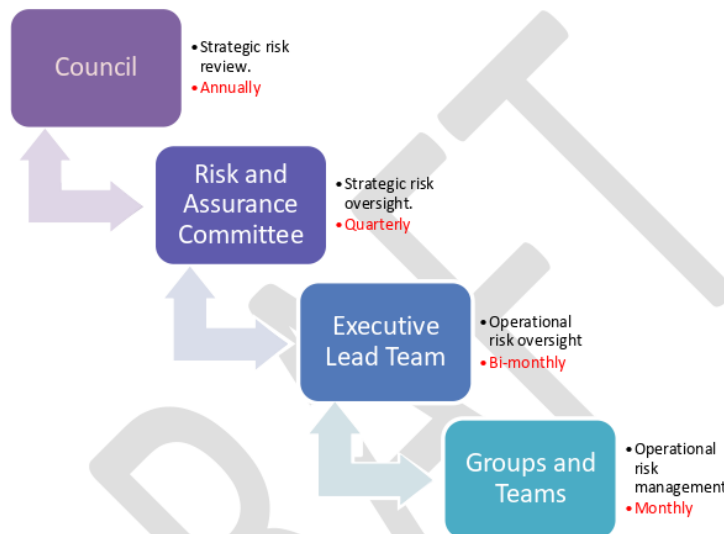
In addition to this regular information flow, issues that arise between reporting cycles will be raised with the appropriate forum in a timely manner to allow effective treatment decisions to be made.

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.   Supporting Documentation

This Framework is supported by the Risk Assurance Charter and Risk Management Handbook.

2.3.   Roles and Responsibilities

Roles and responsibilities within this framework are based on the 3 lines of defence model as outlined in the image below (*taken from The Institute of Internal Auditors, Position Paper on The Three Lines of Defense in Effective Risk Management and Control, 2013*).
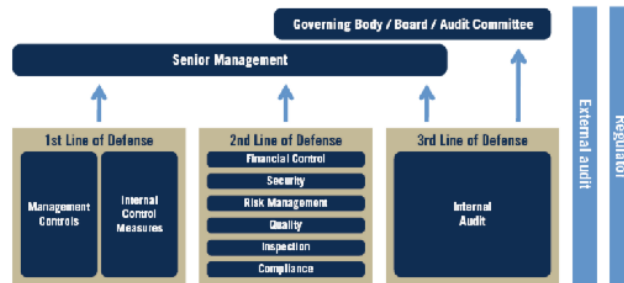
Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

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.
Risk Assurance Advisor	Provide advice and support to Risk Owners and staff, as well as undertaking Assurance Reviews as defined in the Risk Assurance Charter.

Group Manager	Have practices in place within their Group to:
	  - Identify, assess and monitor risks.
	  - Assign responsibility for managing risks.
	  - Develop and implement treatment plans to reduce risk exposure.
	  - Regularly review risk controls and treatments.
	  - Appropriately communicate and escalate risks as required.
	  - Consider new, emerging and changing risks.
	  - Support and encourage staff to engage in risk identification and response actions.

Lead Team (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.

2.4.   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.

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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.

Guiding Behaviours	Measuring Success
• The Chief Executive and Group Managers lead and promote risk management.	• Risk roles and responsibilities are well understood.
• We have a "risk smart" culture where risks are systematically managed, monitored and reported.	• Staff know how and when to discuss risk with management based on good process and a supportive environment.
• We ensure that staff are equiped with the skills and guidance needed.	• There are few surprises; risk reporting provides early warning.
• Our people are encouraged and supported to escalate risks as appropriate.	• Council's objectives and outcomes are met and the Council's reputation and image are protected.
• We openly and constructively engage in risk discussion at all levels.	• Risk management within Council is continuously reviewed and improved.
• We integrate risk management in to all decision making and planning.	• Internal and external stakeholders are confident that Council manages risk within acceptable levels.
• We proactively manage threats in line with risk appetite to reduce the consequence and likelihood of not meeting objectives.	• Risk management occurs throughout the development and implementaiton of any business plan, policy, programme or project.
• We proactively innovate to improve our delivery of objectives.	• All Groups speak the same risk language and respond to risk in a consistent way.

4. Policy Statement

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

HDC recognises that it is prudent to systematically manage and regularly review its risk profile at a strategic, operational and project level. The 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.

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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.

Accordingly, 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 or a limited ability to directly influence where risks are shared across sectors.

Therefore, in relation to the Long Term Plan strategic priority areas 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 puts 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

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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

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5.3.2. Establish Context

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

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

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

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 specialised likelihood, impact and risk matrixes can be found in the following documents:

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

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.*

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5.3.5. Risk Evaluation

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

Threats classified as High or Extreme cannot be tolerated and treatments must be put in place to reduce the risk. In those situation where there is a low risk tolerance, all effort should be made to ensure the residual risk of the event occurring is As Low As Reasonably Practicable (ALARP). 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 threat risk known as the 4Ts (refer to Appendix 3 or the Risk Management Handbook for further information):

- *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.

When considering opportunity risk the following treatment options known as the 4Es should be considered (refer to Appendix 3 or the Risk Management Handbook for further information).

- *Exist*: Monitor those opportunity that have minimal potential reward.
- *Explore*: When the likelihood of an opportunity being realised is probable, but the expected benefit is minor, the issue should be explored to see if the impact can be increased.
- *Expand*. Opportunities that present a substantial beneficial impact and will probably occur should be expanded across the Council to gain the greatest benefit.
- *Exploit*: When the Impact of an opportunity is major, but the likelihood is only possible, the outcome should be exploited to improve the chance of realising the benefit.

While Opportunities will be deliberately taken to realise a benefit, it is important to recognise the relationship between risk & reward. As a result, an assessment of the threat risks that come with the opportunity must be undertaken to ensure any downside risk is within the Council appetite before taking action to Explore, Expand or Exploit an opportunity.

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.

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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 threat 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 Enterprise 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 if appropriate.

The following table outlines the opportunity risk action and escalation requirements:

Risk Descriptors	Impact	Action
Platinum Senior management informed. Responsibility for management oversight must be specified.	Would enhance a number of key objectives. May result in substantial financial gain, or enhance reputation and confidence in HDC.	Escalation to relevant Group Manager and/or LT. Consider expanding application across Council to maximise the benefits realised. Include in Enterprise risk register
Gold Senior management attention is needed. Should identify treatments and implement action plans.	Would noticeably improve the quality or timeliness of HDC's business objectives or services. May result in financial benefits, improved efficiency or enhanced reputation.	Escalation to Group Manager. Focus on exploiting the benefits. Include in Group risk register.
Silver Risks require effective internal controls and monitoring. Management responsibility must be specified.	Would improve the quality or timeliness of HDC's business objectives or services. May result in minor financial benefit, improved capability or enhanced reputation.	Activity should focus on exploring the potential benefits. Include in Group risk register.
Bronze No specific action required.	Minimal benefit to HDC's objectives. Negligible financial or reputation benefit.	No specific action required Monitor for change in context.

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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.

5.3.9. 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.

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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 consequential 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 Control	Any measure or system that is intended to reduce the impact (consequence) of an event should it occur.
Opportunity	Risk that can enhance or have a positive impact on objectives.
Prevention Control	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. The effect on objects can be positive or negative.
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.
Threat	Risk with adverse or negative impact on objectives.

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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 – Opportunity

Impact	Opportunity / Benefit		
	Financial	Citizen Benefit	Service Innovation
Substantial	A beneficial difference in budget of more than 50% OR $4M.	Changes directly benefit citizens across the entire district.	Service delivery time improved by more than 50% OR Entirely new service delivery method identified.
Major	A beneficial difference in budget between 25 - 50% OR $1M-$4M.	Changes directly benefit citizens of multiple communities.	Service delivery time improved by 25-50% OR Implementation of a leading edge practice.
Moderate	A beneficial difference in budget between 10 - 25% OR $200k-$1M	Changes directly benefit citizens of a single community	Service delivery time affected by 10-25% OR Able to implement current best practice.
Minor	A beneficial difference in budget of less than 10% OR between $10k-$200k.	Changes directly benefit members of a single group or association.	Service delivery time affected by less than 10% OR Efficiency gain in current process.
Insignificant	Insignificant budget impact OR less than $10k impact	Little or no citizen benefit.	Maintain status quo

9.3.   Impact Assessment Table - Threats

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

* Note: Food security, housing and employment are social impact factors identified by the World Health Organisation Social Dimensions of Climate Change discussion draft.

9.4.   Risk Matrix and Heat Map

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

Notes on matrix heat map:

- In this matrix it can be observed that by redefining High risks they may become Golden opportunities, but conversely Platinum opportunities can become Extreme threats if pushed too far
- An event with Severe impact is considered High risk even if the chance of occurrence is Rare. An event with Insignificant impact is considered Low risk even if it is Almost Certain to occur.

9.4.1. Calculated Risk Score Ranges

Risk Descriptors		Low	High
Extreme	Platinum	>28	<=70
High	Gold	>16	<=28
Medium	Silver	>7	<=16
Low	Bronze	>0	<=7

10. Appendix 2: Risk Appetite for LTP Strategic Priority Areas

10.1. The Economic Power House

Context

Hastings is the District's centre for employment and economic growth which is a position we will hold onto and develop in the future. Key focus areas:

- Growing meaningful work and higher and valued jobs
- Becoming a leader in food and beverage innovation.
- Diversifying to a knowledge-based economy.
- Developing a Hastings Proud employers initiative.
- Positioning as a centre for government relocations.
- Enabling innovation in the primary sector.

Appetite	Averse	Conservative	**Measured**	Justified	Flexible

Council intends to take a **Measured** approach to achieving this outcome on the basis that there is a desire try innovative ideas that may increase land development or economic growth initiatives. 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:

Risk Category	Extremely Low	Low	Limited	Expect Some	Anticipated
Safety		●			
Outcomes	No notifiable injuries or illness from growth projects due to poor health & safety practices by Council staff or a contractor engaged by Council.				
Financial				●	
Variation	Spend between -50% and +25% for all projects.				
Service Delivery			●		
Standard	A minimum 20% of vacant industrial land available for development (*LTP*). At least 1 Place Based Plan completed per annum (*LTP*)				
Compliance	●				
Outcomes	No material failures to comply with the life safety requirements of planning and building acts and regulations.				
Reputation			●		
Outcomes	Positive regional public interest or media attention is expected for creating liveable spaces, but outcomes should not result in adverse media coverage.				

10.2. Homes for Our People

Context

The type of housing available in Hastings should match the diversity and needs of our people while also managing urban sprawl onto the productive Heretaunga Plains. Moving forward this will require a more compact community connected by a range of effective transport choices. Key focus areas:

- Protecting our good soils.
- More compact housing choices, using available land.
- Working with government and other partners on housing projects.
- Rethinking future use of council housing provision for elderly citizens.

Appetite	Averse	Conservative	**Measured**	Justified	Flexible

Council is prepared to take a **Measured** approach to achieving this outcome in order to meet the community need for sufficient housing. 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:

Risk Category	Extremely Low	Low	Limited	Expect Some	Anticipated
Safety		●			
Outcomes	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			●		
Variation	Spend between -50% and +25% for all projects.				
Service Delivery			●		
Standard	A minimum 20% residential greenfields land available (*LTP*) A minimum of 85% of urban properties within 500m radius (walking distance) of a park (*LTP*).				
Compliance		●			
Outcomes	Time taken to process resource and building consent within statutory timeframes (*LTP*).				
Reputation				●	
Outcomes	Positive regional public interest or media attention is expected, and there is support for national recognition of successful innovation in provision of housing. However, events within Council's control should not result in adverse national media coverage.				

10.3. Getting Around

Context

It is important to connect our people, places, products and markets by providing a safe, effective road network that allows people and goods to travel where they need to go, however they choose. Key focus areas:

- Investing in our ageing roading assets.
- Progressing the use of freight hubs and road/rail/port integration.
- Linking transport with future planned urban growth areas.
- Advocating for improvement on our regional transport networks.
- Developing our sustainable transport alternatives.

Appetite	Averse	**Conservative**	Measured	Justified	Flexible

Council intends to take a **Conservative** approach to risk in order to achieve these outcomes 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, 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:

Risk Category	Extremely Low	Low	Limited	Expect Some	Anticipated
Safety		●			
Outcomes	Reducing trend of fatality and serious injury from previous year (*LTP*).				
Financial			●		
Variation	Spend between -25% and +10% for all projects.				
Service Delivery		●			
Standard	6% of sealed local road network is resurfaced per annum (*LTP*). No more than 1.5 % of footpaths classified poor or worse as measured by Council's condition rating system (*LTP*).				
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.				

10.4. Rural Living

Context

Our economic success is linked to the success of our rural areas and rural communities who we will support while adapting to the changing environment. Key focus areas:

- Rural accessibility (a key priority).
- Adaptation to new land use and farming futures (including climate change, farm ownership, workforce challenges and water access).
- Enhancing rural connectivity (technology and communication).
- Planning for future settlement development (and population decline).

Appetite	Averse	Conservative	Measured	Justified	Flexible

Council intends to take a **Conservative** approach to risk in order to achieve these outcomes due to the potential long term adverse impacts on rural communities caused by unsuccessful projects or poor services delivery. 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.

Tolerance & Measures

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

Risk Category	Extremely Low	Low	Limited	Expect Some	Anticipated
Safety	●				
Outcomes	All bridges meet requirements for safe carriage				
Financial			●		
Variation	Spend between -25% and +10% for all projects.				
Service Delivery		●			
Standard	Journeys affected due to unplanned road closures not more than 500,000 per annum (*LTP*) Maximum of 27 (10%) weight and/or speed restricted bridges on the network.				
Compliance		●			
Outcomes	Less than 3.2% of the network inaccessible to Class 1 and 50MAX vehicles.				
Reputation		●			
Outcomes	Interest of local groups or individuals is expected, but events should not result in adverse regional or national media coverage.				

10.5. Our Natural Treasures

Context

Maximising output from the land by retaining versatile and productive soils for food production, managing land use, and managing human behaviour which impacts water quality (an essential resource) is one of the most important themes running through our strategic direction. As a community we need to waste less and embrace a more sustainable way of living and look after our precious outstanding landscapes such as Te Mata Peak. We recognise that the environment cannot be traded for economic gain. Key focus areas:

- Promoting water and energy efficiency
- Enhancing biodiversity
- Sustainable infrastructure and climate agility
- Nurturing iconic landscapes
- Managing healthy waterways

Appetite	Averse	Conservative	Measured	Justified	Flexible

Council intends to take a Conservative approach to risk in order to achieve these outcomes as decisions on activities affecting the environment can potentially have long term implications that are difficult to reverse. 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.

Tolerance & Measures

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

Risk Category	Extremely Low	Low	Limited	Expect Some	Anticipated
Safety	●				
Outcomes	Maximum of 20% percentage of real water loss from networked reticulation system (*LTP*). Full compliance with Part 4 and Part 5 of the drinking water standards (*LTP*)				
Financial			●		
Variation	Spend between -25% and +10% for all projects.				
Service Delivery		●			
Standard	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*). Greenhouse gas emissions from transport less than 295,800 tonnes (*LTP*).				
Compliance		●			
Outcomes	Full compliance with Hawkes Bay Regional Council consent requirements (*LTP*). Requirements under National Policy statements implemented in the required timeframes.				
Reputation		●			
Outcomes	Regional public interest or media attention is expected, but events should not result in adverse national media coverage.				

10.6. Hastings Alive

Context

For successful business investment and expansion, and talent attraction and retention, we need to be a place where people want to be. Encouraging people into Hastings requires an attractive urban environment and a vibrant, multi-functional city centre which is safe and offers a variety of things to do. Key focus areas:

- Getting more people into the city
- Enhanced CBD vibrancy through the CBD activation plan
- Growing the youth vibe
- Uplifting other town centres
- Telling our diverse stories to strengthen our identity

Appetite	Averse	Conservative	**Measured**	Justified	Flexible

Council intends to take a **Measured** approach to achieving this outcome on the basis that there is a desire try innovative ideas that could 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:

Risk Category	Extremely Low	Low	Limited	Expect Some	Anticipated
Safety		●			
Outcomes	CCTV live monitoring >70% of running time (*LTP*)				
Financial				●	
Variation	Spend between -50% and +25% for all projects.				
Service Delivery			●		
Standard	Less than 10% of retail spaces vacant on a quarter basis.				
Compliance		●			
Outcomes	100% of public buildings meeting minimum earthquake standards by 2033 (*LTP*).				
Reputation			●		
Outcomes	Positive regional public interest or media attention is expected for creating liveable spaces, but outcomes should not result in adverse media coverage.				

10.7. Pathways for People 😊

Context:

Our people ultimately hold the key to our collective success. The people of Hastings are changing in ethnic makeup, age and lifestyle preferences. We need to balance aspirations while meeting our community's varied educational and skill development needs to allow everyone to contribute to our society. Our environment and economy also depend on positive human behaviour and interactions. We want to develop our entrepreneurs who will help create economic sufficiency and growth. Key focus areas:

- Development of a youth employment/outreach hub
- Connecting people, skills and jobs through our connector programme
- Encouraging youth to stay in school
- Connecting the educational/professional sector link by looking at multiple career pathways
- Improving equity in jobs, income and health outcomes

Appetite	Averse	Conservative	Measured	**Justified**	Flexible

Council is prepared to take a **Justified** approach to achieving community uplift due to the need to work collaboratively with local Hapu, community and other agencies. This means that there is a willingness to take risk in the right conditions as long as the impacts are managed.

Tolerance & Measures

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

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 -50% and +25% for all projects.				
Service Delivery				●	
Standard	1 social development review completed per annum				
Compliance		●			
Outcomes	No challenges against community programmes that can be upheld for lack of engagement or consultation. Compliance with Privacy Act obligations for all programmes.				
Reputation				●	
Outcomes	Positive regional public interest or media attention is expected for pathways for youth, but outcomes within Council's control should not result in adverse national media coverage.				

10.8. Enhancing Where We Live

Context:

Neighbourhoods nurture family and community: the safety, health, vibrancy and attractiveness of all neighbourhoods is fundamental to wellbeing in our district. Our urban areas also need to be resilient to the challenges of the future. Enhancing where we live will address targeted interventions required for some of our communities. Key focus areas:

- Flaxmere Town Centre rejuvenation
- Working with communities on focused initiatives in neighbourhood uplift areas
- Enhancing community safety
- Planning for coastal settlement futures
- Enabling marae-based settlement development

Appetite	Averse	Conservative	Measured	**Justified**	Flexible

Council is prepared to take a **Justified** approach to enhancing community safety, health, vibrancy and attractiveness due to the level of change desired. This means that there is a willingness to take risk in the right conditions as long as the impacts are managed.
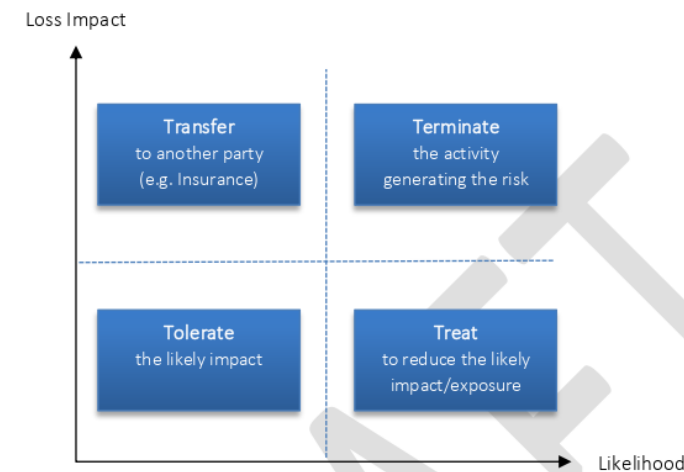
Tolerance & Measures

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

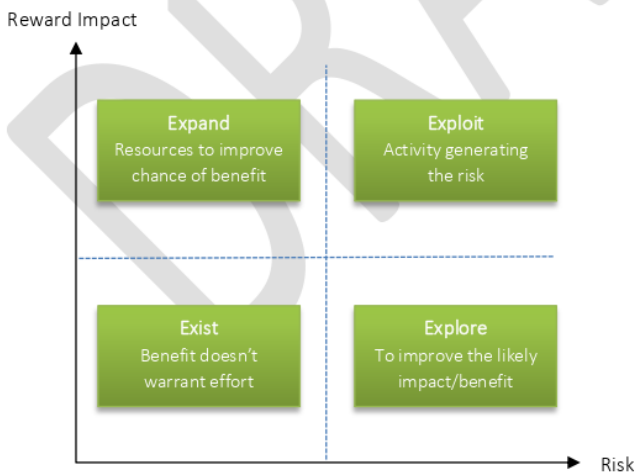| Risk Category	Extremely Low	Low	Limited	Expect Some	Anticipated
Safety		●			
Outcomes	No notifiable injuries or illness from infrastructure projects due to poor health & safety practices by Council staff or a contractor engaged by Council.				
Financial				●	
Variation	Spend between -50% and +25% for all projects.				
Service Delivery				●	
Standard	CCTV camera downtime <5% (*LTP*). Parks user satisfaction more than 97% (LTP)				
Compliance			●		
Outcomes	A District Plan current at all times within statutory timeframes (*LTP*)				
Reputation				●	
Outcomes	Positive regional public interest or media attention is expected for community lead plans, but outcomes within Council's control should not result in adverse national media coverage.				

11. Appendix 3: Risk Control Techniques

The following diagrams illustrate how risk treatment strategies are generally applied to risks based on where they risk is placed on a risk heat map.

11.1. Treatments for Threat Risk

Loss Impact

Transfer to another party (e.g. Insurance)	Terminate the activity generating the risk
Tolerate the likely impact	Treat to reduce the likely impact/exposure

Likelihood

11.2. Treatments for Opportunity Risk

Reward Impact

Expand Resources to improve chance of benefit	Exploit Activity generating the risk
Exist Benefit doesn't warrant effort	Explore To improve the likely impact/benefit

Risk

IMPORTANT: Before pursuing an opportunity an assessment of the unintended consequence must be undertaken. This is required to confirm that any potential threat risks that might arise are within the Council risk appetite. By doing so it is possible to confirm an appropriate balance between the risk vs reward is maintained.
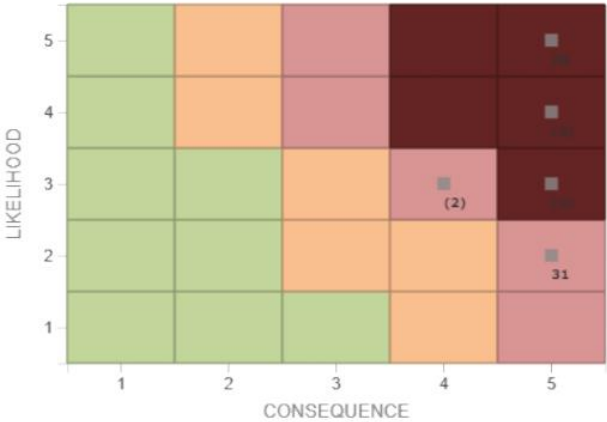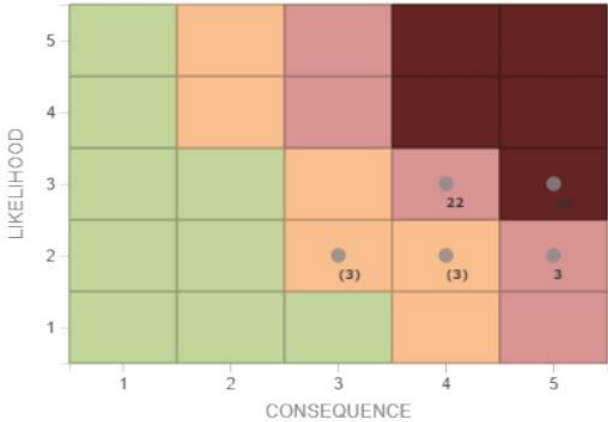
HDC Strategic Risks

This register provides a summary of the strategic risks facing Hastings District Council (November 2021)

The heat maps below show the overall risk profile before and after undertaking control activity for the risks on the strategic register.

Inherent Risk for Strategic Risk   Current Risk for Strategic Risk

12 Nov 2021 Page **1**

HDC Strategic Risk Register

The table below includes the risk description and the assessment of the inherent risk (the level of risk the organisation would be facing if no controls were in place) and the current or residual risk (the level of risk after risk controls have been implemented), followed by a brief list of the current controls for each of the Council strategic risks.

| #	ID	Description	Details	Inherent Risk	Controls	Current Risk
1	26	**Failure of climate adaptation**	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.	Extreme	• Asset Management Plan • Land use planning • Building Act and Code • Response and Business Continuity Planning • Insurance • Contingency funds • Communications Plan • Policy Direction	Extreme
2	3	**People Health, Safety & Wellbeing**	Exposure to health & safety risks (as a result of activities undertaken or directed by Council) which could result in serious health effects to workers, customers and public.	Extreme	• Insurance • Education, Training, Coaching • Incident and Hazard Reporting • Monitoring and Compliance • Security Measures	High
3	22	**Water Quality & Quantity**	As a result of climate change and human activities, there may not be a sustainable quantity of quality water to support the communities economic, social and environmental wellbeing aspirations.	Extreme	• Policy and Procedure • Response and Business Continuity Planning • Communications Plan	High
4	21	**Significant Operational Service Failure**	Operational failure that may have a material impact on the delivery of Council services to the community.	Extreme	• Policy and Procedure • Response and Business Continuity Planning • Insurance • Separation of Duties • Communications Plan • Legal Advice	Medium
5	23	**Financial Sustainability**	Due to over committing to work programmes the financial sustainability of the Council may be compromised affecting delivery of all LTP goals.	Extreme	• Policy and Procedure • Asset Management Plan • Contingency funds • Roles and Responsibilities • External Audit	Medium

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#	ID	Description	Details	Inherent Risk	Controls	Current Risk
6	25	**Growth planning**	Failure to accurately understand community needs may lead to poor growth management planning that compromises delivery of the services required by the community, adversely affecting economic, social and cultural wellbeing, and impacting Council's ability to achieve LTP objectives.	Extreme	• Asset Management Plan • Land use planning • Contingency funds • Communications Plan • Community Engagement & Consultation • Demand Monitoring	Medium
7	28	**Significant statutory reform**	Failure to proactively adapt to statutory changes could adversely affect economic, environmental, social or cultural wellbeing, and cause significant delays and/or barriers to Council's delivery of LTP objectives.	High	• Appropriate Relationship Management • Adequate Resources • Roles and Responsibilities • Education, Training, Coaching • Communications Plan • Community Engagement & Consultation	Medium
8	30	**Failure to address ESG&C expectations**	Failure to address Environmental, Social, Governance (ESG) and Cultural expectations during decision making processes may contribute to increasing levels of inequity, resulting in legal implications, financial costs, significant reputational impacts or irreversible damage to the environment.	High	• Policy and Procedure • Asset Management Plan • Land use planning • Roles and Responsibilities • Education, Training, Coaching • Organisation Culture • Accountability and Transparency • Communications Plan • Legal Advice • Community Engagement & Consultation • Policy Direction • Performance Review & Planning	Medium
9	31	**Truth Decay**	Increasing momentum towards the four trends of the 'Truth Decay' phenomenon, may lead to the erosion of civil discourse and disengagement of individuals from political institutes, resulting in an ability for Council to engage the community, plan for growth, or execute delivery of strategic goals effectively.	High	• Policy and Procedure • Accountability and Transparency • Organisational Culture • Communications Plan • Legal Advice • Community Engagement & Consultation • External Audit	Medium

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OBJECTIVE ANALYSIS.
EFFECTIVE SOLUTIONS.

RAND > Published Research > Research Reports >

Truth Decay
An Initial Exploration of the Diminishing Role of Facts and Analysis in American Public Life

by Jennifer Kavanagh, Michael D. Rich

Related Topics: Civic Education, Communities, Data Science, Media Literacy,
Politics and Government, Social Media Analysis, United States

Citation   Embed   View related products
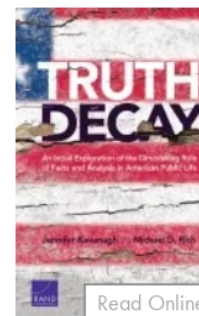
Over the past two decades, national political and civil discourse in the United States has been characterized by "Truth Decay," defined as a set of four interrelated trends: an increasing disagreement about facts and analytical interpretations of facts and data; a blurring of the line between opinion and fact; an increase in the relative volume, and resulting influence, of opinion and personal experience over fact; and lowered trust in formerly respected sources of factual information. These trends have many causes, but this report focuses on four: characteristics of human cognitive processing, such as cognitive bias; changes in the information system, including social media and the 24-hour news cycle; competing demands on the education system that diminish time spent on media literacy and critical thinking; and polarization, both political and demographic. The most damaging consequences of Truth Decay include the erosion of civil discourse, political paralysis, alienation and disengagement of individuals from political and civic institutions, and uncertainty over national policy.

This report explores the causes and consequences of Truth Decay and how they are interrelated, and examines past eras of U.S. history to identify evidence of Truth Decay's four trends and observe similarities with and differences from the current period. It also outlines

Research Questions

1 What is Truth Decay and what evidence for it exists?

2 Is Truth Decay new, or has it previously existed in some form?

3 What causes Truth Decay and what are the consequences?

4 What can be done to combat Truth Decay?

a research agenda, a strategy for investigating the causes of Truth Decay and determining what can be done to address its causes and consequences.

Truth Decay as a System
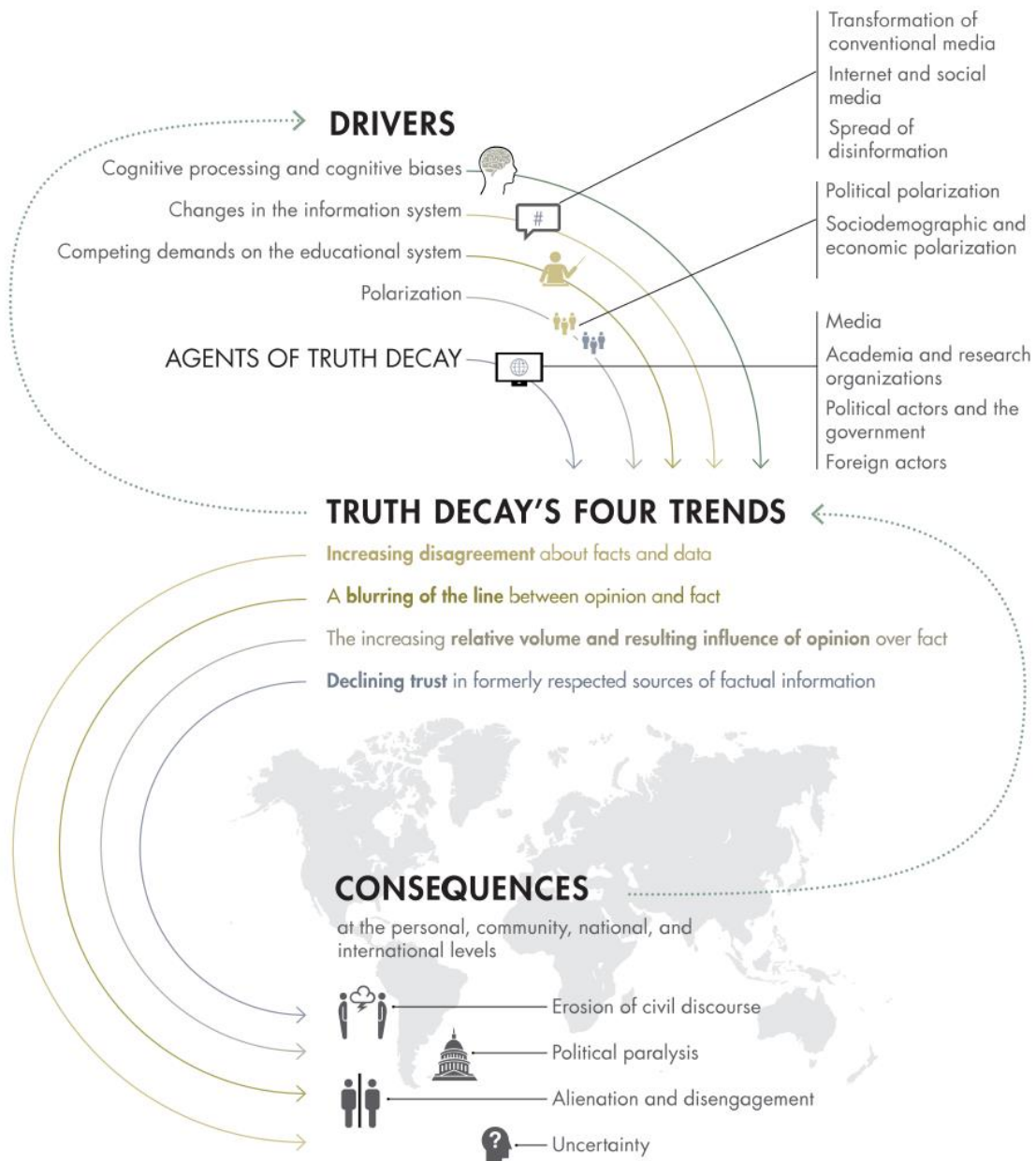
Key Findings

What Is Truth Decay?

- Truth Decay is defined as a set of four related trends: increasing disagreement about facts and analytical interpretations of facts and data; a blurring of the line between opinion and fact; an increase in the relative volume, and resulting influence, of opinion and personal experience over fact; and declining trust in formerly respected sources of factual information.

Is Truth Decay New?

- This report explores three historical eras — the 1890s, 1920s, and 1960s — for evidence of the four Truth Decay trends and compares those eras with the past two decades (2000s–2010s). Two of the four trends occurred in earlier periods: the blurring of the line between opinion and fact and an increase in the relative volume, and resulting influence, of opinion over fact. Declining trust in institutions, while evident in previous eras, is more severe today. No evidence of an increase in disagreement about facts and analytical interpretations of facts and data was seen in the earlier periods.

What Causes Truth Decay?

- Four drivers, or causes, of Truth Decay are described: cognitive bias, changes in the information system (including the rise of social media and the 24-hour news cycle), competing demands on the educational system that limit its ability to keep pace with changes in the information system, and political, sociodemographic, and economic polarization. Various agents also amplify Truth Decay's trends.

What Are the Consequences?

- The consequences of Truth Decay manifest in many ways. The most damaging effects might be the erosion of civil discourse, political paralysis, alienation and disengagement of individuals from political and civic institutions, and uncertainty about U.S. policy.

Recommendations

Unraveling the Complex System of Truth Decay Will Require Multifaceted and Interdisciplinary Efforts

- Interdisciplinary research and cooperation among research organizations, policymakers, educators, and other stakeholders will be necessary to shed light on the problem of Truth Decay and to develop a clearer understanding of the problem and devise possible solutions.

There Are Four High-Priority Areas of Research

- Examine more closely how Truth Decay has manifested in the past at home and abroad, extracting lessons that can assist in the fight against Truth Decay.

- Further explore Truth Decay trends, including such areas as how media content has changed over time, the ways in which the speed and nature of information flow have evolved, developments in the education system and its curricula, the ways in which polarization and political gridlock have (or have not) worsened, the erosion of civil discourse and engagement, and changes in the severity of uncertainty about U.S. policy.

- Investigate the processes and mechanisms that connect Truth Decay to information dissemination, processing, and consumption; institutions, authorities, and intermediaries; polarization, engagement, and discourse; the benefits and challenges of technological advancement; and agency. Truth Decay as an interconnected system should also be explored.

- Finally, develop and evaluate potential solutions and mitigations to the problems caused by Truth Decay. Priority areas include educational interventions; improving the information market; institutional development and rebuilding; bridging social divides; harnessing new technologies; behavioral economics, psychology, and cognitive science; and organizational self-assessment.

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ABOUT

The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest.

HDC Strategic Risk Map & Horizon Scan – at August 2021

Horizon scanning is an attempt to systematically imagine rather than predict the future so that it can be better managed when it arrives.
The approach adopted is to look for signals in the operating environment that indicate a possible change that could affect known strategic risks or Long Term Plan objectives.
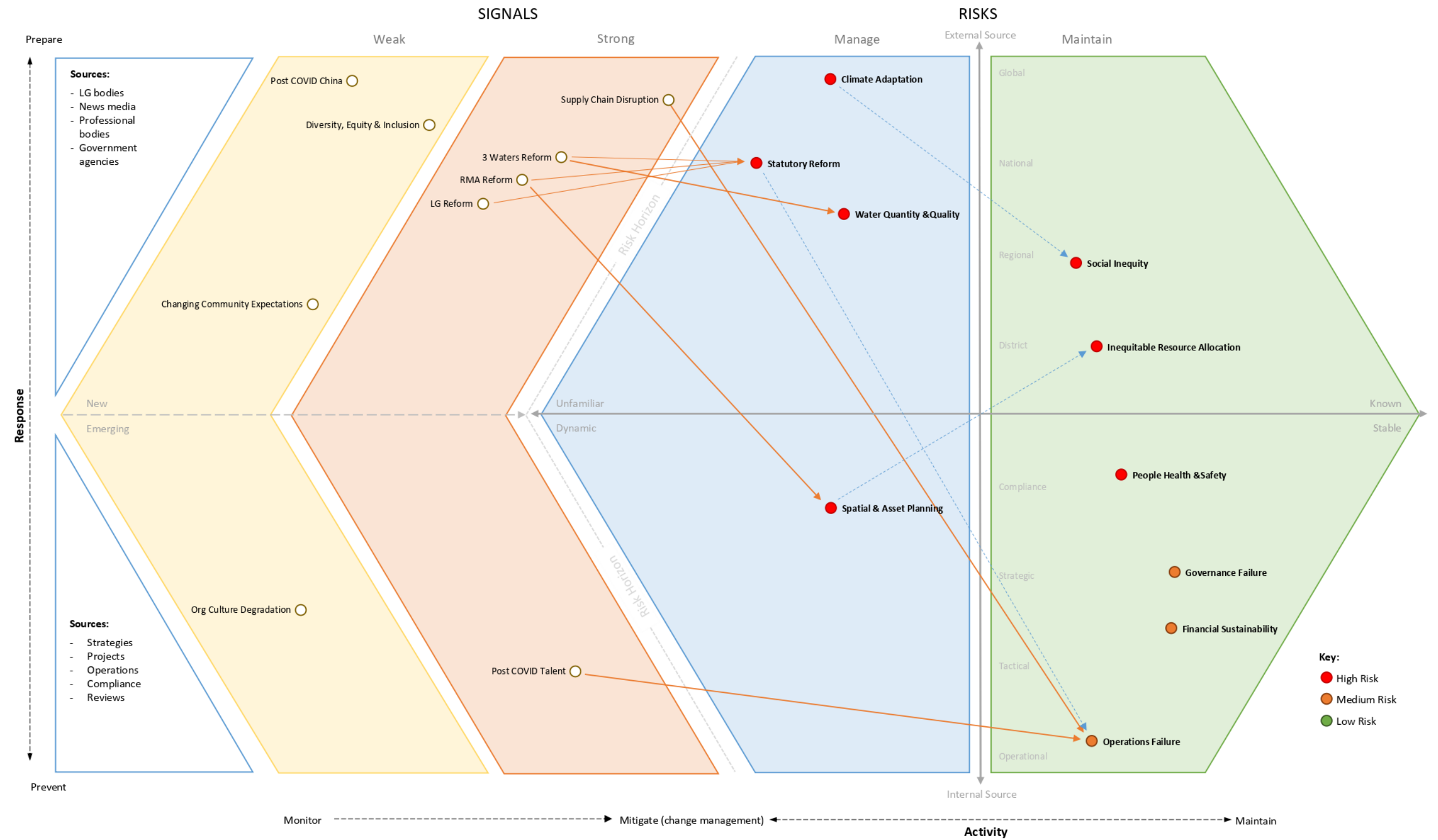
Ref: PMD-9-3-20-16

Signal Response Breakdown

The following table provides summarises the potential impact of the signal identified and the response action that is most appropriate.

Hi Impact / Critical

Response: **Plan**	Response: **Understand** (Construct Scenarios)

• Post COVID Talent:
   o Potential for retention and recruitment issues due to a failure to adopt a working model that meets the preferences of the workforce in the post COVID environment (*Gartner*). This signals a potential shift that could affect operational integrity.
 	
• Supply Chain Disruption:
   o Organizations will experience increased supplier risk events due to extreme weather events, unplanned outages, supplier financial challenges, pandemic-induced lockdowns and cyberattacks (*Gartner*). Future planning may need to build in extra time and cost to accommodate supply chain, this also may increase the attractiveness of locally made product.
	• 3 Waters, Resource Management & Local Government Reform:
	   o These significant reforms are progressing at a relatively fast pace considering the magnitude of the changes. While some additional details are available for the 3 waters reform, there is still significant uncertainty about the specific impacts of all three reforms. Regional collaboration on 3 waters has started and a risk assessment has been completed. A similar level of understand may be needed across all three areas.

Response: **Monitor**	Response: **Review**

• Organisation Culture Degradation:
   o Challenges maintaining organisation culture while employees work remotely or in a hybrid workforce model (*Gartner*). Whether this issue will affect Council is hard to determine at present, but monitoring for possible changes would be prudent.
	• Post COVID China:
	   o The deteriorating relationship between China and G7 nations highlighted by the fallout from U.S./China trade talks and transparency concerns denotes an insecurity in partnering with Chinese-state-sponsored organizations (*Gartner*). Reviewing whether this could have a bearing on Council sister city relationships and what impacts the local economy might feel given a shift in the international relationship with China could be worthwhile.
	
	• Changing Community Expectations:
	   o In the post COVID era "…early signs that suggest some aspects of life will return to normal, while other trends may last or continue to change for years to come." Including: More financially mindful and savvy consumers; Restructuring priorities; Digital adoption; Travel rush. (*McKinsey & Company*). While specifically direct at Local Government, the potential for a noticeable shift in consumer choices is likely to have an impact on community expectations of Council services. Further consideration of this may be useful.
	
	• Diversity, Equity & Inclusion (DEI) Responsiveness:
	   o Slow organizational response to the increased demand around DEI in the workplace will lead to reputational harm or employee backlash (*Gartner*). To remain a desirable place to work it may be desirable to review the practices in place to promote diversity, equity and inclusion.

Low   Impact

Predictable (left margin)   *Uncertain* (right margin)

Ref: PMD-9-3-20-16
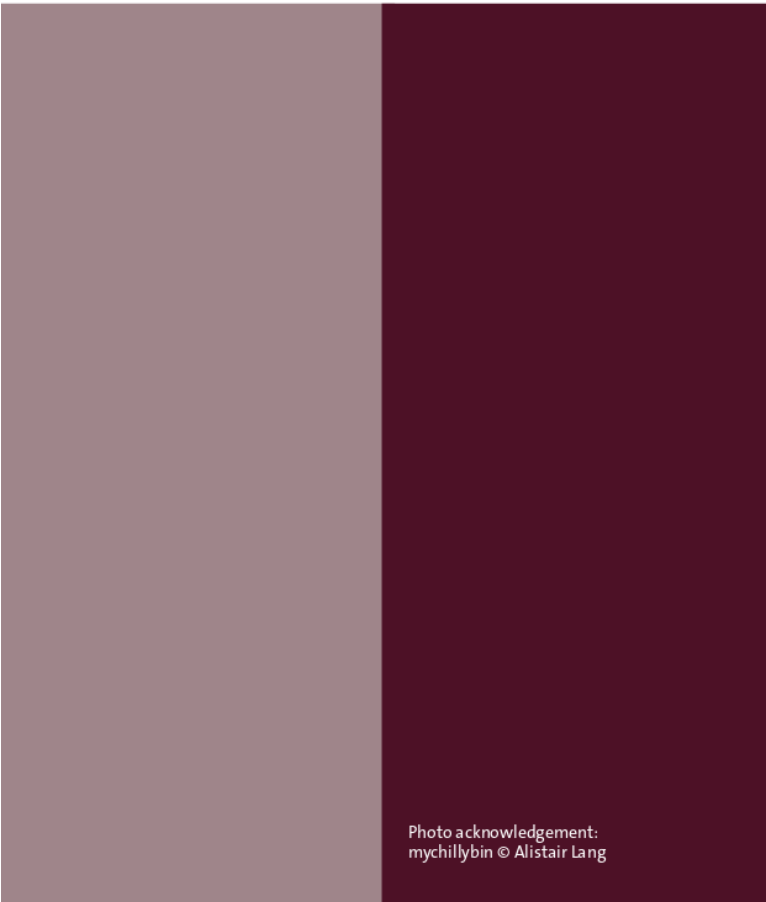
CONTROLLER AND AUDITOR-GENERAL
Tumuaki o te Mana Arotake

B.29[21i]

Our observations on local government risk management practices

Photo acknowledgement:
mychillybin © Alistair Lang

B.29[21i]

Our observations on
local government
risk management
practices

Presented to the House of
Representatives under section 20 of
the Public Audit Act 2001.

October 2021

Contents

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Auditor General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

The Covid-19 pandemic is a stark reminder for all organisations about the need for appropriate risk management practices. However, even before Covid-19, councils were operating in a complex environment that was becoming more challenging and uncertain.

We have recently seen service disruptions from core council infrastructure failures, the impacts of climate change with more frequent droughts and flooding, increasing pressures from growth, and financial pressures associated with all of these.

Councils are also grappling with meeting increasing standards and the uncertainties of proposed regulatory changes, such as the resource management reforms and the Three Waters Reform programme.

As councils seek to achieve their objectives and meet the needs and expectations of their communities in an increasingly complex environment, it is essential that they clearly understand the risks they face and how to manage those risks.

My Office has previously reported that risk management was one of the least mature elements of governance in the public sector. Therefore, I wanted to know about councils' current risk management practices.

Councils provide a wide range of critical services to their communities. Given the consequences if these services fail, I expected that all councils would have a formal risk management framework in place that is fully integrated into their strategies, business activities, and decision-making.

I also expected risk management to be supported by appropriate resourcing and training. I expected this to cover:

• governance;

• processes to identify, analyse, and monitor risks;

• effective approaches in place to manage risk; and

• regular formal reviews of risk management practices to identify areas for improvement.

Some councils do not currently have a formal risk management framework. In my view, those councils should prioritise putting a formal risk management framework in place. Councils also need to consider whether risk management is part of their organisational culture and integrated into the decisions they make.

3

Auditor-General's overview

We saw several positive examples of a strong risk culture in the councils we looked at. These councils had an appropriate focus on, and a maturing approach to, risk management.

That every council now has an audit and risk committee (or similar), with most having some level of independent membership, is a step in the right direction. Although audit and risk committees have a role in setting up and monitoring risk frameworks, elected members are ultimately responsible for their council's risk management.

This report describes some positive examples that we saw during our work. These include:

• establishing the desired risk management maturity level, with a clear plan to achieve this;

• developing risk management guidelines to support greater consistency of practice throughout the council;

• using risk champions to help embed a risk management culture and support staff in their roles;

• embedding risk management into reporting to elected members to improve advice from staff, which provides elected members with greater confidence in their decision-making; and

• embedding climate risks into their overall risk context to make it a consideration for all strategic decision-making.

Despite this, the councils we looked at are still largely using basic risk management practices. However, they plan to improve their risk management practices over time.

To support good governance, elected members need to maintain an overall view of their council's strategic objectives, be aware of obstacles to achieving those objectives, and receive assurance that their council is managing risks well. In my view, more could be done to support elected members as they consider the risks faced by their council, particularly how they factor this into their decision-making.

Risk management should not be viewed as a separate process but integrated into all decision-making.

To improve their risk management practices, I expect councils to:

• have someone who is responsible for enabling and driving good risk management practices throughout the council;

• integrate risk management into all council activities, particularly strategy-setting and decision-making. As an example, some councils that have declared

4

climate emergencies do not identify climate-related risks as a separate key risk
for the council;

- improve the training and support provided to elected members, particularly in
their roles and responsibilities for effective risk management; and

- carry out regular reviews of risk management activity to inform progress and
areas of improvement.

Specialist tools, such as quantitative risk assessment, could also be more widely
applied. This would give managers and governors a better understanding of the
risks to delivering complex programmes of work and how they could reduce their
exposure to those risks.

I encourage chief executives and elected members to consider the maturity of
their existing risk management practices and prepare a clear plan for improving
that maturity. We provide examples in this report to help with this.

I acknowledge that implementing risk management practices takes time and
resourcing. However, the consequences of not adequately managing risk are
significant. They can often result in large and unexpected expenditure, service
failure, and a loss of public trust and confidence.

I acknowledge the work that organisations such as Taituarā – Local Government
Professionals Aotearoa do in fostering networks to improve risk management
practices in councils (for example, through its annual risk management forum).
Grassroots sharing is important, and fostering networks is fundamental to
learning and improving.

I thank the councils that responded to our risk management survey and the staff
of Auckland Council, Environment Canterbury Regional Council, Queenstown-
Lakes District Council, and Waipā District Council for their openness and
co-operation during our consideration of their risk management practices.
All these councils have shown strong improvements in their risk management
processes and practices during the past few years, and I commend them for this.

Nāku noa, nā

John Ryan
Controller and Auditor General
18 October 2021

5

Our recommendations

We recommend that councils:

1. prioritise putting in place a formal risk management framework if they do not have one;

2. ensure that elected members get the training and support that they need to carry out their risk management roles and responsibilities;

3. consider using more sophisticated techniques for identifying and managing risks on key programmes of work, such as quantitative risk assessments, given that the assessments that many councils make, particularly on the delivery of their capital expenditure programmes, need a high level of judgement; and

4. assess their desired level of risk management maturity and prepare a clear plan to achieve this. Regular formal reviews of their risk management practices should be carried out to inform progress and identify areas for improvement.

6

Introduction

1

1.1   Our 2016 report *Reflections from our audits: Governance and accountability* noted that risk management is one of the least mature elements of governance in the public sector.

1.2   Effective risk management is a critical part of successfully delivering an organisation's strategy. Identifying, understanding, and managing risk is also a fundamental part of effective governance. When risk is not managed effectively, assets or projects can fail. This can erode the public's trust and confidence in an organisation.

1.3   Good governance that is informed by an understanding of risk tolerance not only avoids failures but can also mean that the organisation does not miss opportunities to improve its financial or operational performance.[1] Governing bodies that think strategically and consider their organisation's role in a wide context are more likely to identify and be in a position to take opportunities to improve their performance or to achieve benefits faster.

1.4   The local government sector has recognised the need for improvement in risk management. In June 2016, Local Government New Zealand submitted a business case to central government to establish a local government risk agency. The agency would work with councils to achieve a more consistent and higher standard of risk management practice.[2] To date, no such agency has been established.

1.5   In our audit work, we often see instances where councils do not have effective risk management.

1.6   Given this context, we carried out work to better understand the current state of councils' risk management, where the challenges and issues are, and what support councils need to improve how they manage risk.

What we expected to see

1.7   Effective risk management by public organisations involves identifying, analysing, mitigating, monitoring, and communicating risks as part of their business activities.

1.8   To determine what we should expect to see in council risk management, we looked at several risk management standards or frameworks. These included:

- the *Australia NZ International Standard ISO 31000:2009: Risk Management*; and
- the *All-of-Government Enterprise Risk Maturity Assessment Framework*.

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1   Risk tolerance is an organisation's or stakeholder's readiness to bear the risk after risk treatment in order to achieve its objective, see *ISO Guide 73:2009(en) Risk management — Vocabulary* at iso.org.

2   For more information on the Local Government Risk Agency, see lgnz.co.nz.   7

1.9   Based on these and our own work, we identified four elements of risk management that we expect all councils to have. They are:

- a risk management framework in place to identify, analyse, and monitor risks;

- effective approaches in place to identify and manage risk, with effective oversight by elected members and appropriate involvement by their audit and risk committee;

- regular formal reviews of their risk management practices that inform areas for improvement; and

- mechanisms for communicating with their communities about the risks they face and how they are managing those risks.

How we carried out our work

1.10   The observations we make in this report are based on:

- our observations of how Auckland Council, Waipā District Council, Environment Canterbury Regional Council, and Queenstown-Lakes District Council manage risk;

- the results of a survey we sent to all councils (except the four councils listed above);

- discussions we had with select audit and risk committee chairpersons; and

- the knowledge we have developed through our work, which includes our audit work and discussions with council staff and elected members.

1.11   The survey questions are set out in Appendix 1.

Structure of our report

1.12   In Part 2, we set out what we mean by risk management.

1.13   In Part 3, we outline the importance of having a commitment to risk management.

1.14   In Part 4, we discuss the need for clear governance and management roles and responsibilities.

1.15   In Part 5, we summarise the top risks identified by councils.

1.16   In Part 6, we set out what councils should be doing to improve their risk management.

8

What we mean by risk management

2

2.1   Councils should have a clearly defined framework for managing risk.[3] A risk management framework supports a consistent approach to managing risks throughout a council. It also provides a way for a council to compare the different types of risk that it must deal with, whether they are project-based risks, day-to-day operational risks, or longer-term strategic risks.

2.2   We do not endorse a particular risk management framework – there are many available. However, based on well-recognised risk management frameworks[4] we have identified some core elements a risk management framework should have, including:

- a structure for the governance of risk management, with defined levels of accountability and reporting mechanisms. This includes appropriate involvement by audit and risk committees (see Part 4);

- process(es) that are applied across a council to:
  - identify, analyse, and evaluate risks and their significance;
  - monitor and review risks to ensure that a council understands what could get in the way of achieving its strategic objectives;
  - treat risks to ensure that these are being appropriately managed; and

- ongoing monitoring and review of the risk management process as a whole to ensure that it remains effective and councils continue to mature their risk management practices as planned (see Part 6).

2.3   The framework should be appropriate for the objectives the council is seeking to achieve and the main issues, drivers, and trends that could get in the way of it achieving them. It is important to have a risk management framework in place that is applied consistently and effectively. This will help council staff assure elected members that risk is being well managed. It will also better inform elected members' decision-making, which in turn enhances the community's trust and confidence in their council.

2.4   The Chief Executive of Environment Canterbury told us that "ultimately, risk is the language that helps staff and elected members make better decisions".

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3   Our definitions of risk and risk management are from *ISO 31000:2009: Risk Management*. We define **risk** as the effect of uncertainty on objectives. We define **risk management** as the co-ordinated activities to direct and control an organisation with regard to risk.

4   For example, we looked at *ISO 31000:2009: Risk Management* (and its 2018 update) and the *All-of-Government Enterprise Risk Maturity Assessment Framework*.   9

Not all councils have a risk management framework

2.5   Our survey of risk management practices asked whether councils have a clearly defined risk management framework. Of the 63 councils that answered this question, 55 said they had a risk management framework. Most of these said that their framework was based on the *International Standard ISO 31000* (2009 or 2018). Of the eight councils that said they did not have a framework, seven said that they were preparing one (see Figure 1).

Figure 1
Whether councils we surveyed have a risk management framework

Does your council have a clearly defined framework for managing risk?

55

councils that responded to our survey have one.

Of these councils, most have frameworks based on International Standard ISO31000; 2009 or 2018.

Most councils that said they do not have a framework are in the process of preparing one.
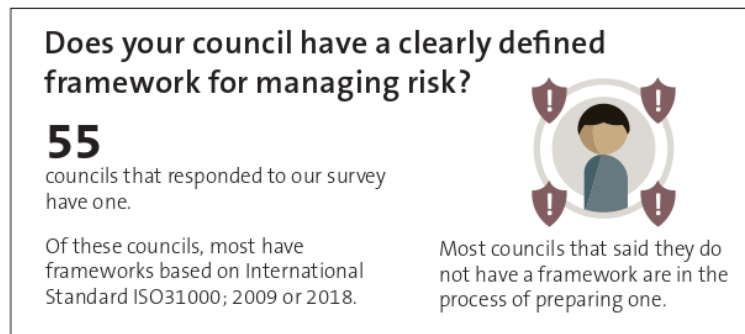
Source: Office of the Auditor-General.

2.6   Councils provide critical services to their communities. Because there are serious consequences if these services fail, it is imperative for all councils to have a formal risk management framework in place.

Recommendation 1

We recommend that councils prioritise putting in place a formal risk management framework if they do not have one.

Tailoring risk management to the needs of the council

2.7   There are many risk management frameworks that councils can base their framework on. Councils need to tailor their risk management framework to their circumstances – including their operating context, culture, strategic objectives, risk appetite,[5] and risk tolerance. In Figure 2, we describe Environment Canterbury Regional Council's approach to managing its risks.

10   5   **Risk appetite** is the amount or type of risk that an organisation is willing to pursue or retain.

Figure 2
Environment Canterbury Regional Council's approach to risk management

Environment Canterbury Regional Council has a decentralised approach to risk management.

The Council adopted its formal Risk Management Policy and Framework in 2017. However, the Council's journey of risk management maturity and readiness started when it developed stronger project management processes in 2014. It then emphasised health and safety management in 2016.

The Council's Risk Management Policy and Framework does not mandate specific risk management processes. Instead, it encourages risk thinking.

Under the Council's model, elected members and senior management set the tone for what they expect for risk management. Each group in the Council is expected to take responsibility for its own risk management, and risks are managed throughout the organisation rather than centrally. In effect, elected members and senior management empower staff to identify, manage, and monitor risks.

The Council has organised its services into the following portfolios:

· air quality;

· biodiversity and biosecurity;

· freshwater management;

· climate change, hazards, risk, and resilience;

· regional leadership; and

· transport and urban development.

The Council also has functional areas, such as project management and health and safety. Risk management is carried out at each of these portfolio and functional areas. Relevant managers are responsible for managing the risks in their domains. The managers receive support to establish and strengthen their risk management practices when they need it.

This approach means staff can choose how to identify, assess, and respond to risks. This has been welcomed by staff, who can focus on their actual risks rather than the risk management tool given to them.

Elected members receive regular updates from management on how the Council is managing identified risks through portfolio committees and the performance, audit and risk committee.

The Covid-19 pandemic delayed a regular review of the Council's top risks by elected members. This had not been done when we completed our work.

Councils had appropriate policies and processes in place

2.8   The four councils we looked at had the policies and processes in place that we expected to see. These include:

· a risk management policy;

· appropriate processes and procedures to identify, analyse, and evaluate risks;

· allocated responsibility for the overall leadership of risk management in the organisation; and

· some way of distinguishing between strategic, operational, and projects risks to effectively oversee and monitor risks at the right level.

11

2.9   The four councils we looked at tailored their risk management policies to their needs. Council staff also actively considered these policies when carrying out their risk management roles and responsibilities, including when they managed projects and made decisions more generally.

2.10   In general, the four councils we looked at capture project risks on an ongoing basis. Strategic risks are usually reset on an annual basis through workshops with senior leadership teams and elected members.

2.11   For example, Auckland Council uses a variety of tools and approaches to identify risks. These include:

- risk appetite statements, which are directives from the executive leadership team and endorsed by elected members, to indicate their comfort levels for risk;

- brainstorming sessions with experienced and knowledgeable staff;

- structured techniques (such as strengths, weaknesses, opportunities, and threats (SWOT) analysis; process mapping; and bow-tie analysis[6]);

- annual strategic, council planning, budget, and risk identification workshops;

- regular compliance reviews (internally and externally);

- quarterly reassessment of top and emerging risks with the senior leadership team and the audit and risk committee;

- assignment of ownership and accountability for top risks;

- divisional and departmental risk registers in place; and

- independent reviews of the council's actual risk maturity compared with its desired level of maturity.

Councils need to focus on achieving consistent risk management practices

2.12   Some staff we interviewed said that their council finds it challenging to achieve consistent risk management practices throughout the organisation. This is because different teams apply different risk management processes or apply the same processes inconsistently. This can affect the quality of advice provided to senior management and elected members, and the robustness of decisions made.

2.13   Waipā District Council provides Risk Management Guidelines, and staff training and support, to help improve the consistency of risk management practices throughout the organisation. The guidelines provide different approaches to identifying risks, tools for risk analysis, guidance on writing risk statements, and an explanation of the "likelihood" and "consequence" ratings and how these translate into inherent risk assessments and the suggested treatment options.

---

6   **Bow-tie analysis** is a visual way of showing the effects of a hazard, the risk it presents, the consequences, and the controls that should be implemented.

12

Committing to risk management

3

3.1 Council staff and elected members need to understand the importance of managing risk and having a strong and sustained commitment to effective risk management.

3.2 Council staff and elected members should express this commitment by:

- setting the tone from the top and expressing a commitment to risk management through a risk policy;

- integrating risk management throughout the council – particularly in its setting of strategic priorities and decision-making processes;

- being appropriately resourced with staff who are adequately trained and experienced in risk management; and

- elected members having a shared understanding of their roles and responsibilities in risk management (see Part 4).

3.3 The four councils we looked at are strongly committed to risk management and recognise its importance to achieving their objectives.

Councils should have someone responsible for leading risk management

3.4 Our survey asked councils whether they had a dedicated risk manager. If they did not have a dedicated risk manager, we asked why. If they did have a dedicated risk manager, we asked who the risk manager reported to (see Figure 3).

Figure 3
Whether the councils we surveyed had a dedicated risk manager

Does your council have a dedicated risk manager?

34
councils that responded to our survey said they have one.

25
councils that responded to our survey said they did not have one.

15
councils that do not have one said it was because they are too small and/or it is unaffordable.

Source: Office of the Auditor-General.

3.5   Of the councils that did have a dedicated risk manager, seven risk managers reported to their chief executive.

3.6   Although not all councils can afford to have a dedicated risk manager, they should have someone responsible for enabling and encouraging good risk management practices.[7] The risk manager is not responsible for managing risk but helps lead and monitor risk management processes throughout the council.

3.7   If a council has an internal audit function, then the internal auditor should not be responsible for risk management decisions. Internal audits provide assurance that risk management activities are appropriately designed and implemented, and that they are operating effectively.

3.8   Internal audits are risk based, which means internal auditors need access to risk information. Sometimes, the internal auditor is asked to co-ordinate or aggregate risk intelligence. However, if the internal auditor is seen to have responsibility for risk management, then their independence might be questioned.

Councils need to improve the integration of risk management into council activities

3.9   From the councils we looked at, we saw that it can be challenging for councils to integrate risk management into their activities, particularly when making decisions about operational risks.

3.10   Figure 4 describes how, to support effective decision-making, Auckland Council includes a risk section in all governance reports.

Figure 4
Auckland Council includes a risk section in all governance reports

Auckland Council includes a risk section in its report for governors (including local boards). The report template provides report writers with guidance on how to fill out the risk section. This section must be populated.

The Council also runs an ongoing quality advice programme. As part of the programme, training and guidance is provided to report writers who advise decision-makers about risks and mitigations.

Having a risk section means that staff are prompted for their consideration and management of risk. Staff we spoke to said that there has been an increased commitment and understanding of what risk management is and why it is important.

Auckland Council has enforced this discipline for some time. This and its other initiatives, which include increasing risk management conversations throughout the Council, have improved the quality of reports going to the governing body.

14   7   The International Standard *ISO 31000* (2018) discusses leadership and commitment in Part 5.2.

Culture is critical to integrating risk management

3.11   Effective risk management is not just about the systems and processes in place (the "architecture") – it is also about how staff implement it in their day-to-day work. Councils should consider how to implement an appropriate culture in their organisation that would best support integrating risk management into all their activities.

3.12   Hastings District Council's Chief Executive expressed a commitment to risk management in the Council's Enterprise Risk Management Policy and Framework. In that commitment, the Chief Executive notes:

> *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.*

3.13   As Figure 5 shows, Hastings District Council's framework describes guiding behaviours (such as "we openly and constructively engage in risk discussion at all levels") and how success will be measured (such as "staff know how and when to discuss risk with management based on good process and a supportive environment").

Figure 5
Hastings District Council's Risk Management Policy and Framework

Guiding behaviours

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

Measuring success

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

15

3.14   The way that risk is considered by elected members, at a council's audit and risk committee, and by management (collectively and individually), creates a culture. That culture has a significant bearing on whether a council will successfully identify and manage risks.

3.15   In Figure 6, we describe Auckland Council's use of risk champions to support its risk management culture.

Figure 6
Auckland Council's use of risk champions

Auckland Council has designated between 50 and 60 staff as risk champions. The risk champions are important for embedding good risk management culture and good practice throughout the Council.

One risk champion we spoke to described their work as an advocacy role, promoting good practice in risk management. They saw the value of their role in increasing the conversation about risk management throughout the Council and, in particular, supporting their department to improve how it considers and manages risks.

Before Covid-19, the risk champions met every two months to look at risks throughout the Council. Risk kōrero were reinstated in January 2021. The January meeting discussed how to effectively integrate risk management into everything the Council does. The risk champions were briefed on the Council's latest reassessment of its top risks, and they provided feedback on the likelihood and impacts of each risk at a divisional and departmental level.

This information has been recorded and informs the assessment and management of the Council's top risks. The Council continues to develop a programme for the risk champions, including holding regular meetings.

Staff and elected members need more support and training

3.16   Staff and elected members need to understand why risk management is important to their council's business, how it relates to their roles, and the part it plays in good decision-making.

3.17   We found that councils in general recognise that they need to do more in respect of training and development, and have ongoing conversations, so that elected members and staff understand their role in managing risk. This would help them more consistently consider and discuss risks and their impact on the council's decision-making.

3.18   Elected members often receive information about a council's risk management activities and their role in risk management as part of their post-election induction. However, we found that subsequent workshops or training sessions often did not happen. One council scheduled a follow-up forum that only a small number of elected members attended.

3.19   Queenstown-Lakes District Council has a risk management intranet page with links to relevant resources. The Council also provides internal training on new aspects of its risk management processes to some staff. Staff with stronger risk management backgrounds run the training.

16

3.20   Auckland Council identified four high-risk areas needing consistent training (cyber security, integrity, health and safety, and privacy). The Council made online learning modules mandatory for all staff and included them in the onboarding programme for new staff. Overall, about 80% of all Auckland Council staff have completed the training to date.

3.21   Auckland Council also provides risk management training and "how to" guidance to staff and elected members in conjunction with its organisational development programmes. These include the Kura Kawa (elected member development programme) and the staff quality advice and risk champions programmes.

Risk aware versus risk averse

3.22   Risk management practices are not usually designed to eliminate all of an organisation's exposure to risk.

3.23   We heard through our work that councils can have a risk averse[8] culture across both elected members and staff, which reflects a conservative risk appetite. Because of councils' obligations to be financially prudent and accountable to their communities, this is not surprising.

3.24   Councils are also at times subject to significant scrutiny not just from their communities but also central government and interest groups, such as residents' or ratepayers' associations.

3.25   However, risk management is not just about avoiding or reducing the impact of bad outcomes. Risk management is also about supporting an organisation to succeed.

3.26   As well as posing a threat, risk can be an opportunity for developing innovative ways of working. Not looking for or not taking opportunities when they arise also has risks. There is a difference between being "risk aware" and "risk averse".

3.27   Councils need to understand and be transparent about the risks they take on and the benefits they seek. Not all initiatives will succeed, and sometimes the speed of implementation can deliver benefits quickly but put the cost or quality of those benefits at risk. Using reliable information to balance risk and return is part of good risk management.

3.28   Councils need to consider value creation and the potential for innovation when setting their risk appetite. The need for innovation has never been more important given the challenges councils are facing to deliver services to communities within budgetary pressures.

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8   According to the *Cambridge Dictionary*, being **risk averse** means being unwilling to take risks or wanting to avoid risks as much as possible.   17

4

Clear governance and management roles and responsibilities

4.1   Councils should have a structure for how they govern and manage risk, with defined levels of accountability. Roles and responsibilities for the governance and management of risk are often split between different individuals and teams. Therefore, it is vital that these roles and responsibilities are documented and understood. This includes the roles and responsibilities of elected members and audit and risk committees.

4.2   Collectively, elected members are responsible for setting the risk management tone and objectives for their council. They are also responsible for overseeing the council's strategic, financial, operational, and reputational risks. This is because elected members are ultimately accountable to the public for their council's performance.

4.3   Audit and risk committees can support elected members in risk management. However, there should be clear lines of communication between the audit and risk committee and the elected members about risk management.

Audit and risk committees' important role in risk assurance

4.4   Audit and risk committees could be better thought of as risk and assurance committees. Their focus should be on risk, and their purpose should be to provide assurance to elected members that their council is managing risk well.

4.5   Risk is the effect of uncertainty on achieving an organisation's objectives. Therefore, it is important that audit and risk committees have a good understanding of what their council is trying to achieve now and in the long term. Audit and risk committees should also understand the council's key risk areas, including the likelihood of those risks occurring and the consequences if they do.

4.6   Audit and risk committees can help a council by:

- reviewing the effectiveness of a council's risk management framework, policies, processes, and controls, which provides assurance to elected members that there are effective internal controls to manage risks and that the risk management framework is fit for purpose and used effectively;

- providing assurance that a council's strategies are achieving their intended objectives;

- helping elected members test and challenge new ideas and business-as-usual operations so that the council improves and meets its objectives; and

- providing an opportunity for the chief executive or other senior managers to test ideas in a constructive forum.

4.7   In our view, each council should consider the appropriate functions and role of its audit and risk committee for risk management. Audit and risk committees should have the training and support they need to carry out their role.

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Attachment 4

4.8   We saw effective risk management in the four councils we looked at. The audit and risk committees of these councils had clear roles and the right experience and skillsets for the types of risks their councils face. The four councils' audit and risk committees all received updates from risk managers at each committee meeting.

4.9   The audit and risk committee chairpersons we spoke to noted that their council's processes have matured significantly. This was often demonstrated during the response to Covid-19, with audit and risk committees playing a critical role.

4.10   In Figure 7, we describe Waipā District Council's audit and risk committee's role in risk management.

Figure 7
Waipā District Council's audit and risk committee

We saw some good practice applied by Waipā District Council's audit and risk committee. The committee was established in September 2015, and an independent chairperson was appointed in December 2019. The committee is a sub-committee accountable to the elected members for the Council's risk management activities.

The committee's role in risk management is to:

- ensure that the Council's risk management framework is current, comprehensive, and appropriate;
- assist the Council in determining its risk appetite;
- review the effectiveness of the Council's risk management framework and internal control systems; and
- review risk management reporting quarterly.

The committee meets quarterly and is provided with a Quarterly Risk Management Report. The report provides an update on key insights; strategic, operational, and project risks; emerging risks; an update on the mitigation actions taken; internal audit activities; and how the implementation of the risk management strategy is progressing.

The main purpose of the quarterly reports is to provide a basis for discussion and start effective risk conversations.

The committee asks the following three questions to hold management to account:

1. Are management happy with where risk management is at?
2. If not, what do they need to do to respond to that risk?
3. Does management have the support they need to respond to risk?

Standing items on the committee's agenda cover:

- a "deep-dive" discussion on one of the Council's top risks (this is on a rotating basis, with the intent that each top risk is discussed once a year);
- an organisational risk discussion with the Chief Executive; and
- a group risk discussion with each of the group managers on a rotational basis that covers what is on the manager's work programme, what is on their upcoming work programme, and what "keeps them awake at night".

There are clear lines of communication between the committee and the full Council.

The Council reviews the performance and effectiveness of its audit and risk committee through an annual perceptions survey. All elected members and key staff members who work regularly with the committee complete this survey. The first survey was carried out soon after the committee was established and acts as a baseline. Subsequent survey results provide a long-term view of the committee's effectiveness.

19

Improving elected member confidence in risk management

4.11   Identifying, understanding, and managing risk is a core part of the role of elected members. Elected members should:

- establish a tone at the top that promotes a risk-aware culture;

- set the council's risk policy and approach;

- be informed about risks and the measures that management is taking to manage significant risks; and

- ensure that the council has appropriate processes for identifying, assessing, and responding to risks in keeping with its risk approach and that these processes are operating effectively.

4.12   We saw a need for councils to have a stronger focus on the role that elected members play in risk management. This includes ensuring that elected members are getting the training and support they need to carry out their risk management roles and responsibilities.

4.13   Elected members need to be able to make informed decisions about how to deliver their council's objectives that have been set in consultation with their community. They also need to understand the implications of these decisions.

4.14   This includes understanding the risks associated with progressing a proposed course of action and how their council is managing these risks. Elected members need to be able to test the information they receive from council staff and make well-informed decisions.

4.15   It is important that elected members understand the context in which they are making decisions on behalf of their community and the implications of the risk information staff provide to them.

4.16   Staff and elected members need to discuss risk and how it should be managed in a clear way. Good communication between elected members and management is essential to set risk management expectations, including roles and responsibilities and the council's risk appetite and risk tolerance levels.

Recommendation 2

We recommend that councils ensure that elected members get the training and support that they need to carry out their risk management roles and responsibilities.

20

Councils' top risks

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5.1   The risks councils face are wide ranging. They include risks related to health and safety, the impacts of climate change, fraud, cyber-security, asset failure, cost escalation, drinking water quality, and changes in regulatory standards.

5.2   We asked councils what they identified as their top five risks. Of the 56 councils that responded to this question, 11 said that health and safety was their number one risk and six said the impact of climate change was their number one risk (see Figure 8).

Figure 8
The top risks identified by councils were wide-ranging
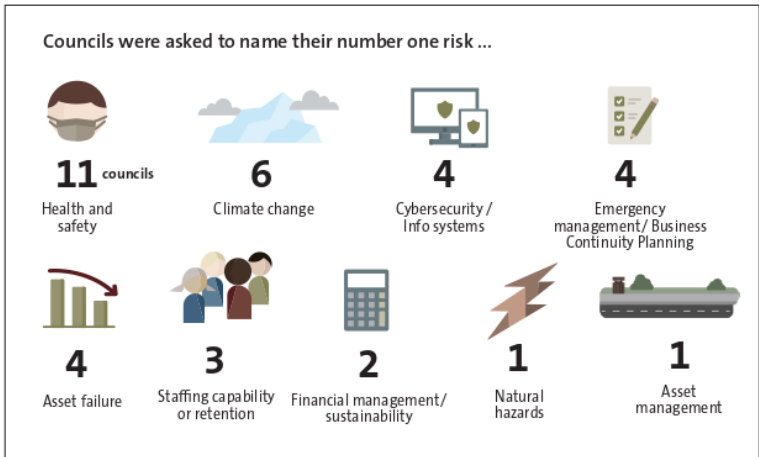
Note: This is a sample from the responses received from the 56 councils, not a total list.

5.3   In our local government work, we often find instances where poorly managed conflicts of interest and procurement risks reduce the public's trust and confidence in a council. However, not many councils we surveyed listed conflicts of interest or procurement as a top risk.

5.4   We looked at two specific risks – climate change and asset management (including asset failure) – and considered how three councils were looking to mitigate the risks that they had identified.

Climate change

5.5   Six councils in our survey said that their number one risk was responding to climate change impacts. Several other councils included this in their top five risks.

5.6   Climate change poses risks to council activities, and council activities affect the climate. Councils need to:

- advise their elected members of these risks;

- communicate these risks to their communities; and

- make informed decisions about how to manage their assets and deliver services in response to these risks, including assessing options and their cost implications.

5.7   As at February 2020, 17 councils have declared climate emergencies (see Appendix 2). However, in their responses to our survey, some of those councils did not have climate-related risks in their top five risks.

5.8   This might be because those councils are not integrating their climate-related strategy and/or policy decisions into their risk management practices. Another reason might be that councils have incorporated climate change-related risks into other risk categories, such as asset failure.

5.9   If councils are to make well-informed decisions about their climate change work programmes, it is important that they integrate their decision-making and risk management. This also demonstrates to their communities that they are acting on their climate emergency declarations.

5.10   The Task Force on Climate-related Financial Disclosures framework has been developed to provide clear and comprehensive information on the impacts of climate change. The framework is structured around four core categories, one of which is risk management. Councils are encouraged to become familiar with the framework.[9]

5.11   In Figure 9, we describe Queenstown-Lakes District Council's approach to embedding a consideration of climate change risks into its current and future risk context.

9   Matt Raeburn and Rick Lomax (July 2021), "TCFD framework and climate change obligations", *Local Government Magazine New Zealand*, pages 40-42.

Figure 9
Queenstown-Lakes District Council's approach to embedding a consideration of climate change risks in its risk context

Queenstown-Lakes District Council has taken steps to embed climate change into its current and future risk context. The Council identified ineffective planning for climate change as one of its top five risks.

The Council adopted a climate action plan after consulting with its community, holding workshops, and commissioning scientific research on climate change impacts and implications for the district until the end of the century.

The climate action plan has the following five key outcomes:

1. The community looks to the Council for leadership and action.
2. Queenstown-Lakes District has a low-carbon transport system.
3. Built environment and infrastructure are climate responsive.
4. Communities are climate conscious and resilient.
5. The economy and natural environment thrive together.

The plan is supported by a range of actions that involve – and need implementation support from – all directorates of the Council. When consulting the community on its 2021-31 long-term plan, the Council sought views on whether to maintain its current level of investment into activities to achieve climate goals or to increase this investment. The plan is aligned with the Council's other strategies and outcomes.

Actions under the climate action plan to date include forming a Climate Reference Group and developing a draft Emissions Reduction Masterplan and Sequestration Plan for the district. The plan notes that the Council will develop a performance framework and identify key performance indicators.

The Council considers that there is good engagement with the climate action plan and strong community support, both in terms of adapting to climate change effects and reducing emissions. The Council aspires to have net zero carbon emissions in communities in the district as part of its Vision 2050 strategy.

Council officers report on progress in implementing the Council's climate action plan as a standing item in the Audit Finance and Risk Committee agenda and identify areas for further investment and action. The reports update the committee on progress in achieving the five outcomes, actions in the plan, priorities for the next quarter, actions that have been delayed or rescheduled, risk mitigations, and updates on changes in the operating environment (such as the Climate Change Commission's advice).

Asset management

5.12   Many councils' top risks relate to asset management. Councils are responsible for managing assets with a combined value of more than $160 billion. Councils deliver core services to their communities through these assets. Councils are accountable for the decisions they make about how these assets are managed.

5.13   Climate change, natural hazards, growth, increasing environmental and health standards, regulatory change, understanding the condition of existing infrastructure, and funding constraints all affect whether councils achieve their asset management and service delivery objectives.

23

5.14   Many assets are also coming to the end of their useful life, and performance issues might arise as a result. We have previously highlighted concerns that councils might not be sufficiently reinvesting in their critical infrastructure assets. This is based on planned renewals expenditure being less than the forecast depreciation charge.[10]

5.15   Recently, as part of their 2021-31 long-term plan consultation, several councils identified that they have been underinvesting in their assets.[11] Some communities are already experiencing asset failures because of this underinvestment.

5.16   To manage infrastructure assets, councils need to have reliable information about the condition and performance of their assets. Reliable asset information is important for mature asset risk management.

5.17   However, many councils struggle with getting reliable asset information, despite the benefits. In Figure 10, we describe Waimakariri District Council's approach to managing its assets.

5.18   To govern the management of assets effectively, elected members should ask questions and/or receive information (preferably trend information) about the following:

• What is the knowledge we have about our assets?

• What percent of our assets have been inspected and when?

• How are we monitoring the performance of our assets?

• What are the asset failure trends?

• What do we spend on reactive versus planned maintenance versus relevant benchmarks?

• Does our future investment programme adequately consider risk and allow the council to take a risk informed investment approach?

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10   Office of the Auditor-General (2020), *Insights into local government: 2019*, paragraph 1.10.

11   For example, see Central Hawke's Bay District Council (2021), *Facing the Facts: Consultation Document Long Term Plan 2021-2031*, page 2.

Figure 10
Waimakariri District Council's asset planning and information

Waimakariri District Council recognises that good asset planning and information helps manage risks at a strategic level and when it responds to an immediate issue, such as the Canterbury earthquakes in 2010 and 2011. When the earthquakes happened, the state of its assets held few surprises for the Council. Within days of the earthquakes, the Council was able to make significant decisions about replacing pipes to restore assets and accommodate the required future growth in the district.

For many years, the Council has prioritised its understanding of what assets it owns, where those assets are located, hazards that might affect its assets, and where there is capacity for growth – including population, demographic, and industry changes. The Council has collected all of the important information for reticulation pipes, such as pipe diameter, ground conditions, and how deep the assets are.

The Council has assessed vulnerable and critical assets, and it has plans in place to renew these assets before they fail.

The Council has taken a long-term view in preparing its infrastructure strategy. As a result, it has ring-fenced the money it needs for its asset renewals. The Council has also costed the likely impact of another natural disaster and has sufficient "head room" in its financial strategy to respond to such an event.

There is a strong commitment to resourcing for both staff and technology. The Council actively recruits interns and graduate engineers and provides them with training. This supports a sustainable workforce.

The Council reviews its risk register quarterly and reports a reasonable level of detail. The Council has recognised that it needs to improve its reporting to elected members, noting that reporting often influences the desired change. The Council currently provides detailed asset management plans and reports compliance on performance measures and the capital works programme to its elected members. However, this does not report on service level outcomes, and the Council has noted that this is a matter it could report on.

5.19   We have reported that many councils plan to invest in their assets at significantly increased levels. However, they have struggled to achieve their capital expenditure programmes.[12]

5.20   Project delays or deferrals are typically the most common reasons councils give for spending significantly below their capital expenditure budgets. These delays can be caused by re-prioritising council projects, internal delays (such as consenting issues), and contractual delays (such as tender processes taking longer than expected). These risks are often not well described or understood when capital programmes are approved.

5.21   In Figure 11, we describe Waipā District Council's approach to managing the risk of not delivering its capital works programme.

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12   Office of the Auditor-General (2020), *Insights into local government: 2019*, page 13, and Office of the Auditor-General (2019), *Matters arising from our audits of the 2018-28 long-term plans*, pages 19-20.   25

Figure 11
Waipā District Council's approach to managing the risk of not delivering its capital works programme

Waipā District Council staff told us that the Council's most pressing risk is how to deliver its capital works programme to provide the infrastructure to support expected high levels of growth.

The Council continually reviews project risks and assigns these to "owners" where appropriate. Project managers identify risks at a project level, but the owner of the work programme is expected to consolidate risks at a programme level. This enables cross-organisation responses to be prepared.

Risks filter down through the Council's business planning process and are reported to the audit and risk committee quarterly. The key purpose of the report is to provide a base for discussion and start effective risk conversations by the committee. The report provides the committee with the results of the quarterly review of risks, an update on the status of the mitigation measures, and an update on the implementation of the risk management strategy. The executive also carries out a quarterly review of the report in the lead-in to the audit and risk committee review.

5.22   Councils need to deliver large and complex capital programmes. This was reinforced in councils' 2021-31 long-term plans, where capital expenditure forecasts continue to significantly increase over long-term plans.

5.23   We consider that, given the complexity of decisions that councils need to make about large infrastructure projects, they could make more use of specialised risk management techniques. We have seen limited use of such techniques by councils.

5.24   Quantitative risk analysis or assessments can assist councils in decision-making by providing a probability associated with particular outcomes. This would enable councils to understand what controls or interventions are likely to have the greatest effect on reducing risk.

5.25   Councils cannot make strategic decisions if they do not know where their risks are and what effect they have.

Recommendation 3

We recommend that councils consider using more sophisticated techniques for identifying and managing risks on key programmes of work, such as quantitative risk assessments, given that the assessments that many councils make, particularly on the delivery of their capital expenditure programmes, need a high level of judgement.

26

The failure of important relationships is a strategic risk

5.26   Councils depend on successful relationships to achieve their strategic objectives – including relationships with neighbouring councils, central government, mana whenua, and their council-controlled organisations.

5.27   We saw councils recognising the failure of key relationships as a strategic risk. In Figure 12, we describe Auckland Council's identification of its inability to achieve Māori outcomes as a top risk.

Figure 12
Auckland Council – achieving Māori outcomes

In May 2020, Auckland Council identified its inability to achieve Māori outcomes because of Covid-19 as a top risk. The Council noted that Covid-19 was expected to have serious and prolonged effects on all vulnerable communities. There was a potential risk that the Council might be unable to meet its responsibilities to Māori, which would have a range of significant impacts and consequences.

Risks have been defined in three related parts as the risk of:

- not delivering on commitments to mana whenua, iwi, mataawaka, and Māori communities and customers;
- not honouring te Tiriti o Waitangi principles and not maintaining the Council's Treaty-based partnerships with Māori; and
- Māori reporting distrust and lack of confidence in the Council.

27

6

Improving risk management

6.1   An audit and risk committee chairperson we spoke to said that risk management is a journey, not a destination.

6.2   There are many risk management maturity assessment frameworks available, including the *All-of-Government Enterprise Risk Maturity Assessment Framework*.[13] This covers:

· **Leadership and direction**: governance, culture, and continuous improvement;

· **People and development**: roles and responsibilities, resourcing, skills, and training;

· **Processes and tools**: risk assessment and mitigation, assurance, and risk monitoring and reporting; and

· **Business performance**: strategic risk management, managing risk in partnerships, business resilience, and change and transformation.

6.3   Councils can use the *All-of-Government Enterprise Risk Maturity Assessment Framework* to assess their current maturity and help determine what they need to do to improve maturity.

Approaches to improving risk management maturity are unique to each council

6.4   The four councils we looked at acknowledged they needed to improve their risk management maturity and are doing so.

6.5   Environment Canterbury Regional Council plans to continue further integrating its risk management thinking and processes into its organisational culture and practices. To date, the integration of risk management has been deliberately gradual. Environment Canterbury Regional Council has prioritised working with staff who are more receptive to improving their risk management practices in the first instance.

6.6   In Figure 13, we discuss Waipā District Council's approach to applying a change management lens to improving its risk management maturity.

28   13 For more information about the framework, see digital.govt.nz.

Figure 13
Waipā District Council's approach to applying a change management lens

In 2018, Waipā District Council had external consultants complete a maturity assessment of its risk management framework and supporting processes. This work was part of the Council's internal audit plan. The aim was to identify areas for improvement.

The consultants rated the Council as having "sustainable" risk management. The ratings the consultants used were "weak", "sustainable", "mature", "integrated", and "advanced". The Council intends to move its rating from "sustainable" to "mature" over three years. The rating "mature" is considered best practice for the local government sector.

The consultants recommended that the Council:

- develop a formal risk management strategy and processes for monitoring and reporting key risks;
- consolidate key risks in the strategic risks register and avoid duplication of enterprise-wide risk registers;
- clarify roles and responsibilities of the audit and risk committee and the finance and corporate committee for risk monitoring and oversight; and
- develop more awareness, guidance, and uplift in ownership and capability of frontline staff to enable them to use risk management strategically.

The Council developed a three-year risk strategy that set out initiatives designed to achieve a "mature" rating:

- In Year 1 (2019/20), the Council developed documents that provided the foundation for risk management in the Council.
- In Year 2 (2020/21), the Council focused on organisation-wide awareness building and capability development to carry out risk management, making managing risk more systematic by building the risk management framework into the organisation.
- In Year 3 (2021/22), the Council will re-evaluate the risk strategy.

The Council is implementing this strategy through a risk management improvement programme. It also has a change management plan to support implementing this programme.

Applying a change management lens has been core to the Council's risk management strategy.

The Council carried out a risk and compliance survey in January 2020 to gauge the level of awareness, knowledge, and understanding of business risk and compliance throughout the organisation. The results established a baseline and informed the content of the change management plan.

A key part of the Council's risk management strategy has been setting up a Risk and Compliance Oversight Group, which includes staff from the organisation. This Group supports the implementation of the risk management strategy, champions risk management, provides advice and support to staff, and provides a channel for communications.

To date, the Council has appointed a dedicated business resilience and risk advisor role and an independent chairperson of the audit and risk committee, and it has laid the foundations of its risk management framework.

29

6.7   Every council should assess the level of risk management maturity it needs and establish a formal plan to achieving that maturity. Councils should carry out progress reviews to inform progress.

Recommendation 4

We recommend that councils assess their desired level of risk management maturity and prepare a clear plan to achieve this. Regular formal reviews of their risk management practices should be carried out to inform progress and identify areas for improvement.

Aspects of risk management that councils need to improve

6.8   Based on the risk management practices of the four councils we looked at, the results of our survey, and our audit work more generally, we consider that most councils have a basic level of risk management maturity.

6.9   Throughout this report, we have identified key areas that councils should focus on to improve their risk management practices. They are:

- someone in the council being responsible for enabling and driving good risk management practices throughout the organisation;

- assessing the level of risk management maturity they currently have and the level they desire;

- formally documenting the risk management practices they expect staff and elected members to apply;

- integrating risk management into all council activities, particularly strategy-setting and decision-making, with a particular focus on embedding the coverage of risk in reports to elected members;

- improving the training and support provided to staff and elected members on their risk management roles and responsibilities;

- ensuring that their audit and risk committee is clear about its role in gaining assurance over the management of risk;

- regularly reviewing risk management activity to inform progress and areas of improvement; and

- making greater use of quantitative risk analysis or assessments to support relevant decision-making.

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Appendix 1
Survey questions

Question
Does your council have a clearly defined framework for managing risk?
Please explain why your council does not have a defined framework for managing risk.
What is the framework for managing risk based upon?
Does your council have a dedicated risk manager role?
Please briefly explain why your council does not have a dedicated risk manager role.
What role within your council does the dedicated risk manager report to?
How many full time equivalents (FTEs) are there in your council that have risk management as a dedicated component of their role (as specified in their job/role description)?
What is the primary role that your council's Risk and Assurance Committee (or equivalent) plays in relation to risk management?
Please list what your council has identified as its top 5 risks.
If the following: climate change; financial management, and/or; provision of infrastructure; do not feature in your top 5 risks, where do they sit in your council's risk management priorities (please answer as numbers). If you have mentioned any of these 3 issues as your answers to the previous question, please simply re-enter the position(s) they belong to in the top 5 list of risks.
What support, guidance and tools would help your council to improve the maturity of its risk management?

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Appendix 2
Councils that have declared climate emergencies

Council	Date climate emergency declared
Auckland Council	11 June 2019
Bay of Plenty Regional Council	27 June 2019
Central Otago District Council	25 September 2019
Christchurch City Council	23 May 2019
Dunedin City Council	25 June 2019
Environment Canterbury Regional Council	16 May 2019
Greater Wellington Regional Council	21 August 2019
Hawke's Bay Regional Council	26 June 2019
Hutt City Council	27 June 2019
Kāpiti Coast District Council	23 May 2019
Nelson City Council	16 May 2019
Ōpōtiki District Council	5 September 2019
Porirua City Council	26 June 2019
Queenstown-Lakes District Council	27 June 2019
Wellington City Council	20 June 2019
Whangarei District Council	25 July 2019
Whanganui District Council	11 February 2020

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Item 7   Strategic Risk Update
Office of the Auditor General - Observations on local government risk management
practices

Attachment 4
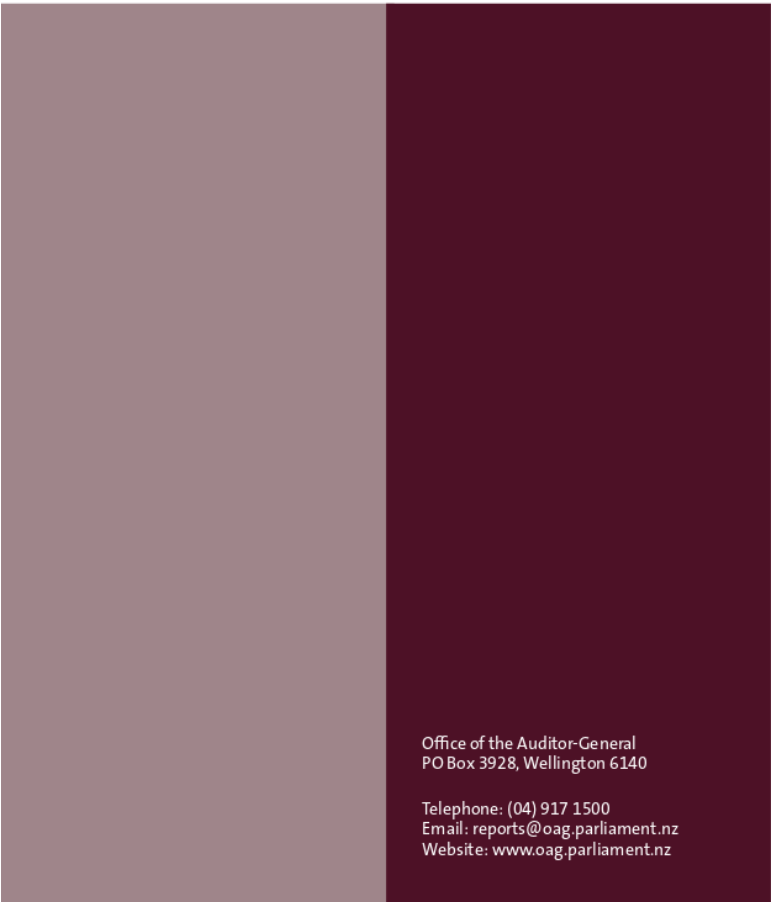
Office of the Auditor-General
PO Box 3928, Wellington 6140

Telephone: (04) 917 1500
Email: reports@oag.parliament.nz
Website: www.oag.parliament.nz

HASTINGS
DISTRICT COUNCIL

Ability to meet legal obligations
Internal Review – Draft Report

Reviewer	Steffi Bird
Purpose of Review	Strategic Risk Review
Date of issue	13 August 2021
Reviewee(s)	Hastings District Council

1. Executive Summary

1.1. Introduction

Hastings District Council (HDC) holds two tiers of risks that are actively monitored – a strategic risk register which is owned by the Council, and an enterprise risk register which is owned by the organisation's Lead Team. The enterprise risk *Ability to meet legal obligations*, was previously owned by Councillors, however, it is now aggregated to the strategic risk *Significant Operational Failure.*

A review of HDC's ability to meet legal obligations was scheduled as part of the planned risk assurance review programme for 2020/21 and approved by the Risk & Assurance Committee in 2020.

The review is supported by the Risk Assurance Charter (PMD-9-1-18-12).

1.2. Objective and Scope

The objective of the review was to assess the effectiveness of the processes which support compliant outcomes. To develop the scope of the review, the BowTie diagram for the risk was evaluated and the critical controls were identified, these were discussed with Council's General Counsel to ensure relevance.

In order to obtain a representative sample of the organisation, four teams with legal obligations were selected as interviewees;

- Transportation
- Public Spaces & Parks
- Youth Development
- Libraries

To form the basis of interviews with selected teams, the following critical controls were used as discussion points and enabled sufficient information to develop this report;

- Supporting professional development
- Internal/external legal advice
- Clear accountability
- Documented induction & training process
- Regular training & exercises
- Non-financial delegation register upkeep
- Keeping abreast of legislation & communication of change
- Utilisation of Westlaw (Thomson Reuters)
- Internal/external audits

A comprehensive system for compliance has been referenced as the basis for best practice regulatory compliance. A comprehensive system for compliance will include activities within each of the themes, *Manage, Design, Operate & Maintain, Monitor*, with an overarching need for defined accountabilities.

It is important to note that the review did not assess the activities or the end result to confirm whether the outcomes were compliant.
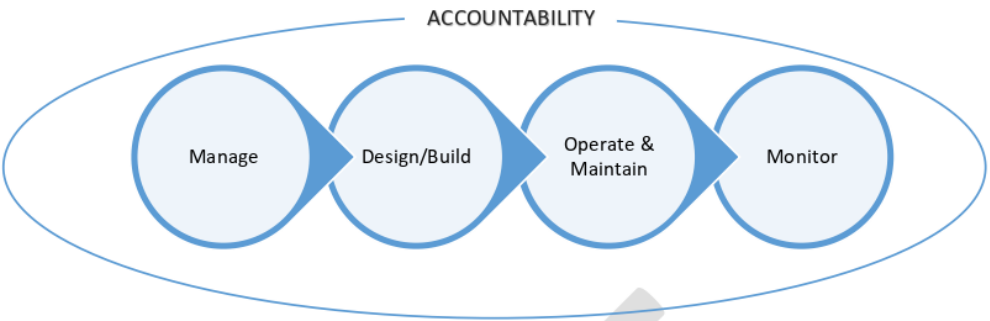
1.3.   Overall Assessment

The following table summarises the effectiveness of the controls assessed during the review:

Indicator	Control Effectiveness	No. of Findings
	None or Largely Ineffective	0
	Partially Effective	0
	Substantially Effective	2
	Fully Effective	2

Within the teams selected for interviews, there are robust processes occurring to support compliance with the necessary legislation. There is an acute awareness of the need to meet legal obligations from managers, resulting in a high level of focus for providing staff with sufficient knowledge and setting expectations for escalating any issues.

Managers consistently recognise the internal support provided by HDC's General Counsel when seeking initial legal support, and aim to engage in that process as early as possible.

The strength of the processes currently undertaken across Council are influenced by those in team management roles. Therefore, there is a need for adequate systems to ensure continuity of these in the event of staff changes.

Overall, Risk Assurance assessed Hastings District Council's Ability to meet legal obligations as being **substantially effective**.

1.4.   Summary of Recommendations

The following table provides an overview of the recommendations which had a risk rating of high or medium.

Risk	Review Area	Summary of Recommendation
	Supporting Professional Development, Induction & Training	Introduction of a standardised system to ensure role-specific training is delivered and monitored across the organisation.

1.5.   Basis and Use of this Report

This report has been prepared in accordance with the Scoping Statement and subject to the principles set out in our Risk Assurance Charter. The report is written on an exceptions basis and therefore only areas requiring high level management consideration and action are included in this report.

Risk Ratings Matrix

		Control Effectiveness			
		Fully Effective	**Substantially Effective**	**Partially Effective**	**None or Largely Ineffective**
Exposure	**Low**	Process Improvement	Low	Low	Med
	Medium	Process Improvement	Low	Med	High
	High	Process Improvement	Med	High	High

Classification of Internal Control Confidence

Rating	Description
Fully Effective	Control is appropriately planned and designed and is operating as intended to address relevant business risks. The control environment is providing a high level of assurance that business objectives will be achieved.
Substantially Effective	Control is appropriately planned and designed, however there are still additional improvement opportunities in the control environment. The control environment is providing an acceptable level of assurance that business objectives will be achieved.
Partially Effective	Control is not operating as intended or has not been designed appropriately to address the relevant risks. Improvements are required in order to achieve an acceptable level of assurance that business objectives will be achieved.
None or Largely Ineffective	Control not yet in place or is fundamentally deficient in addressing the relevant risk. Control is not contributing to an assurance that business objectives will be achieved.

Classification of Exposure

Rating	Description
High	Issue 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.
Medium	Issue which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives.
Low	Issue represents a minimal but reportable impact on the ability to achieve process objectives.

2.   Findings and Recommendations

1. Supporting Professional Development, Induction & Training	Substantially Effective

Finding
Team managers are aware of the legislation relevant to their respective teams. Managers are proactive towards ensuring appropriate training for their staff in regards to legislation, including regular refreshers. New staff are informed of the relevant legal obligations and any delegations they may have by their manager at the time of induction, along with specific legislation often included in position descriptions for some roles. A combination of internal and external training providers are used across the four teams selected as a sample, with a significant level of training delivered through the internal Health & Safety team. Each team interviewed has a different method for assessing the need and tracking completion of training for staff members. These range from using the standard Induction Checklist, to the development and use of a training template across all Libraries staff. While the above-mentioned are considered to be substantially effective, there is a reliance on managers to hold adequate knowledge of the applicable legal obligations. Should an unsuitable candidate be appointed to a key management role, this could expose Council to a higher level of risk.

Recommendations	Exposure	Risk
1.1. Introduction of a standardised system to ensure role-specific training is delivered and monitored across the organisation would lift the effectiveness of inductions and training to support legal compliance. It would also limit disruption if there is a change in management. Training needs should be underpinned by legal obligations specific to the role.	Medium	Medium

2. Internal & External Legal Advice	Substantially Effective

Finding
Managers are conscious of the need to escalate to Council's internal General Counsel for initial legal advice as early as possible. External legal advice may be sought if required, following discussions with the General Counsel.
There are known situations within some functions that will trigger the need for legal advice, for example, land purchases within the Public Spaces team. There is confidence that direct reports will escalate complex situations to their manager to help determine the need for legal advice.
There was limited use or knowledge of Westlaw services (email alerts, system login) from the teams which were interviewed.

Recommendations	Exposure	Risk
1.2. A review of those staff with access to and/or awareness of the Westlaw platform and email distribution lists. Sharing of the details with any relevant staff that may be unaware of it could be of benefit.	Low	Low

3. Keeping abreast of & communicating legislative change	Fully Effective

Finding
Generally, managers are subscribed to appropriate lists which inform them when there is a change to any applicable legislation.
Where available, management and some staff members are part of external industry organisations which provide notification of and support when there are changes, among other networking offers.
Information regarding changes is shared with teams through a combination of emails and regular team meetings, dependent on the level of impact. Regular team meetings also provide an opportunity for members to raise current hot spots and identify potential legal issues before they arise.
In particular, the Community Wellbeing & Services teams sampled had a heightened awareness of recent changes to the Privacy Act, and were proactively communicating the change with staff.

Recommendations	Exposure	Risk
1.3. Wider utilisation of the Westlaw platform and email distribution across Council could be of benefit, especially for those teams with significant consequences for non-compliance.	Medium	Process Improvement
1.4. For management roles with significant legislative obligations, membership of an appropriate professional industry body should be included within position descriptions.	Low	Process Improvement

4. Internal & External Audits	Fully Effective
Finding	
For the teams in the Asset Management Group which were interviewed, there are a range of internal and external reviews which are completed on a regular basis. Audits focus on high risk areas, such as playground design and safety in the Public Spaces team. Given the significant risks associated to the nature of work, the transportation and public spaces teams are well-rehearsed with the audits required to enable compliance with their legal obligations. All teams interviewed have, to some degree, been audited by the Council's internal Health & Safety team, along with some involved in regular audits conducted by Audit New Zealand. The varying number of audits conducted across the four teams supports a risk-based approach to auditing and assurance over areas with significant consequences from non-compliance.	

3.   Management review and Sign-off

3.1.   Sign-off

Business Unit Acceptance and Comments:		
Name:	Signature:	Date:

General Manager Acceptance and Comments:		
Name:	Signature:	Date:

Key Stake Holder Acceptance and Comments (if applicable):		
Name:	Signature:	Date:

Key Stake Holder Acceptance and Comments (if applicable):		
Name:	Signature:	Date:

Key Stake Holder Acceptance and Comments (if applicable):		
Name:	Signature:	Date:

Risk Manager Acceptance and Comments (if applicable):		
Name:	Signature:	Date:

Risk & Audit Chair Acceptance and Comments (if applicable):		
Name:	Signature:	Date

Hastings District Council
Information Security Failure
Internal Review – Report

Internal Review	Enterprise Risk – Information Security Failure
Reviewer	Regan Smith – Risk & Corporate Services Manager
Purpose of Review	Critical Control Review
Date of issue	2 August 2021
Reviewee(s)	IMBT Infrastructure Procurement People Experience

1. Executive Summary

1.1. Introduction

The review of information security at Hastings District Council (HDC) by the Risk Assurance function was undertaken as part of the Review Programme for 2020/21. As all vital business information is held electronically, the focus of this review was the infrastructure services and supporting functions.

The review is supported by the Risk Assurance Charter (PMD-9-1-18-12).

1.2. Objective and Scope

The objective of the review was to assess the effectiveness of critical controls identified in the information security failure BowTie risk analysis. This involved reviewing practices within the Information Management & Business Transformation (IMBT) Team and supporting areas such as procurement and training & development.

The review covered the following areas in regards to security of information technology:

- Staff training and education
- Change control, including software updates and patching
- Business continuity planning and disaster recovery (backups)
- Due diligence process for any third party suppliers
- Access control, including restricted access, multifactor authentication, security management and benchmarking

It should be noted that the review did not attempt to assess the technical suitability of the solutions in place. Rather to review that practices were followed that ensured the critical controls listed above were in place and actively managed.

1.3. Overall Assessment

The following table summarises the effectiveness of the controls assessed during the review:

Indicator	Control Effectiveness	No. of Findings
	None or Largely Ineffective	0
	Partially Effective	3
	Substantially Effective	2
	Fully Effective	1

The IMBT Infrastructure team take steps to assess system performance from multiple angles (e.g. by using external audit, independent testing & simulations) to gain a good understanding of the effectiveness of security measures and to identify potential areas for improvement.

The systems in place to provide network security includes use of fire walls, Crowd Strike for cyber security, Mimecast for email screening and FortiClient for secure remote access. As a result the technical system provides a sounds security foundation.

However, the actions of staff represent the greatest area of vulnerability. This is the area identified in the review that presents the greatest opportunity for improvement by strengthening the IT security knowledge of staff through more regular training. To clearly set the expected training requirements an update of the Access Control Policy is warranted. It was also observed that there would be benefit form an internal discussion to confirm level of security control that is in place to protect various Council data assets.

1.4.   Summary of Recommendations

The following table provides an overview of the recommendations which had a risk rating of high or medium.

Risk	Review Area	Recommendation
	Software Vendor Due Diligence	Incorporate the need to consult with IMBT in to the procurement process.
	Access Control Management	Review and update the Access Control Policy, ensuring level of security control required is covered.
	Staff training and education	Develop an induction training module.
	Business Continuity Planning	Complete development of the Corporate BCP
	Business Continuity Planning	Undertake an IT scenario specific exercise.
	Software Vendor Due Diligence	Identify IMBT staff able to support software selection process.
	Software Vendor Due Diligence	Incorporate the need to consult with IMBT in to the project management framework.

1.5.   Basis and Use of this Report

This report has been prepared in accordance with the Scoping Statement and subject to the principles set out in our Risk Assurance Charter. The report is written on an exceptions basis and therefore only areas requiring high level management consideration and action are included in this report.

Risk Ratings Matrix

The following table is used to determine the risk rating of each recommended action:

		Control Effectiveness			
		Fully Effective	**Substantially Effective**	**Partially Effective**	**None or Largely Ineffective**
Exposure	**High**	Low	Med	High	High
	Medium	Process Improvement	Low	Med	High
	Low	Process Improvement	Low	Low	Med
	Opportunity	Process Improvement	Process Improvement	Process Improvement	Med

Classification of Internal Control Confidence

Rating	Description
Fully Effective	Control is appropriately planned and designed and is operating as intended to address relevant business risks. The control environment is providing a high level of assurance that business objectives will be achieved.
Substantially Effective	Control is appropriately planned and designed, however there are still additional improvement opportunities in the control environment. The control environment is providing an acceptable level of assurance that business objectives will be achieved.
Partially Effective	Control is not operating as intended or has not been designed appropriately to address the relevant risks. Improvements are required in order to achieve an acceptable level of assurance that business objectives will be achieved.
None or Largely Ineffective	Control not yet in place or is fundamentally deficient in addressing the relevant risk. Control is not contributing to an assurance that business objectives will be achieved.

Classification of Exposure

Rating	Description
High	Issue 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.
Medium	Issue which could cause or is causing moderate adverse effect on the ability of the process to meet its objectives.
Low	Issue represents a minimal but reportable impact on the ability to achieve process objectives.

2.   Findings and Recommendations

1. Staff Training and Education	Partially Effective

Finding
The IMBT team take responsibility for running organisation wide training relating to email phishing. This training is delivered through a 3rd party, and includes testing staff through friendly phishing emails. The training is logged and results summarised and reported to the Lead Team for review. For the last round of training in October 2020 approximately 60% of staff, and no Councillors, completed the assigned modules. While this is a good level of participation, it does leave a large number of staff (at the time 132 staff) with an unknown level of understanding of phishing techniques.
IMBT have also distributed notices to staff in response to the Waikato DHB event. However, there was no record of any message or discussion relating to the NZ Stock Exchange event earlier in the year.
It was also acknowledged that structured induction training covering IT requirements and cyber security should be provided to all staff. With the consideration given to the idea that completion of the training should be a prerequisite to gaining access to Council networks.

Recommendations	Exposure	Risk
1.1. Contribute the content for an on-boarding training module, including essential IT knowledge and cyber security skills.	Medium	Medium
1.2. Establish an ongoing programme of training covering cyber security skills that all staff must complete on a regular basis.	Low	Low
1.3. Establish a Cyber Team responsible for monitoring external events and taking appropriate action, including issuing internal staff communications or suggesting changes to the Council security configuration.	Opportunity	Process Improvement

2. Change Control	Fully Effective

Finding

Change Control Process: The change control process is clearly defined in a Sharepoint form used to log, review, approve and manage system changes. The review and approval process is undertaken by a Change Control Committee consisting of the Team Leader Business Transformation and Team Leader IT Operations. Change control committee focuses on Risk (impact of possible system disruption based on knowledge of change committee members) and Recovery (rollback) as key considerations in approving changes. The IMBT team are now using the request process consistently, so this does form a good control point. Although, follow through on closing completed changes needs some attention.

Software Patching: Operating System level version management is automated through Crowed Strike, and maintained at a good level. On premises applications are overseen by the Business Transformation team, who manage system upgrades with the business. However, there is little knowledge of cloud hosted systems and whether all IT requirements, particularly related to security, are being met.

Recommendations	Exposure	Risk
2.1. Determine the criticality of IT systems to business operations as part of Business Continuity Planning to inform change control risk assessment.	Opportunity	Process Improvement
2.2. Create an IMBT work practices document that covers standard practices for IMBT staff, including the requirement to use the change control system.	Opportunity	Process Improvement
2.3. Establish an agreed policy on the requirements for software version maintenance. Specifically, what software version the organisation should be running (i.e. N-1 or N-2), and the oldest acceptable version (i.e. not unsupported).	Opportunity	Process Improvement
2.4. Business owners are identified for all Cloud Hosted systems used by HDC, and the owners are kept informed of the relevant IMBT policies.	Opportunity	Process Improvement

3. Disaster Recovery (DR)	Substantially Effective

Finding
There is a good level of comfort that DR measures cover all required repositories and there is a sufficient number of backup copies in place. There is no process document, but there is online reporting and summaries of system configuration and operation that generally cover this requirement. Restores from backups are regularly performed for VM and file level information. However, no ground up rebuild has been attempted, as this requires additional hardware to be able to ensure the front line service is not affected (NOTE: the plan is to have a 3rd environment available as part of the next server refresh). As a result this control is considered Substantially Effective, and could be considered fully effective if a full rebuild exercise can be undertaken.

Recommendations	**Exposure**	**Risk**
Nil.		

4. Business Continuity Planning (BCP)		Partially Effective	
Finding			
The Corporate Business Continuity plan is currently under development. Scenario specific response plans will also be developed, which will include IT requirements. However, these plans are yet to be adopted, and there has been no IT exercise to understand whether existing response capability would be effective.			

Recommendations		Exposure	Risk
4.1. Complete Corporate BCP, ensuring IT network and security issues are covered.		Medium	Medium
4.2. Undertake a scenario specific exercise that includes recovering the Council IT services.		Medium	Medium

5. Software Vendor Due Diligence	Partially Effective
Finding	

No policy or documented directive exists that instructs staff to undertake a due diligence check of prospective systems or vendors.

A due diligence check of prospective vendors is included in the procurement process (This occurred for the Cemetery System procurement). However, the weakness for the IMBT and procurement teams is being aware of procurement activities that include a technology component. It was noted that this should get better with implementation of SHOP contract management system.

For cloud based software services a Hosted Service Questionnaire exists that covers essential elements based on NZ Government ICT guidelines. However, this is still an area of concern as completion of the questionnaire is not always triggered (e.g. procurement of Rates Distribution system).

Recommendations	Exposure	Risk
5.1. Formally identify the staff within IMBT who can provide advice on acquisition of software.	Medium	Medium
5.2. Include a requirement in the project management framework to contact IMBT when a software acquisition is involved	Medium	Medium
5.3. Include a requirement in SHOP and the Buyers Guide to contact IMBT when a software acquisition is involved	High	High

6. Access Control Management	Substantially Effective

Finding
A Policy covering access control issued by the Chief Information Officer is published on Infokete. The policy was due for review on 4 June 2021. The policy only briefly covers the recommended controls relating legal and regulatory requirements for protection of information as defined in the ALGIM SAM checklist. In particular, there is no adopted position on the level of security control that should be required for various data assets.

The ALGIM SAM for Compliance checklist is being used to benchmark performance and to determine a forward work programme, which is being managed by the Infrastructure team. It was noted that remote working has introduced significant security challenges, and work is ongoing to further improve security of remote connections. The Infrastructure team stay informed through Certified Mail Lists, Crowd Strike service dash board and updates, and Vendor roadshows.

The last external evaluation was undertaken in 2019, and is now due. The team are planning to have a simulated ransomware exercise in the next couple of months, and to utilise Crowe services for external penetration test and vulnerability risk identification. |

Recommendations	Exposure	Risk
6.1. Access Control Policy is reviewed updated, with specific focus on: • Explicitly stating the Council position with regard to the level of security control required over access to information vs openness to promote efficiency of business activities that reflects Council's risk appetite. • The control requirements in the SAM ID.GV.WP1. • The Owner for the policy be changed to GM: Corporate and approved by the Lead Team.	Medium	Medium
6.2. Formalise horizon scanning to inform tactical and strategic planning as part of Action 1.3.	Opportunity	Process Improvement

3. Management review and Sign-off

3.1. Sign-off

Business Unit Acceptance and Comments:		
Name:	**Signature:**	**Date:**

General Manager Acceptance and Comments:		
Name:	**Signature:**	**Date:**

Key Stake Holder Acceptance and Comments (if applicable):		
NA		
Name:	**Signature:**	**Date:**

Risk Manager Acceptance and Comments (if applicable):		
Name:	**Signature:**	**Date:**

Risk & Audit Chair Acceptance and Comments (if applicable):		
Name:	**Signature:**	**Date**

Interest Rate Risk Position   31 October 2021

Item 10

31-Oct-21   Hastings District Council - Forecast

Legend: Fixed Debt | Debt Forecast | Fixed Debt Policy Minimum | Fixed Debt Policy Maximum
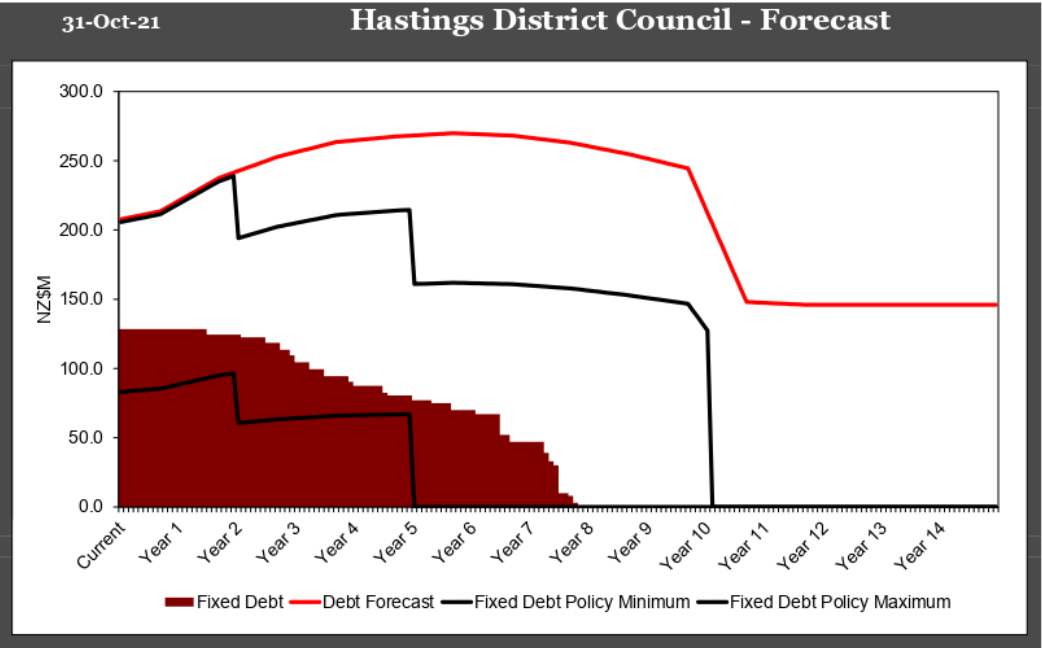
Debt Interest Rate Policy Parameters
(calculated on rolling monthly basis)

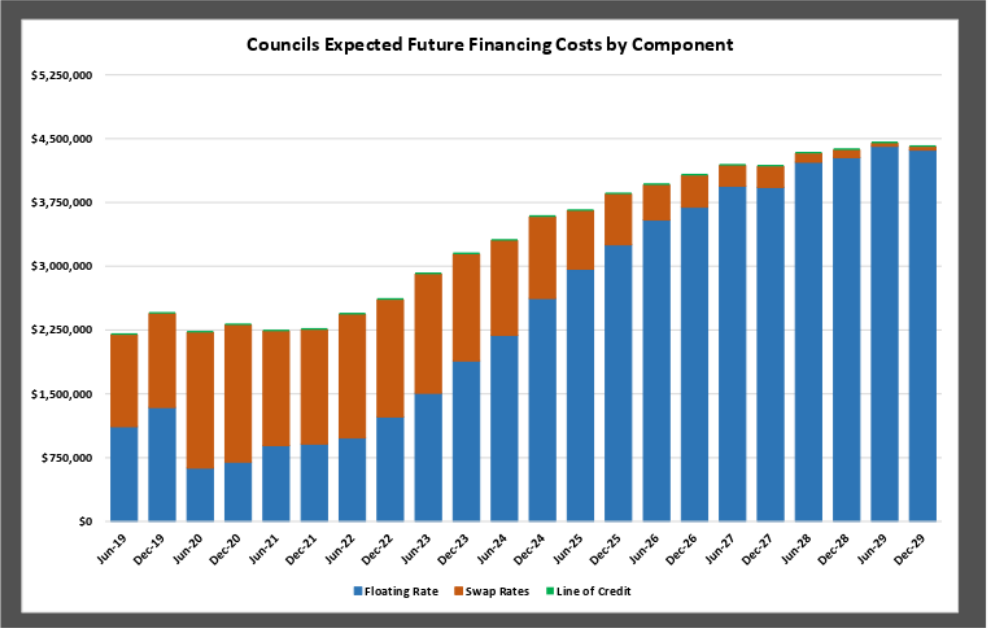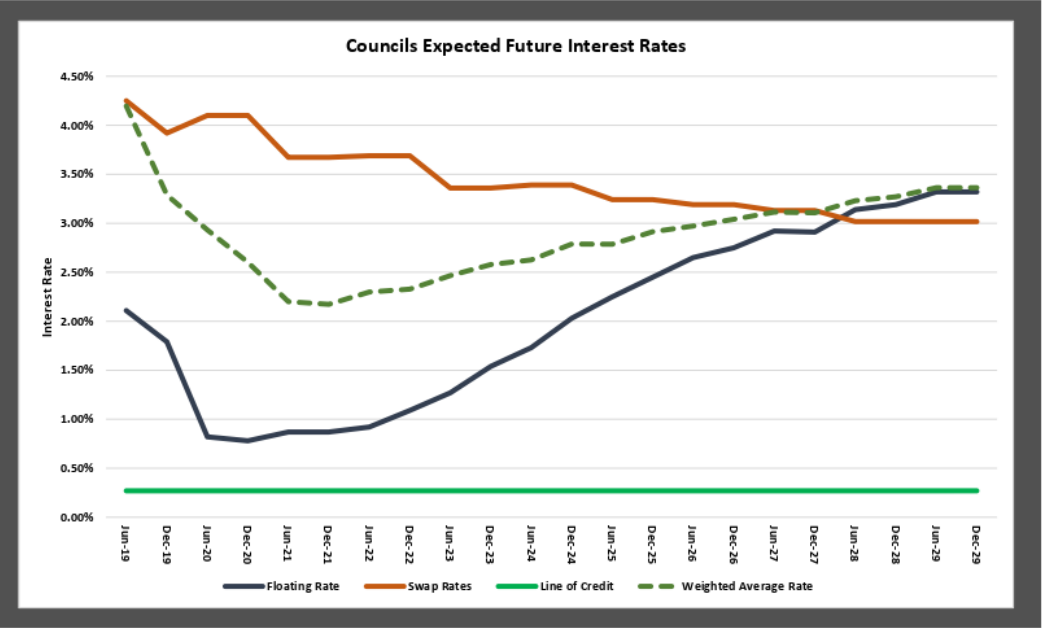| Debt Period Ending	Debt Forecast	Minimum %	Maximum %	Actual	Compliant (Y/N)
Current	206	40%	99%	60%	Yes
Year 1	222	40%	99%	58%	Yes
Year 2	243	25%	80%	51%	Yes
Year 3	256	25%	80%	41%	Yes
Year 4	265	25%	80%	33%	Yes
Year 5	268	0%	60%	29%	Yes
Year 6	269	0%	60%	26%	Yes
Year 7	266	0%	60%	18%	Yes
Year 8	260	0%	60%	0%	Yes
Year 9	251	0%	60%	0%	Yes
Year 10	212	0%	60%	0%	Yes
Year 11	147	0%	0%	0%	Yes
Year 12	146	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

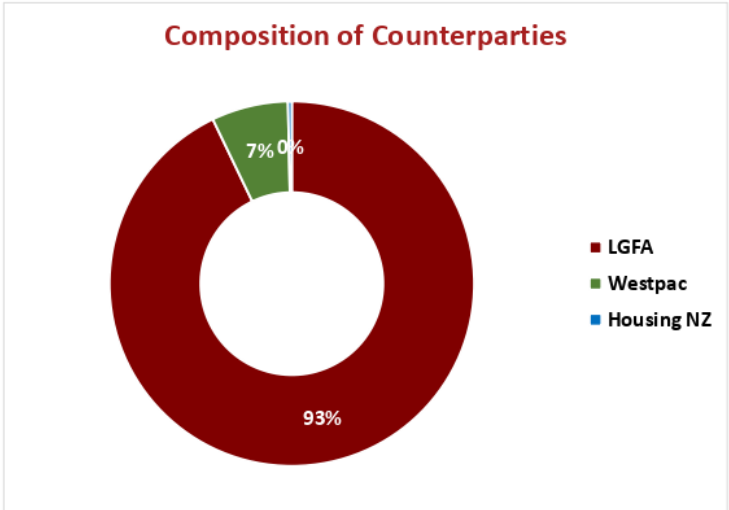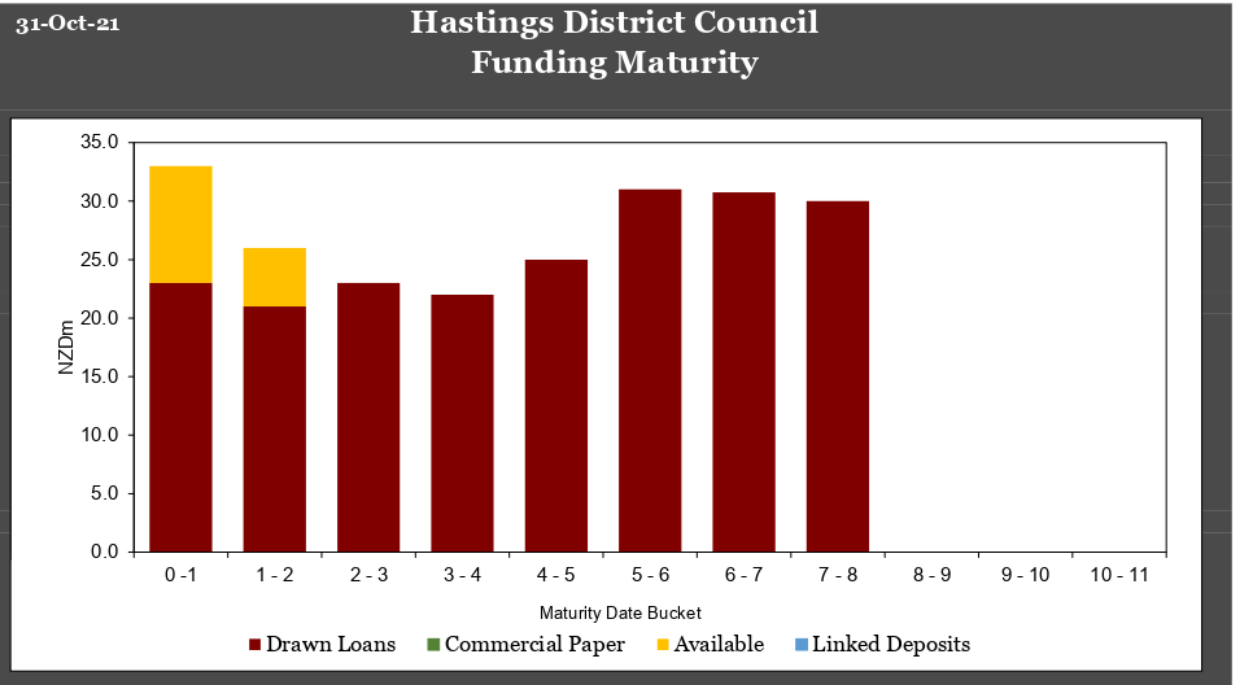|	
Weighted Avg Cost of Fixed Rate Instruments	3.39%
Value of Live Fixed Rate Instruments	$ 123,500,000
Weighted Avg Length of Fixed Rate Instruments	5.54 Years

Councils Expected Future Interest Rates

Legend: Floating Rate | Swap Rates | Line of Credit | Weighted Average Rate

Councils Expected Future Financing Costs by Component

Legend: Floating Rate | Swap Rates | Line of Credit

Cost of Holding Fixed Interest Position

	31-Oct-21			30-Jun-21			Movement for Year		
	Notional Swap Value	Avg Int Rate	Valuation	Notional Swap Value	Avg Int Rate	Valuation	Notional Swap Value	Avg Int Rate	Valuation
Live Interest Rate Swaps	85,500,000	3.92%	(3,537,294)	88,500,000	3.88%	(8,543,926)	(3,000,000)	0.04%	5,006,632
Forward Starting Interest Rate Swaps	27,500,000	4.01%	(1,190,577)	27,500,000	4.01%	(2,208,262)	0	0.00%	1,017,685
Total Interest Rate Swaps	113,000,000	3.94%	(4,727,871)	116,000,000	3.91%	(10,752,188)	(3,000,000)	0.03%	6,024,317

Average Cost of Funds

	31-Oct-21		30-Jun-21		Movement for Year	
	Notional Value	Avg Int Rate	Notional Value	Avg Int Rate	Notional Value	Avg Int Rate
Fixed Rate Loans with LGFA	38,000,000	2.19%	38,000,000	2.19%	0	0.00%
Floating Rate Loans with LGFA	167,000,000	1.07%	167,000,000	0.97%	0	0.10%
Live Interest Rate Swaps	85,500,000	3.92%	88,500,000	3.88%	(3,000,000)	0.04%
Westpac Lines of Credit	15,000,000	0.27%	15,000,000	0.27%	0	0.00%
Fixed Rate Loans with HNZ	740,000	0.00%	740,000	0.00%	0	0.00%
Total External Loans / Average Cost of Borrowing	205,740,000	2.73%	205,740,000	2.68%	0	0.05%

Funding and Liquidity Risk Position   31 October 2021

31-Oct-21
Hastings District Council Funding Maturity

Legend: Drawn Loans, Commercial Paper, Available, Linked Deposits
Y-axis: NZDm
X-axis: Maturity Date Bucket

Composition of Counterparties

- LGFA — 93%
- Westpac — 7%
- Housing NZ — 0%

Funding KPI's

	Minimum %	Maximum %	Actual	Compliant (Y/N)
Liquidity	110%	170%	118%	Yes
Fixed Interest Debt	40%	99%	60%	Yes
Funding Maturity Profile				
0-1 Year	0%	33%	23%	Yes
1-2 Year	0%	33%	11%	Yes
2-3 Year	0%	33%	9%	Yes
3-4 Year	0%	33%	9%	Yes
5-6 Year	0%	33%	10%	Yes
6-7 Year	0%	33%	13%	Yes
7-8 Year	0%	33%	13%	Yes
8-9 Year	0%	33%	12%	Yes
9-10 Year	0%	33%	0%	Yes
10-11 Year	0%	33%	0%	Yes
Net Debt as % Equity		20%	8%	Yes
Net Debt as % Income		175%	103%	Yes
Net Interest as % Income		15%	3%	Yes
Net Interest as % of Rates		20%	6%	Yes

Funding and Liquidity Characteristics

205,740,000
Total External Council Drawn Debt

23,000,000
Forward Start Contract

205,000,000
Funds Drawn from LGFA

1.18
LIQUIDITY RATIO
Definition: (Cash Reserves + Lines of Credit + Drawn Debt) / Drawn Debt

15,000,000
Undrawn Bank Facilities

22,800,000.00
Bank Deposits & Term Deposits

4.04 Years
Weighted Average Length of Funding

Item 10