
Monday, 5 July 2021

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, 5 July 2021**

Te Wā:
Time: **1.00pm**

Te Wāhi:
Venue: **Council Chamber
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings**

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TE KAUNIHERA Ā-ROHE O HERETAUNGA

ITEM	SUBJECT	PAGE
5.	RISK ASSURANCE PROGRAMME UPDATE	
Attachment 1:	Cemeteries and Crematorium Revenue Review 2021 (Crowe)	3
Attachment 2:	Assurance Review Actions Summary - June 2021	11
Attachment 3:	HDC Assurance Review Plan 2021-2024 (Draft)	13
6.	STRATEGIC RISK UPDATE	
Attachment 1:	Risk Identification Chart - Failure of Climate Adaptation	21
Attachment 2:	BowTie - Failure of Climate Adaptation	23
Attachment 3:	BowTie - Success of Climate Adaptation	25
Attachment 4:	People Health, Safety & Wellbeing - Strategic Risk BowTie	27
Attachment 5:	Financial Sustainability - Strategic Risk BowTie	29
7.	DRAFT THREE WATERS REFORM RISK ASSESSMENT	
Attachment 1:	3 Waters Reform Risk Analysis	31
9.	GROUP MANAGER: CORPORATE UPDATE REPORT	
Attachment 1:	Audit Opinion LTP 2021-31	47
Attachment 2:	Council's disclosure on funding of transportation programme	51
Attachment 3:	Audit NZ Letter of Representation re LTP Audit	53
Attachment 4:	Risk & Assurance Status of Actions Sheet July 2021	59



Contents

Contents 2

1. Executive Summary..... 3

1.1. Scope and objectives..... 3

1.2. Summary of findings 3

1.3. Basis and Use of this Report 4

2. Results and recommendations Error! Bookmark not defined.

Appendices Error! Bookmark not defined.

Appendix 1 – Detailed scope Error! Bookmark not defined.

Appendix 2 – Interviews completed Error! Bookmark not defined.

Appendix 3 – Classification of internal audit findings 5

Appendix 4 – Basis and use of opinion 6

1. Executive Summary

1.1. Scope and objectives

The objective of the assignment was to review the policies, procedures and controls in place at the Hastings District Council (HDC) to ensure the completeness of fee setting, invoicing and collection at the four Hastings cemeteries and crematorium.

The scope of the audit included the following:

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

1.2. Summary of findings

Our review identified four medium risk findings, three low risk findings and two process improvement opportunities. More detail on the risk rating scale is provided in the table in Appendix 3.

Indicator	Risk ratings	Findings
	High risk	1
	Medium risk	3
	Low risk	1
	Process improvement	0

The following table provides an overview of the findings of the review which had a risk rating of High or Medium.

Cemeteries and Crematorium
Revenue & Invoicing

Hastings District Council

4

Audit area	Summary of Recommendations
FINDINGS AND OPPORTUNITIES FOR IMPROVEMENT	
Finding 2.1: Access Rights to Cemeteries Systems	<ul style="list-style-type: none"> It should be ensured that the user roles and access rights are understood and that staff members are only provided with the access rights that they need. Administrator access rights should be restricted as far as possible. Generic user accounts should not be used. If the Plotbox user account belongs to the Plotbox provider then the access should be blocked and reinstated only when needed by the provider (e.g. for updates or maintenance). Periodic reviews should be undertaken (e.g. quarterly) to ensure the access rights remain appropriate.
Finding 2.2: Lack of segregation of duties over review of invoicing information	<ul style="list-style-type: none"> Where possible, roles should be segregated to ensure that review work is undertaken by a staff member other than the staff member undertaking the initial activity. If the resources to segregate the review are not available in the Cemeteries team then consideration could be given to centralising the review within the central finance team.
Finding 2.3: Lack of reconciliations across systems	<ul style="list-style-type: none"> It should be ensured that reconciliations are undertaken and reviewed completely with evidence of sign off and review, in particular when reconciling non-integrated systems. Where errors are corrected, it should be ensured that the source systems (i.e. Plotbox) are amended to ensure consistent information is held. If completed transactions can no longer be amended, copies of the reconciling items should be provided to the Cemeteries team so that a formal audit trail is maintained.
Finding 2.4: Lack of monitoring of waivers and credit notes	<ul style="list-style-type: none"> As noted in Recommendation 2.1, it should be ensured that the waiving of fees in Plotbox is restricted to the 3 staff members who are permitted to waive fees. Reasoning for any fee waivers should be documented and provided for review to the Finance team with the weekly invoicing documentation. Reasoning for any credit notes should be documented and filed. The credit note file should be reviewed to ensure all credit notes raised were justified and appropriate.

Detailed findings and recommendations are included in Section 2 where actions are required.

1.3. Basis and Use of this Report

This report has been prepared in accordance with the 2020/21 Internal Audit Plan and subject to the limitations set out in Appendix 4 - Basis and Use of the Report.

Appendix 3 – Classification of internal audit findings

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

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

Appendix 4 – Basis and use of opinion

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

- Our procedures were performed according to the standards and guidelines of The Institute of Internal Auditors' International Professional Practices Framework. The procedures were not undertaken in accordance with any auditing, review or assurance standards issued by the External Reporting Board (XRB).
- This report has been prepared pursuant to our terms of engagement. In preparing our report, our primary source of information has been the internal data supplied to us by management and representations made to us by management. We have not, however, sought to establish the reliability of the information sources by reference to other evidence. This report presents the results of our analysis of the information we have relied upon.
- If our report makes reference to 'Data Analysis'. This indicates only that we have (where specified) undertaken certain analytical activities on the underlying data to arrive at the information presented. We do not accept responsibility for the underlying data.
- The statements and findings included in this report are given in good faith, and in the belief that such statements and findings are not false or misleading, but no warranty of accuracy or reliability is given. In accordance with our firm policy, we advise that neither the firm nor any employee of the firm undertakes responsibility arising in any way whatsoever to any persons. Our findings are based solely on the information set out in this report. We reserve the right to amend any findings, if necessary, should any further information become available.
- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. Our procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout a specified period and any tests performed were on a sample basis.
- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.
- The matters raised in this report are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our report to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.
- Recommendations for improvement should be assessed by management for their full commercial impact, before they are implemented.
- This Report is not to be used by any other party for any purpose nor should any other party seek to rely on the opinions, advice or any information contained within this Report. In this regard, we recommend that parties seek their own independent advice. Crowe disclaims all liability to any party other than the client for which it was prepared in respect of or in consequence of anything done, or omitted to be done, by any party in reliance, whether whole or partial, upon any information contained in this Report. Any party, other than the client for which it was prepared, who chooses to rely in any way on the contents of this Report, does it so at their own risk.

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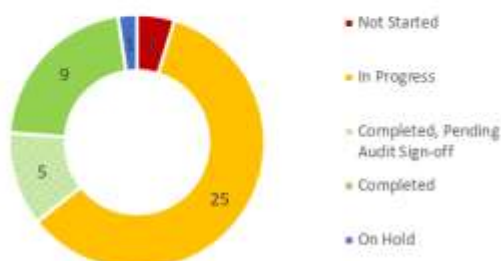
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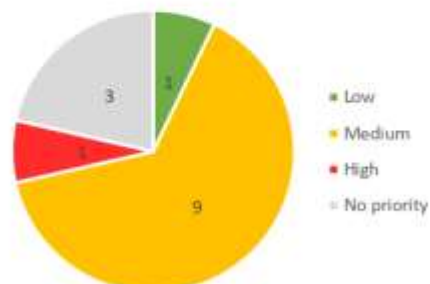


Audit & Review Action Summary – June 2021

Status of Audit & Review Tasks (Internal & External)



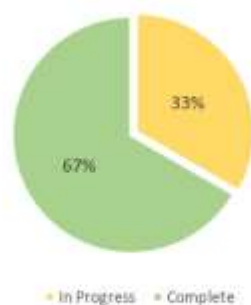
Priority of Overdue Tasks



Overdue Recommendation / Task	Due Date	Owner	Notes
Cash Handling Audit Tasks (Internal Review):		Finance	In progress; policy with Financial Controller for sign-off, the recently filled Financial Improvement Analyst role will help drive the policy roll out later in 2021.
- Draft and finalise the Cash Handling Policy ready for sign-off	27/09/2019		
- Cascade and socialise the Cash Handling Procedure Guidance to all operations that handle cash	10/01/2020		
- Carry out an audit on the sites that handle cash applying the newly introduced principles	10/02/2020		
- Review cash collection method from remote sites (Crowe)	1/04/2020		
Implement Contract Management System (Audit NZ)	1/10/2020	Procurement	In progress; a contract is in place with a Supplier and the first phase of implementation is being worked through.
Review Protected Disclosures Policy (Crowe)	1/02/2020	Corporate / P&C	In progress
Contract Management Audit Tasks (Crowe):		Procurement	In progress; a contract is in place with a Supplier and the first phase of implementation is being worked through, a new buyer's guide is being created, and a training programme is in development
- Incomplete contract management policies and procedures	1/01/2020		
- Lack of contract management planning	1/06/2020		
- Lack of governance and management oversight			
- Unclear management capabilities			
- Contracts not assessed for risk			
- Contracts register incomplete			
Lack of records management policies and procedures (Crowe)		Corporate	In progress
Development of a framework for policies outlining the high level approach and requirements for policy authors, complementing the existing template	31/05/2021	Corporate	In progress; draft framework completed and scheduled for a review with key stakeholders

Assurance Review Programme 2020/21

Scheduled	Status	Review led by
IT Security	In progress	Risk Assurance
Ability to meet legal obligations	In Progress	Risk Assurance
Policy & Procedures	Complete	Risk Assurance
Building & Resourcing Consenting	Complete	Risk Assurance & Crowe
Data Analytics (Payroll & Accounts Payable)	Complete	Crowe
Revenue & Invoicing (Cemeteries and Crematorium)	Complete	Crowe





Risk Assurance Review Plan 2021-24 HDC Risk Assurance

Risk Assurance	Risk Assurance Review Plan 2021 - 2024
Owner	Risk & Corporate Services, Corporate
Committee	Risk & Assurance Committee
Date of issue	25 May 2021
Date of Approval	

Review Plan

1. Executive Summary

1.1. Introduction

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

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

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

1.2. Risk Assurance Objectives

The objective of the Risk Assurance Review Plan is to:

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

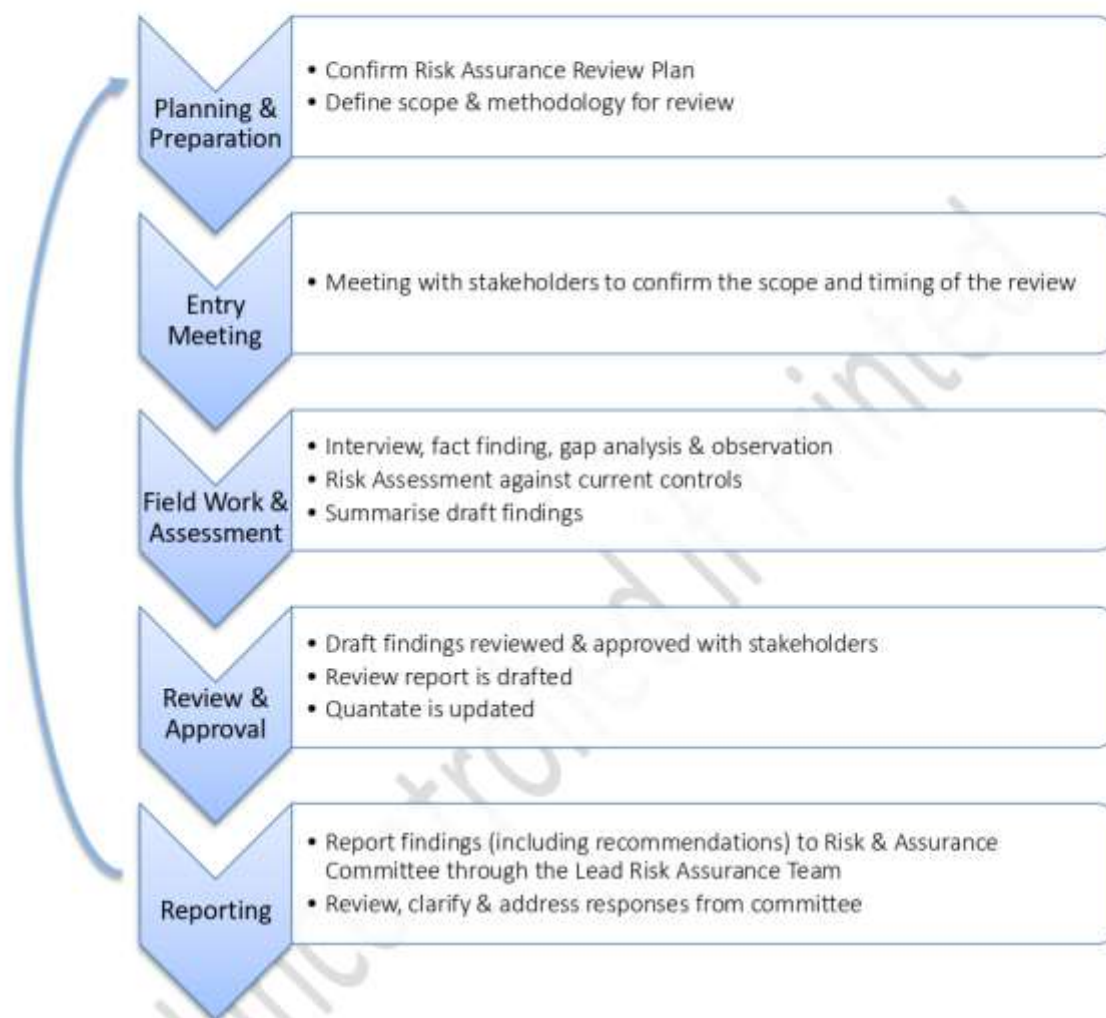
1.3. Risk Assurance's Review Planning Approach

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

- Reviewing the Strategic Risk Register
- Items being highlighted and prioritised by management within Council;
- Receiving and reviewing previous and current audit programs provided by contracted external auditors such as Crowe and Audit New Zealand;

The suggested timeframes for reviews have been considered with the intention to complete one review each quarter and have the review report presented to the Risk & Assurance Committee following the review completion.

1.4. Methodology



2. Review Plan for 2021/22

People Health, Safety & Wellbeing Processes	
Inherent Risk Rating	Extreme
Link to Strategic Risk / Key Risk Category	People Safety, Legal Compliance
Suggested Timeframe	Jul – Sep 2021

Loss of key knowledge	
Inherent Risk Rating	Extreme
Link to Strategic Risk / Key Risk Category	Significant Operational Failure (Strategic Risk) Service Delivery, Reputation
Suggested Timeframe	Oct – Dec 2021

Spatial & asset management planning	
Inherent Risk Rating	Extreme
Link to Strategic Risk / Key Risk Category	Service Delivery, Legal Compliance
Suggested Timeframe	Jan – Mar 2022

Water quality OR Statutory Reform	
Inherent Risk Rating	Extreme (Water Quality) / High (Statutory Reform)
Link to Strategic Risk / Key Risk Category	People Safety, Reputation, Legal Compliance, Service Delivery
Suggested Timeframe	Jan – Mar 2022

3. Summary of Review Plan 2021 – 2024

Review Activity	Inherent Risk Rating	Link to Strategic Risk / Key Risk Category	FY 22	FY 23	FY 24
People health, safety & wellbeing processes	Extreme	People Health, Safety & Wellbeing (Strategic Risk) People Safety, Legal Compliance	✓		
Loss of key knowledge	Extreme	Significant Operational Failure (Strategic Risk) Service Delivery, Reputation	✓		
Spatial & asset management planning	Extreme	Service Delivery, Legal Compliance	✓		
Significant statutory reform	High	Reputation, Legal Compliance, Service Delivery	✓	✓	
Water quality	Extreme	People Safety, Reputation, Legal Compliance, Service Delivery	✓	✓	
Financial Sustainability	Extreme	Service Delivery, Financial		✓	
Procurement Failure		Significant Operational Failure (Strategic Risk)		✓	
Failure of climate adaptation	High	Legal Compliance, Financial, Reputation, People Safety		✓	
Governance failure	High	Legal Compliance, Service Delivery, Reputation			✓
Social inequity	High	People Safety, Reputation			✓
Inequitable resource allocation	High	People Safety, Service Delivery			✓

4. Next Steps

Task	Task Owner
Review the Risk Assurance Review Plan for 2021-2024 and provide any feedback to Risk Assurance Advisor	Risk & Assurance Committee
Approve the Risk Assurance Review Plan for 2021-2024	Risk & Assurance Committee
Completion of the relevant Risk Assurance Review each quarter	Risk Assurance Advisor
Present report and findings from each review to the Risk & Assurance Committee	Risk Assurance Advisor
Present an annual report to Council outlining the Risk Assurance Review Program for awareness	Risk & Assurance Committee Chair

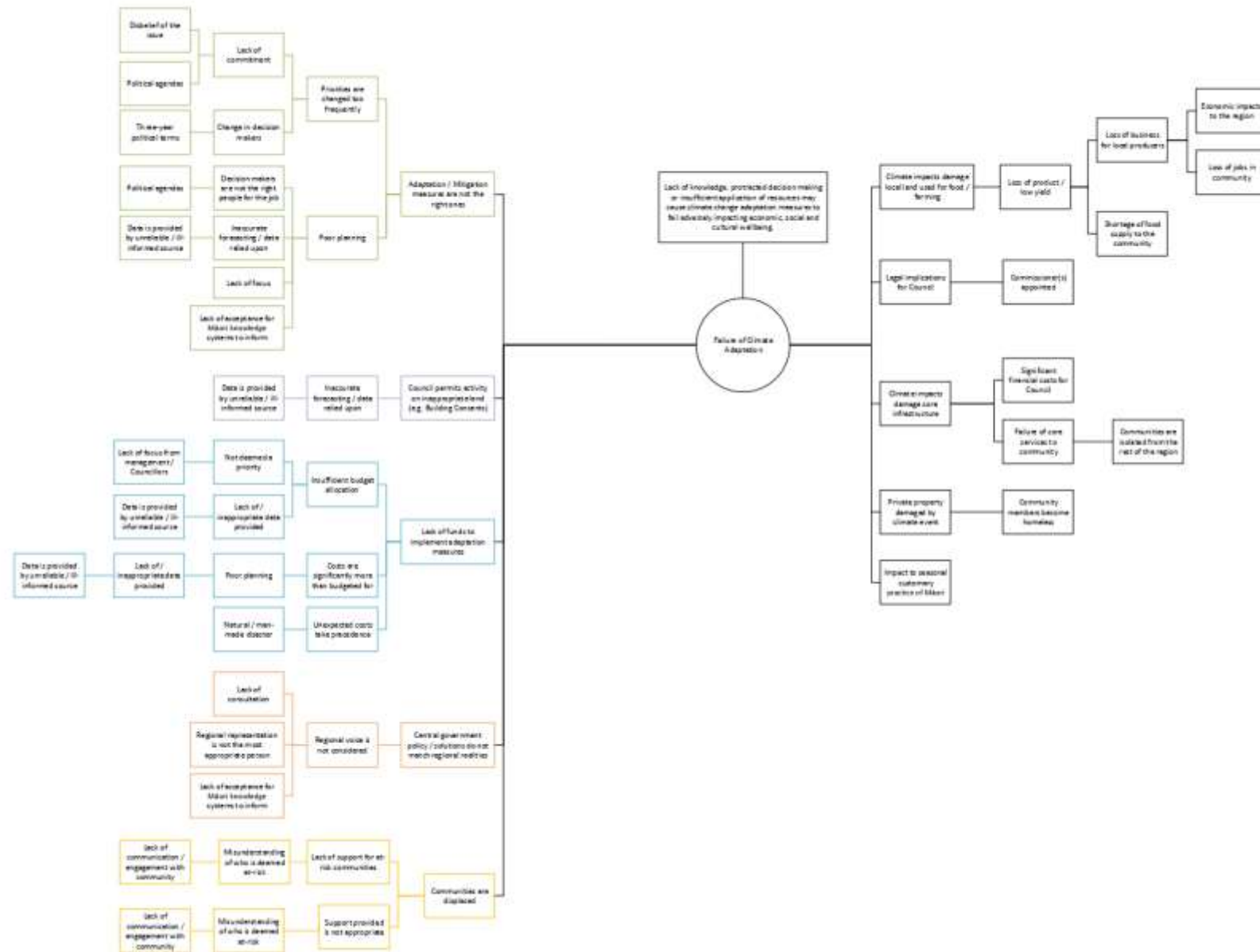


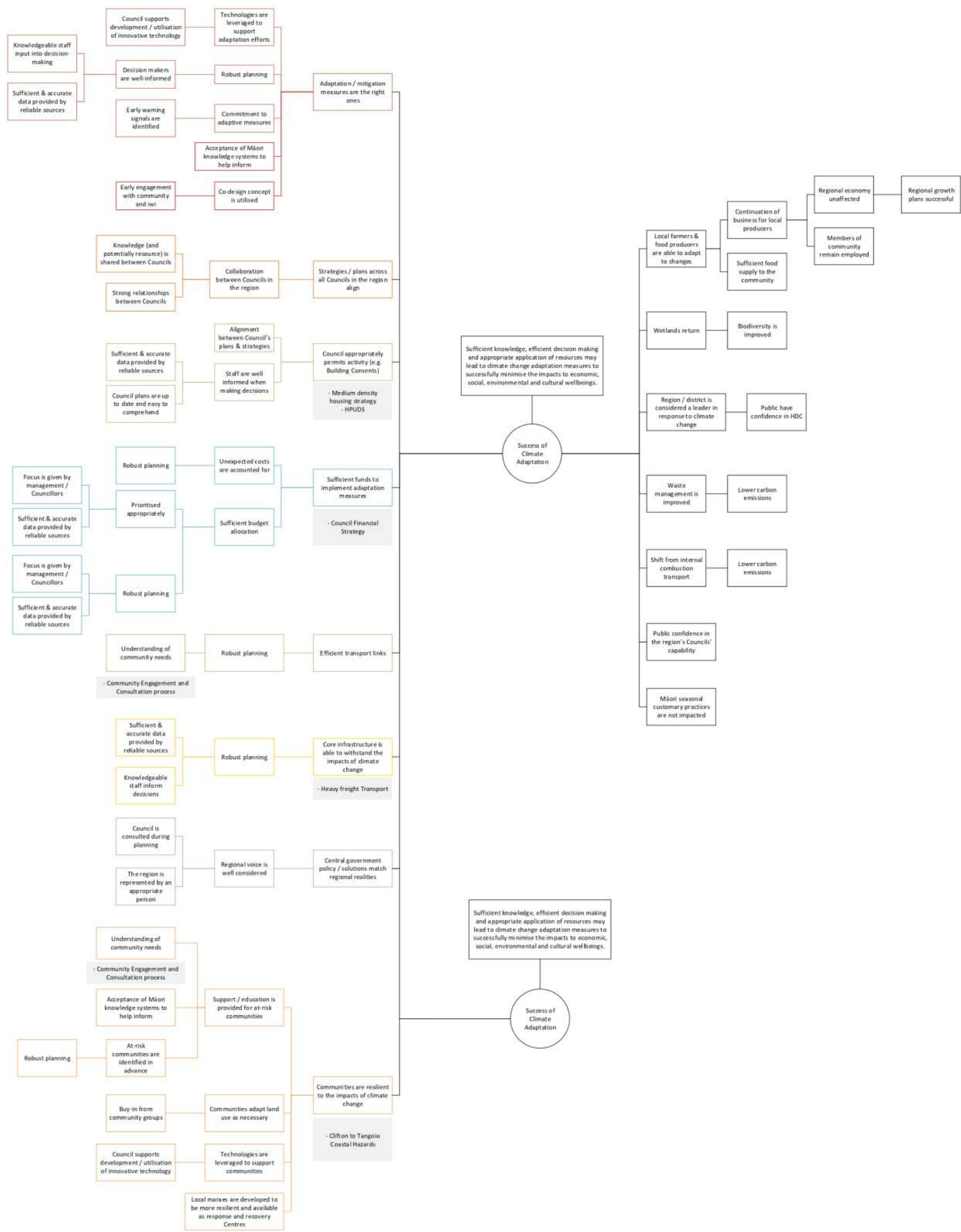
PESTLE x SWOT Risk Identification Chart – Failure of Climate Adaptation

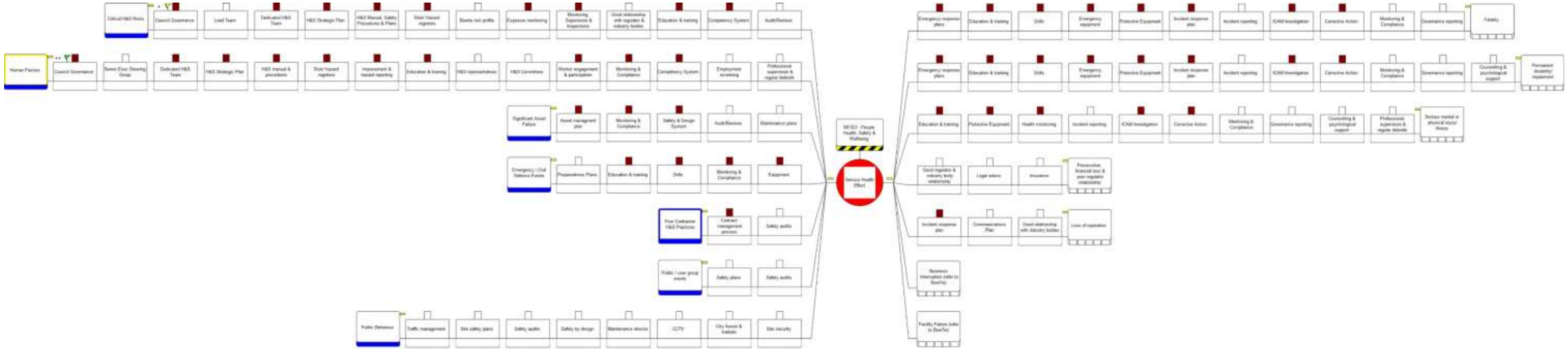
Objective: Hawkes Bay communities are well placed to adapt to the effects of climate change, which requires planning in a national and regional context.

Scope: Scope of the work

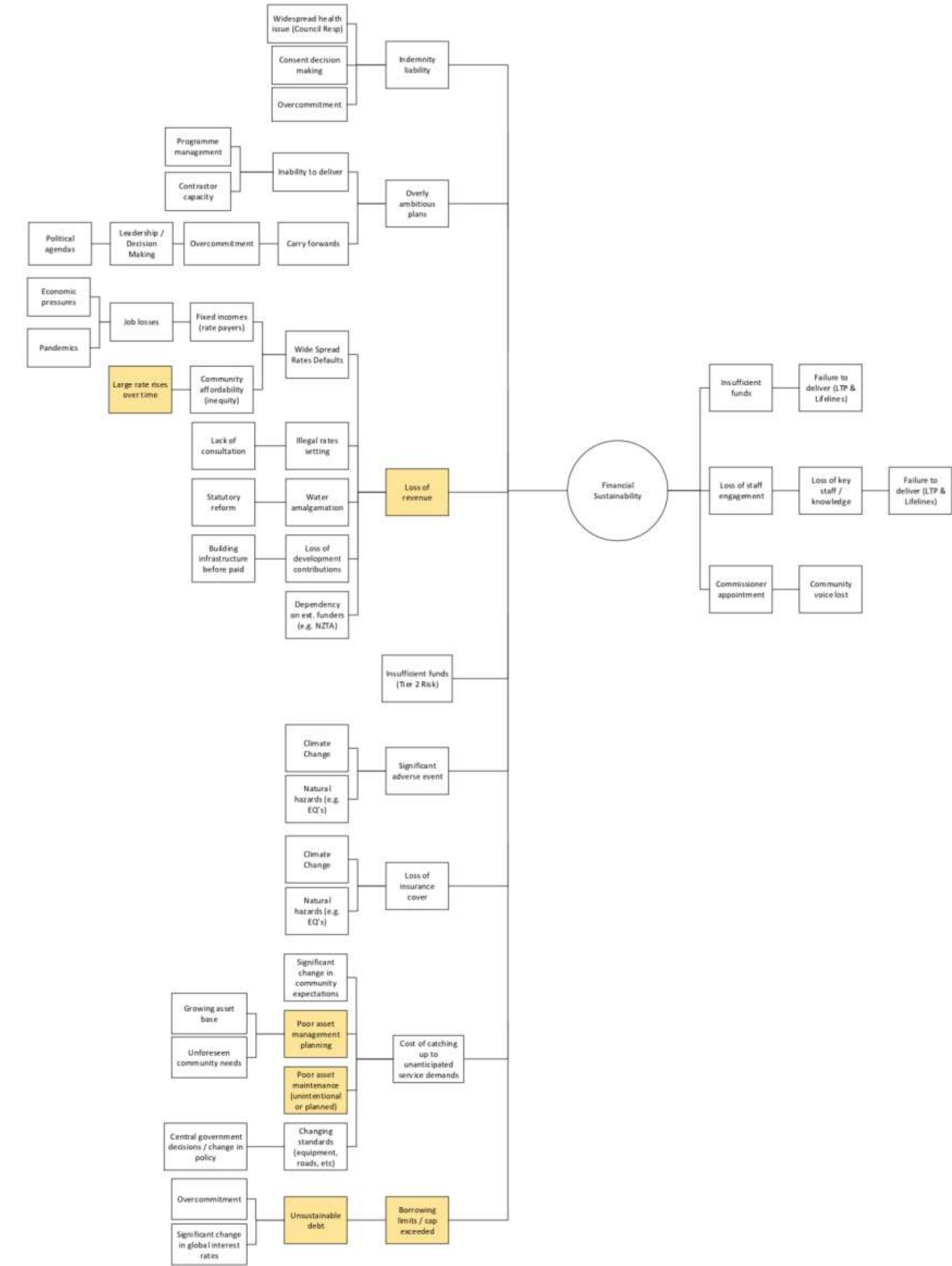
	Political	Economic	Social	Technological	Legal	Environmental	Cultural
Strength	<ul style="list-style-type: none">• Legislative change, leading to unitary authorities• Cross-boundary relationships, regional and district• ‘On board’ Councillors• Time up sleeve for learning and changing over time• Cross-sector sharing & learning. HDC not a ‘silo’ in practice	<ul style="list-style-type: none">• Versatile soils (changing crops)• New economy opportunities	<ul style="list-style-type: none">• Relatively compact urban form• Most of our community is not on the coast• Public confidence (social & economic)			<ul style="list-style-type: none">• Working with regional facts• Planning regulations to account for changing land use• Aquifer system for water storage• Micro-climate opportunities• Existing and increasing knowledge of sea level rise and its impact	<ul style="list-style-type: none">• Resilience of Māori communities based around marae• Environmental customary practice and use of traditional seasonal calendars• Active kaitiaki monitoring coastal activity, migratory patterns and shifts in natural behaviours
Weakness	<ul style="list-style-type: none">• Lack of staff with long-term, local experience• Lack of strong national direction• Local Government toolkit not agile, or sophisticated	<ul style="list-style-type: none">• Adaptation to climate change leads to financial costs over and above BAU• Loss of current economy input• Risk that central government policy doesn’t fit regional realities	<ul style="list-style-type: none">• Infrastructure failure• Relatively poor communities = low community resilience			<ul style="list-style-type: none">• Flat plain (stormwater)• Land use – production capacity	<ul style="list-style-type: none">• Coastal & low-lying marae communities• Marae infrastructure in rural areas• Acceptance of Māori knowledge systems informing climate adaptation & seasonal change
Opportunity	<ul style="list-style-type: none">• Responding to sea level rise & impact on communities• Coastal protection adaptive management	<ul style="list-style-type: none">• Regenerative farming• To increase our capacity to prepare for natural events• Supporting our farmers and rural industry to adapt• Costs to adapt vs cost of not adapting (opportunity / threat)	<ul style="list-style-type: none">• To increase / empower communities to respond to natural events	<ul style="list-style-type: none">• Real time warning system for future flood events / predictions• Utilising tech and innovation to predict forward looking impacts of climate change (both for community and council)• Technological innovations to help adapt (e.g. interactive pathways)		<ul style="list-style-type: none">• Wetlands may return• Positioning of waste disposal (not on coast)• Environmental national standards to drive improvements• Better waste management	<ul style="list-style-type: none">• Marae development funding & resilience building with marae communities• Civil defence capabilities for response & recovery centres• Ability to mobilise whānau, hapū & iwi at times of need, can scale up across the lwi• Application of mātauranga Māori to inform climate adaptation policies• Māori land development & ability to plant trees & reduce carbon
Threat	<ul style="list-style-type: none">• HDC risk if we permit properties to be built on inappropriate land• Short political cycles (3 years), threat to long term planning• Privatisation of water services• Affordability	<ul style="list-style-type: none">• Without stopping commercial fishing by 2030, oceans will die and carbon sequestering fall• Impact on productivity and high food producing land• Impact on our rural industry e.g. farmers, orchardists, etc.			<ul style="list-style-type: none">• Liabilities in future• Consenting liability	<ul style="list-style-type: none">• Closed landfills	<ul style="list-style-type: none">• Impact to seasonal customary practice of Māori• Lost knowledge systems with decline in migratory species• Whānau understanding of climate change and the need to build resilience – whats in it for whānau?







Version: 1.0
Author: 181 911 - People Health, Safety & Wellbeing
Date: 18/03/2021
Page: 1 of 1





3 Waters Reform PESTLE Risk Analysis Workshop

Independent Water Agency Service Model

Scenario 1:

Delivery of the following services to the community by an independent agency:

- Supply of safe drinking water
- Management of waste water
- Disposal of storm water

Goal:

Communities in the Hawkes Bay continue to receive water service that meet their current and future needs from the multi-region publicly owned entities of scale that the Government intends to establish.

Benefits:

The following benefits are taken from information published by the Department of Internal Affairs:

- Greater financial capability
- Cost sharing across communities
- More efficient providers
- Improved outcomes for communities – affordable way to meet costs of water services now and into the future.

Key Threat Risks:

	Description	Inherent	Possible Mitigation	Target
A1	Compromised Growth Plan Implementation	Extreme	Regulation to give effect to Council land use planning.	High
A3	Household Ability to Pay	High	Economic regulation	Medium
A5	Gaps in Service Delivery and Funding Responsibilities	High	Agencies required to participate in development of regional spatial plans.	Medium
A7	Increased Cost of Works	High	Key supplier partnerships.	Medium
A8	Increased Incident Response Time	High	CDEM Coordinated Incident Management System	Medium
A9	Vague Growth Objectives	High	Spatial plan	Medium
A10	Lack of Programme Coordination	High	Robust programme planning	Medium
A11	Limited Technical Capability	High	Professional development pathway	Medium

Key Opportunity Risks:

	Description	Inherent
A2	Reduced Council Risk	Extreme
A4	Better Long Term Outcomes	High
A6	R&D Funding Opportunities	High
A19	More Efficient Water Use	Med

Risk Appetite Assessment:

The proposed benefits are likely to be of significant value to the community if they can be realised. However, there are some significant risks present that require mitigation. As the key risk theme relates to Council's ability to plan for future regional growth, the most relevant Council risk appetite relates to Our Economy. The stated risk appetite for Our Economy is Measured, which means that risk will be accepted if limited and heavily out-weighted by benefits. Assuming that the proposed mitigations can be implemented, the target risk profile would fit within the Council's stated appetite.

Key Risk Themes:

- Growth planning – Setting direction and implementation of growth plans
- People & capability – Retaining sufficient capability to operate
- Ability to pay – Household ability to meet costs and Council's financial sustainability.

Scenario 1: Complete Risk Register from PESTLE Risk Identification Workshop

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A1	Threat	Compromised Growth Plan Implementation Due to loss of control over Major strategic asset communities may not be able to give effect to growth plans (eg Long Term Plan integration) or adapt timing of developments delaying economic growth opportunities.	Severe (assume 0.2% loss of GDP or ~\$17M from long term delays)	Likely (no direction about how Agencies will have to work with Councils)	Extreme (30)	Regulation to give effect to Council land use planning.	Severe (assume with regulation only limited delays)	Possible	High (20)
A2	Opportunity	Council Risk Reduced Because Council is no longer responsible for water service deliver there may be risk capacity available to enable other activities to be performed.	Major (Possible service improvement)	Almost Certain	Extreme (56)				
A3	Threat	Household Ability to Pay Independent agencies (i.e. Water, Power, Council) passing on costs of higher compliance obligations (e.g. increase in water service standards or environment adaptation related costs such as carbon counting) based on lack of understanding of other cost overheads may result in total household costs that are beyond the householders ability to pay (including Council rates) adversely affecting community social and economic wellbeing.	Major (25% - 50% budget variance)	Likely	High (24)	Economic regulation includes a level of inflationary control.	Major	Possible	Medium (16)
A4	Opportunity	Better Long Term Outcomes Due to the scale and mandate of water agencies they have the potential to delivery better long term outcomes (aka step change Asset Management Planning as seen in electricity sector).	Major (Benefit multiple communities)	Likely	High (24)				
A5	Threat	Gaps in Service Delivery and Funding Responsibilities Due to multiple agencies involved in delivery of interrelated services there may be gaps between the responsibility of the various agencies (particularly storm water) resulting in lack of funding or ownership of the customer experience (customer ends up being passed around in circles).	Major (25% - 50% service level impact)	Likely	High (24)	Agencies required to participate in development of regional spatial plans.	Major	Possible	Medium (16)

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A6	Opportunity	R&D Funding Opportunities Because of the scale of Water Agencies there may be a significant increase in funding available for research and development to provide a better services a lower cost.	Major (high public interest & benefit to multiple communities)	Likely	High (24)				
A7	Threat	Increased Cost of Works The limited contractor capacity in the region may cause an increase in project cost affecting the ability to deliver current or future projects.	Major (up to 50% delay in delivery)	Likely	High (24)	Partnership arrangements with key suppliers.	Major	Possible	Medium (16)
A8	Threat	Increased Incident Response Time Because of the centralised water Agency structure it may take longer for an incident or Civil Defence response to be initiated allowing greater impact on affected communities.	Major (high public interest & benefit to multiple communities)	Likely	High (24)	Activities coordinate using CDEM CIMS model	Moderate	Possible	Medium (8)
A9	Threat	Vague Growth Objectives Due to the loss of direct responsibility for water infrastructure Local Government leadership may not set clear or consistent growth objectives making integrated planning impractical.	Severe (assume 0.2% loss of GDP growth ~\$17M)	Possible	High (20)	Council develops and consults on a high quality spatial plan.	Major	Possible	Medium (16)
A10	Threat	Lack of Programme Coordination Introducing another agency may create difficulties coordinating growth projects causing inefficient resource use or delays in delivery.	Moderate (Budget over run of 10% - 25%)	Probable	High (18)	Infrastructure programme enables forward planning with Water Agency.	Mod	Possible	Medium (8)
A11	Threat	Limited Technical Capability Due to greater employment opportunities presented by water agencies there may be a loss of jobs and/or technical capability in the Council/region reducing Council's ability to plan effectively.	Moderate (service delivery impacts & less effective planning)	Probable	High (18)	Council provides a professional development pathway.	Mod	Likely	Medium (12)
A12	Threat	Failure to Develop Additional Water Capacity Due to the size of the water agency regions there may be less focus on developing additional water sources to meeting local growth aspirations limiting economic capacity.	Major (assume 0.2% loss of GDP growth ~\$17M)	Possible	Medium (16)	Council retains a technical capability to understand the future water needs of the district.			

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A13	Threat	Reduction in the Local Contractor Capacity The purchasing practices of water agencies may result in large contracts that exclude local operators resulting in loss of contractor capacity and increasing service cost.	Major (Budget could be affected by more than 25%)	Possible	Medium (16)				
A14	Threat	Ineffective Partnership The size, nature or priorities of Water Agencies may mean there is limited local management presence reducing the effectiveness of key account pre-application processes affecting development projects.	Major	Possible	Medium (16)				
A15	Threat	Compliance Monitoring Due to the independent nature of Water Agencies there may be a lack of access to water testing compliance data making it difficult to hold agencies to account for level of service.	Major (high public interest)	Possible	Medium (16)				
A16	Threat	Remaining Council Service Not Value for Money Due to the reduced scope of Council services, the community may perceive that the remaining services are not value for money resulting in reputational damage to Council.	Moderate (sig regional public interest)	Likely	Medium (12)				
A17	Threat	Perception of Inequitable Funding Allocation. Due to Agency decision making priorities funding allocation may be seen as inequitable by the community reducing the attractiveness of the region to businesses	Moderate (sig regional public interest)	Likely	Medium (12)				
A18	Threat	Lack of Additional Regional Investment Condition of HDC water assets may mean water agency prioritises other regions for additional investment resulting in short term increased cost for limited service benefit.	Moderate (high public interest)	Likely	Medium (12)	Regulatory framework requires higher level of service.	Moderate (high public interest)	Possible	Medium (8)
A19	Opportunity	More Efficient Water Use Implementation of better monitoring and water loss reduction measures may reduce water wastage making more water available for productive use.	Moderate (10-25% improved service level)	Likely	Medium (12)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A20	Threat	Failure to Recognise Cultural Knowledge in Design Independent asset design by a Water Agency may not reflect the current blend of local cultural knowledge and engineering design (i.e.; Waiaroha education programme) affecting the relationship with local iwi.	Moderate (Significant regional interest)	Likely	Medium (12)				
A21	Threat	Business Priorities Differ to Council Goals Due to the different nature of water agencies their priorities may differ to the community goals the Council is working towards resulting in stagnation of development projects and service impacts to the community.	Moderate (Significant regional interest)	Likely	Medium (12)	Maintain an effective strategic partnership with Agency.			
A22	Threat	Loss of Community Engagement Due to the loss of direct responsibility for water infrastructure there may be less direct iwi or community engagement reducing community voice in determining water services priorities (e.g. supply standards, waste handling, storm water capacity).	Moderate (Significant regional interest)	Like (No direction on agency consultation obligations)	Medium (12)				
A23	Threat	Responsibility for Infrastructure Data Because multiple agencies are involved in delivery of infrastructure there may be gaps in the asset data collection and availability affecting future development.	Moderate (10-25% impact on service delivery)	Likely	Medium (12)				
A24	Threat	Unclear Responsibility for Environmental Impacts Due to multiple agencies involved in delivery of interrelated services there may be loss of responsibility for ensuring environmentally sound delivery options (i.e. NZTA view that stormwater run-off quality is outside their scope) adversely impacting environmental conditions (e.g. source water quality).	Moderate (environ effects that can be remedied)	Likely	Medium (12)				
A25	Threat	Lack of Service Integration Introducing another agency may create difficulties integrating services across 3 waters and transportation delivering ineffective or inefficient services.	Moderate (\$200k - \$1M additional cost)	Likely	Medium (12)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A26	Threat	Procurement Outcomes Due to the smaller procurement budget Council may lose the ability to achieve broader outcomes resulting in loss of benefit to the community.	Moderate (Significant regional interest)	Possible	Medium (8)				
A27	Threat	Loss of Interest in Local Government Due to reduced scope of operation fewer high calibre candidates may stand for Local Government affecting the capability to govern Council services.	Moderate (10% service impact)	Possible	Medium (8)				
A28	Threat	Reduced ability to Promote Sustainable Resource Use External control over water infrastructure may mean Council is unable to influence/implement sustainable options at a household or community level to promote environmental sustainable use of water or resources.	Moderate (medium term or scale of impact)	Possible	Medium (8)				
A29	Threat	Lack of Understanding of Growth Constraints Because Councils are no longer responsible for water infrastructure there may be a lack operational feedback resulting in a lack of understanding of growth constraints contributing to impractical growth planning.	Moderate (Reputation affected in local community)	Possible	Medium (8)				
A30	Threat	Legal Challenges Due to the dilution of the community voice in decision water services making there may be an increase in opposition in planning hearings and environment court delaying development projects.	Moderate (non-comply adverse public exposure)	Possible	Medium (8)				
A31	Threat	Reduced Level of Service Due to economic drivers water agencies may apply region wide service levels resulting in a lower level of service being delivered to the community (including difficulty gaining access or connection to the water network).	Moderate	Possible	Medium (8)				
A32	Control	Optional Service Level Increases Because of community demand it would be desirable for a region to be able to request a higher level of service.	Moderate	Rare	Low (6.8)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
A33	Threat	Cost Smoothing Loss of the targeted rate to fund water infrastructure may create difficulties smoothing the cost impact for consumers	Insignificant (<\$10k impact on any rate payer)	Almost Certain	Low (3.5)				

Note: Director Competence

A further theme of discussion around the viability of water agencies is that due to the scale and complexity of Water Agencies, there may not be sufficient competent people available to act as directors. DIA are considering how this issues can be managed in detail.

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Transition to Water Agency Service Model

Scenario 2:

Transition of Council services, assets and data to a Water Agency for delivery of the following services to the community:

- Supply of safe drinking water
- Management of waste water
- Disposal of storm water

Goal:

Communities in the Hawkes Bay continue to receive water services without disruption during the transition.

Benefits:

The following benefits are taken from information published by the Department of Internal Affairs:

- Greater financial capability
- Cost sharing across communities
- More efficient providers
- Improved outcomes for communities – affordable way to meet costs of water services now and into the future.

Threat Risks:

	Description	Inherent	Possible Mitigation	Target
T1	Staff/Contractor Retention	Extreme	Attractive employment contracts	High
T4	Stranded Overheads	Extreme	Alternative funding or restructure overheads	High
T5	Loss of Customer Voice	High	Advocating for community outcomes	High
T6	Resistance to Change	High	Education programme	High
T7	Speed of Change	High	Change management programme.	Medium
T8	Lack of Business Confidence	High	Public relations campaign	High

Opportunity Risks:

	Description	Inherent
T2	Easy Transfer of Contracted Services	Extreme
T3	Maintaining Good Quality Assets	Extreme
T9	Transition Team	Med

Risk Appetite Assessment:

The risk in transition is much greater than the risk profile for operation once Water Agencies are established and operating. In addition, many of the causes for the transition risks are outside Council's control, so minimal mitigation is possible. Therefore, as the inherent exposure is well outside Council's normal risk appetite, focus should be put on effective management of the transition.

In particular, Council needs to:

- Work proactively with the Government in the development of the framework,
- Ensure forward planning caters for any possible delays in transition, and
- Adapt quickly and efficiently to handle new obligations that might arise.

Scenario 2: Complete Risk Register from PESTLE Risk Identification Workshop

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T1	Threat	Staff/Contractor Retention Due to greater employment opportunities presented by water agencies there may be a loss of key HDC or contractor staff, or an inability to recruit new technical staff reducing Council's ability to plan or deliver infrastructure projects.	Major (Partial failure)	Probable	Extreme (36)	Attractive employment contracts. Keeping staff informed.	Major	Likely	High (24)
T2	Opportunity	Easy Transfer of Contracted Services Because Council outsources operational service delivery it may be easier to transition service delivery to an Agency without significant service disruption or staff impacts.	Major (benefit multiple communities)	Probable	Extreme (36)				
T3	Opportunity	Maintaining Good Quality Assets By maintaining infrastructure investment it may be possible to reduce the transition impacts on the community.	Major (benefit multiple communities)	Probable	Extreme (36)				
T4	Threat	Stranded Overheads Because the HDC overheads will not change significantly after divestment of water services the cost of other services may be impacted by the redistribution of overhead costs	Major (\$2M budget impact)	Almost Certain	Extreme (56)	Alternative funding or restructure support overheads	Major	Likely	High (24)
T5	Threat	Loss of Customer Experience Because of the scope of change community voice may be lost affecting customer experience and relevance of services delivered.	Major (Trust recovery requires sig investment)	Likely	High (24)	Advocating for community outcomes	Major	Likely	High (24)
T6	Threat	Resistance to Change Public or Council resistance to change may cause delays in transferring to Agency service delivery affecting Council's ability to maintain current service levels.	Major (Partial failure)	Likely	High (24)	Education programme	Major	Likely	High (24)
T7	Threat	Speed of Change Because of the speed of change an increase in mistakes may occur causing service interruptions or significant delays in achieve centralisation benefits.	Moderate (reduced LOS to part of community)	Probable	High (18)	Change management programme.	Moderate	Possible	Medium (8)

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T8	Threat	Lack of Business Confidence Uncertainty within the business community over responsibility for water services may lead to a lack of confidence in regional water supply resulting in business relocating other regions.	Moderate (Sign regional interest)	Probable	High (18)	Public relations campaign to support government messaging.	Moderate	Probable	High (18)
T9	Opportunity	Transition Team A dedicated transition team may be able to ensure a positive outcome for the region.	Major (benefit multiple communities)	Possible	Medium (16)	NOTE: Mitigation for Independent Agency Service Model risks, may impact on existing staff			
T10	Threat	Limited Transfer of Water Debt The assessment of Council water service debt may include reserve funds collected for water related services affecting Council's financial position.	Major (Up to \$4M impact)	Possible	Medium (16)				
T11	Threat	Current System Unable to Cope Increased service level expectations may exceed the current systems ability to cope causing services interruptions.	Major (Partial service loss)	Possible	Medium (16)				
T12	Threat	Change in Government Priorities Due to a change in Government there may be a substantial change to the nature or objectives of centralised water agencies invalidating transition plans.	Major	Possible	Medium (16)				
T13	Threat	Scope of Agency Service Because of debate regarding the scope of Water Agency services Council may be required to continue stormwater and wastewater service retaining a significant infrastructure delivery obligation and cost.	Major (budget impact up to \$4M)	Possible	Medium (16)				
T14	Threat	Different Local Approaches Deciding on a delivery model that is different to regional neighbours may reduce the economies of scale making regional water solutions more expensive.	Major	Possible	Medium (16)				
T15	Threat	Unreasonable Economic Influence Influence from existing industry players may affect the equity of the economic outcomes reducing the funding available for asset investment.	Major (National public interest)	Rare	Medium (13)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T16	Threat	Asset Valuation Asset valuation process may return a much different value than expected affecting Council's financial position	Moderate (>\$4M budget impact)	Likely	Medium (12)				
T17	Threat	Deferred Decision Making Due to lack of clarity about the future significant infrastructure decisions may be deferred causing development projects to stall.	Moderate (Sign regional interest)	Likely	Medium (12)				
T18	Threat	Community Uncertainty Confusion within the community may mean property owners continue to call Council to resolve water related issues resulting in complaints and delays in resolving faults.	Moderate (Sign regional interest)	Likely	Medium (12)				
T19	Threat	Development Contribution Refunds The change in responsibility for construction of water assets may affect Council's development contribution charges linked to debt (including the Possibility of refunds) reducing funding available.	Moderate (<\$1M impact)	Possible	Medium (8)				
T20	Threat	Poor Transition Management A lack of investment or un-anticipated complexity in transitioning assets (i.e. transferring legal titles) to a Water Agency may cause delays and confusion over responsibility for service delivery exposing Council to liabilities and affecting continuity of service delivery.	Moderate (Adverse exposure for non-compliance)	Possible	Medium (8)				
T21	Threat	Existing Contract Liabilities Because of existing contract conditions Council may be liable for compensation if contractors take legal action.	Moderate (up to \$1M)	Possible	Medium (8)				
T22	Threat	Liability for Environmental Damage Lack of clarity for monitoring environmental impacts may expose Council to liabilities	Moderate (Medium term impact)	Possible	Medium (8)				
T23	Threat	Loss of Asset Management Systems & Data Because responsibility for asset systems and data is unclear there may be a loss of data or failure of telemetry systems affecting continuity of service delivery.	Min (Short term effects; local group interest)	Possible	Low (4)				

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
T24	Threat	Impact on Bylaws Water Agency powers may affect Council bylaws rendering them ineffective or creating conflicting obligations.	Min (Attend of local group	Possible	Low (4)				

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Opt-Out of Water Agency Service Model

Scenario 3:

Delivery of the following services to the community by a Council.

- Supply of safe drinking water
- Management of waste water
- Disposal of storm water

Note: Once the decision to opt-out of Agency provided services is made, Council will not be able to change this decision for an extended period (likely to be around 3 years):

Goal:

Communities in the Hawkes Bay continue to receive water service that meet their current and future needs.

Benefits:

The following benefits are likely to be delivered by retaining water service deliver:

- Ability to give effect to land use planning and regional growth objectives.
- Integrated infrastructure planning and delivery

Key Threat Risks:

	Description	Inherent Risk	Possible Mitigation	Target Risk
S1	Financial Sustainability*	Extreme	Reduce spending in other areas.	Extreme
S2	Lack of Technical Skills	Extreme	Professional pathways	High
S3	Unable to Leverage Economies of Scale	Extreme	Strategic partnerships	Extreme
S4	Lack of Industry Support	High	Strategic partnerships	Medium
S5	Excessive Development Contributions	High	Subsidise developer contribution	High
S6	Inability to Attract Business to the Region	High	Strategic partnerships	High
S7	Compliance Failure	High	Best practice model	High
S8	Underestimating Investment Required	High	Scenario & sensitivity analysis.	Medium

* Note: Financial Sustainability is a current Strategic Risk.

Risk Appetite Assessment:

The potential benefits of this option relate to Council retaining a more certainty over the growth agenda and integrated infrastructure planning. The combined effect of these benefits is to enable greater influence over the promotion of economic wellbeing.

In order to achieve these benefits Council faces significant risks related to the potential costs of meeting the new water standards, and associated compliance liabilities for failing to deliver the required outcomes. Because Council does not have the ability to control the causes of most of these risks it will be difficult to mitigate them effectively, and many of the potential mitigations may not be palatable to the Council or community. Therefore, the overall risk profile of opting to retain delivery of water services is likely to remain high to extreme.

As most of the risks in this scenario relate to effective delivery of a core service, the most appropriate Council risk appetite is Conservative. This means that risks should be accepted only when essential to the core outcome, and limited possibility/extent of failure exists particularly with regard to Safety or Compliance.

Based on this assessment the risk profile for retaining delivery of water services is well beyond the Council risk appetite.

Scenario 3: Complete Risk Register from PESTLE Risk Identification Workshop

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
S1	Threat	Financial Sustainability Increased cost operation (to meet best practice) or need to refund Government funds may require unacceptable rates increases affecting Council's financial sustainability and/or reducing the funding available for other Council services.	Severe (cost could be >\$4M)	Probable	Extreme (45)	Reduce spending in other areas.	Major	Probable	Extreme (36)
S2	Threat	Lack of Technical Skills Due to the relatively small scale of the Council service it may not be Possible to attract or retain people with the required competency resulting in failure to achieve the required service standards.	Major (Fine/prosecution)	Probable	Extreme (36)	Council provides a professional development pathway	Major	Likely	High (24)
S3	Threat	Unable to Leverage Economies of Scale Not being part of the regional water agency may mean Council is unable to access the same level of funding or expertise resulting in substandard services.	Major (Cost impact <\$1M & Reduced LOS)	Almost Certain	Extreme (56)	Strategic partnerships	Major	Probable	Extreme (36)
S4	Threat	Lack of Water Sector Support Because there will be few Council's delivering water services HDC may become isolated and unable to access adequate support (technical, financial or construction) causing failure to deliver the required services.	Major (Fine/prosecution)	Likely	High (24)	Strategic partnerships	Major	Possible	Medium (16)
S5	Threat	Excessive Development Contributions The higher cost of service delivery may cause Development Contributions to become very high restricting regional growth	Major (Cost impact 25% - 50%)	Likely	High (24)	Subsidise developer contribution	Major	Likely	High (24)
S6	Threat	Inability to Attract Business to the Region Because the region is not support by a Water Agency commercial operators may consider the water supply as less secure and decide not to locate industry in Hawkes Bay adversely affecting economic growth.	Major (Cost impact <\$1M &)	Likely	High (24)	Strategic partnerships	Major	Likely	High (24)
S7	Threat	Compliance Failure Because of the significant increase in water standards Council may not be able to meet the new requirements resulting in liability/prosecution and/or loss of Governance control (Commissioner being installed).	Severe (prosecution for multiple failures)	Possible (Current assets in strong position)	High (20)	Adopt best practice model	Severe	Rare	High (17)

Ref	Type	Risk Description	Inherent Impact	Inherent Likelihood	Inherent Risk	Possible Mitigations	Target Impact	Target Likelihood	Target Risk
S8	Threat	Underestimating Investment Required A poor understanding of the new service standards may cause Council to under-estimate the investment required, resulting in Council committing to delivering a service that can't be funded or delivered.	Severe (cost easily be >\$4M)	Possible	High (20)	Scenario & sensitivity analysis.	Major	Rare	Medium (13.6)
S9	Control	Community Perception Not following central Government direction may adversely affect community perception of Council impacting Council reputation (licence to operate)	Major (Significant management attention to regain trust)	Possible (Could go either way + or -)	Medium (16)				
S10	Threat	Social Back Water Because of the isolation from the central water agencies Council may not be able to access expertise, innovations or funding resulting services falling behind other regions.	Major (High national public interest)	Possible	Medium (16)				
S11	Threat	Weakened Central Government Relationship Not participating in the Government's preferred service model may affect the relationship with Government and Agencies affecting partnerships on other projects.	Major	Rare	Medium (13.6)				



To the reader:

Independent Auditor's report on Hastings District Council's 2021-31 long-term plan

I am the Auditor-General's appointed auditor for Hastings District Council (the Council). The Local Government Act 2002 (the Act) requires the Council's long-term plan (plan) to include the information in Part 1 of Schedule 10 of the Act. Section 94 of the Act requires an audit report on the Council's plan. Section 259C of the Act requires a report on disclosures made under certain regulations. I have carried out this work using the staff and resources of Audit New Zealand. We completed our report on 24 June 2021.

Qualified opinion

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report:

- the plan provides a reasonable basis for:
 - long-term, integrated decision-making and co-ordination of the Council's resources; and
 - accountability of the Council to the community;
- the information and assumptions underlying the forecast information in the plan are reasonable; and
- the disclosures on pages 161 to 165 represent a complete list of the disclosures required by Part 2 of the Local Government (Financial Reporting and Prudence) Regulations 2014 (the Regulations) and accurately reflect the information drawn from the plan.

This opinion does not provide assurance that the forecasts in the plan will be achieved, because events do not always occur as expected and variations may be material. Nor does it guarantee the accuracy of the information in the plan.

Basis for qualified opinion – Assumption related to Waka Kotahi funding

As outlined on pages 130 and 131, funding for the transport activity is dependent on a subsidy from Waka Kotahi NZ Transport Agency (Waka Kotahi). On 27 May 2021, the Waka Kotahi Board endorsed an indicative subsidy of \$53 million for the Council's Local Road Maintenance, over the first three years of the plan. This is \$10.4 million lower than the Council had requested and has forecast in its plan.

The Council has not adjusted its forecast assumption to the indicative subsidy of \$53 million from Waka Kotahi, despite that being the best information available at the time of preparing and finalising the Council's plan. The effect of not adjusting this forecast assumption is that the estimated subsidies and grants is overstated by \$3.47 million per annum over the first three years of the plan. Given the Council has not made any decisions on alternative funding sources, including increasing rates or increasing debt, we cannot determine the possible effects on other areas of the plan.

There are no satisfactory audit procedures we could perform to confirm the impact of the reduction in the subsidy on the plan.

We carried out our work in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. In meeting the requirements of this standard, we took into account particular elements of the Auditor-General's Auditing Standards and the International Standard on Assurance Engagements 3400 *The Examination of Prospective Financial Information* that were consistent with those requirements.

We assessed the evidence the Council has to support the information and disclosures in the plan and the application of its policies and strategies to the forecast information in the plan. To select appropriate procedures, we assessed the risk of material misstatement and the Council's systems and processes applying to the preparation of the plan.

Our procedures included assessing whether:

- the Council's financial strategy, and the associated financial policies, support prudent financial management by the Council;
- the Council's infrastructure strategy identifies the significant infrastructure issues that the Council is likely to face during the next 30 years;
- the Council's forecasts to replace existing assets are consistent with its approach to replace its assets, and reasonably take into account the Council's knowledge of the assets' condition and performance;
- the information in the plan is based on materially complete and reliable information;
- the Council's key plans and policies are reflected consistently and appropriately in the development of the forecast information;
- the assumptions set out in the plan are based on the best information currently available to the Council and provide a reasonable and supportable basis for the preparation of the forecast information;
- the forecast financial information has been properly prepared on the basis of the underlying information and the assumptions adopted, and complies with generally accepted accounting practice in New Zealand;
- the rationale for the Council's activities is clearly presented and agreed levels of service are reflected throughout the plan;

- the levels of service and performance measures are reasonable estimates and reflect the main aspects of the Council's intended service delivery and performance; and
- the relationship between the levels of service, performance measures, and forecast financial information has been adequately explained in the plan.

We did not evaluate the security and controls over the electronic publication of the plan.

Emphasis of Matter – Uncertainty over three waters reforms

Without further modifying our opinion, we draw attention to the disclosure on page 127, which outlines the Government's intention to make three waters reform decisions during 2021. The effect that the reforms may have on three waters services provided is currently uncertain because no decisions have been made. The plan was prepared as if these services will continue to be provided by the Council, but future decisions may result in significant changes, which would affect the information on which the plan has been based.

Responsibilities of the Council and auditor

The Council is responsible for:

- meeting all legal requirements affecting its procedures, decisions, consultation, disclosures, and other actions relating to the preparation of the plan;
- presenting forecast financial information in accordance with generally accepted accounting practice in New Zealand; and
- having systems and processes in place to enable the preparation of a plan that is free from material misstatement.

We are responsible for expressing an independent opinion on the plan and the disclosures required by the Regulations, as required by sections 94 and 259C of the Act. We do not express an opinion on the merits of the plan's policy content.

Independence and quality control

We have complied with the Auditor-General's:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 issued by the New Zealand Auditing and Assurance Standards Board; and
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) issued by the New Zealand Auditing and Assurance Standards Board.

Other than our work in carrying out all legally required external audits, we have no relationship with or interests in the Council.

Karen Young

Karen Young, Audit New Zealand
On behalf of the Auditor-General, Wellington, New Zealand

Disclosure on funding of transportation programme

This statement sets out the Council's concerns and approach in respect of funding the transportation plan within the 2021-31 Long Term Plan.

Background

The Hastings District Council has for some time signalled the need for a period of escalated investment in road renewals within its 30 year Infrastructure Strategy, based both on the stage in the lifecycle of these assets, but more importantly on robust condition and performance information. The Council has been in a constrained funding environment from Waka Kotahi (NZTA) since 2012.

The information on our assets was formulated into detailed business cases and submitted to Waka Kotahi as required, peer reviewed and received positive endorsement from Waka Kotahi as to the validity of the business case.

Based on that working relationship and understanding, and importantly the needs of the transportation network the Council's Long Term Plan included the necessary uplift in funding, which for affordability and deliverability considerations was spread over a 6 year investment timeframe.

That funding plan required both an uplift in Waka Kotahi funding and the associated uplift in Hastings District ratepayer (local share) funding. This investment story formed a key part of the Council's Consultation Document and engagement with our community.

Following consultation and the positive feedback about investing in the core infrastructural needs of our community the Council was set to adopt its Long Term Plan on 24 June 2021.

On 31 May 2021 the Hastings District Council received advice from Waka Kotahi that the indicative funding plan for maintenance and renewal of our local roads would be significantly understated. This advice coming 3 weeks prior to

proposed adoption of the Long Term Plan. At this point Hastings District Council has had no formal advice indicative or otherwise as to the funding of other programmes such as capital investment into safety, cycleways, improvements, transportation planning, etc.

Hastings District Council Approach

Given the context above the Hastings District Council is outlining its rationale for adopting a Long Term Plan unchanged from that set out in its Draft Plan. The alternative being suggested is to reduce the transportation programme back to levels that fit with the reduced indicative funding envelope.

That alternative is not acceptable to Council for the following reasons:

- Our community has confirmed its support for this necessary investment and via the Consultation Document it was signalled that should the Council's local share not be matched by Waka Kotahi funding, then that local share would be placed in a transportation reserve until such time it could be used to unlock necessary renewal work. The Council would not be honouring either its commitment to the community, or the needs of the transportation network by taking any other approach;
- The reserve will provide a buffer should Waka Kotahi choose to fund an increase in investment, otherwise, the community would not be able to afford a significant rate increase;
- The 2018 Long Term Plan saw Council partner with government and its agencies on a significant bridge strengthening programme, to provide both resilience in our rural roading network and to support the governments regional productivity objectives (enabling bigger and heavier vehicles) to get produce and products to market. This leaves the district in the situation of having invested in fit for purpose bridges, but facing the prospect of a deteriorating supporting roading network (in other words an incomplete network approach).

- The Ministry of Transport and Waka Kotahi itself needs a longer term expenditure forecast and financial strategy/funding plan that links with the longer term planning work being undertaken by local authorities, if the funding regime is to work effectively.
- The criticisms are often placed on local government for not investing at appropriate and sustainable levels.
- We also note that this funding shortfall is true on the state highway network, which is increasing long term investment costs and reducing the service levels (included reduced safety and resilience outcomes) for the community.

The Council reluctantly accept the qualified statement on this matter, but the alternative is misleading to our community and their affordability to pay an increased programme into the future, and will result in deterioration of our transportation network and be contrary to the asset information which forms the core underlying information to the Long Term Plan.

Implications of the Hastings District Council approach

The rates setting environment for the 2021/22 financial year will reflect the full transportation programme and its funding needs. If the indicative programme from Waka Kotahi remains unchanged the unspent local share funding will be placed in a transportation reserve.

The Council will continue to work through the matters outlined above with Waka Kotahi and make any necessary adjustments to its programme as variations to future Annual Plan or if required an amendment to the Long Term Plan processes. As previously noted Council is yet to receive any indication of the funding for improvement programmes. Council needs to review the full package to finalise its most effective long term approach, this would include a review of phasing of investment over the 3 year funding envelope, along with the use of reserves.

This approach has been used before with success and enabled council to buffer rates increases that were eventually received. Hastings District Council has received a qualified audit opinion (on the basis that revenue forecasts expected from Waka Kotahi will not be received).



24 June 2021

Karen Young
Director
Audit New Zealand

Email: karen.young@auditnz.parliament.nz

Dear Karen

Letter of representation for the audit of Hastings District Council's Long-term Plan document

This representation letter is given in connection with your audit, conducted on behalf of the Auditor-General, to provide a report on Hastings District Council (the Council's) Long-term Plan (LTP) for the 10 years commencing 1 July 2021.

This representation letter is provided to you in connection with your responsibility under the Local Government Act 2002 (the Act) to report on:

- whether the LTP gives effect to the purpose set out in section 93(6) of the Act; and
- the quality of information and assumptions underlying the forecast information provided in the LTP.

We understand that your audit was carried out in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised): Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. In meeting the requirements of this standard, we understand you took into account particular elements of the Auditor-General's Auditing Standards and International Standard on Assurance Engagements 3400: The Examination of Prospective Financial Information that were consistent with those requirements.

We also understand that your audit was (to the extent that you deemed appropriate) for the purposes of expressing an opinion about whether the LTP provides a reasonable basis for long-term integrated decision-making by the Council and for accountability of the Council to the community, and whether the information and assumptions underlying the forecast information in the LTP are reasonable. We understand the audit would not necessarily disclose any or all irregularities should any exist.

We acknowledge that actual results are likely to be different from the forecast information because anticipated events frequently do not occur as expected and the variation may be material, and that you express no opinion about whether the forecasts will be achieved. We also acknowledge that you do not express an opinion on the merits of any policy content of the LTP.

We confirm, to the best of our knowledge and belief, the following representations:

General

- 1 The Council accepts that it is responsible for the preparation of the LTP that meets the requirements of the Act.
- 2 In complying with the requirements of the Act in relation to the LTP, we have acted in such a manner and included in the LTP such detail as we consider on reasonable grounds to be appropriate.
- 3 The Council has not adjusted its forecast assumption to the indicative subsidy of \$53 million from Waka Kotahi. The effect of not adjusting this forecast assumption is that the estimated subsidies and grants are \$3.47 million per annum greater than Waka Kotahi's indicative subsidy over the first three years of the LTP. Except for this matter, the LTP has been prepared using the best information currently available to the Council and accordingly the forecast information included in the LTP is our best forecast of anticipated events for the 10 years commencing 1 July 2021.
- 4 The LTP has been prepared and is consistent with Council's own policies and strategies and the strategies and policies of other organisations where appropriate.
- 5 We believe the effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the LTP as a whole.

Underlying information and assumptions

- 6 The forecast information has been properly prepared on the basis of the underlying information and the assumptions adopted. The assumptions and information underlying the forecast information are reasonable and supportable in the context of the Council's position and have been based on the best information currently available to the Council. The assumptions are consistent among themselves, consistent with the current strategies and plans of the Council, and have been consistently applied.
- 7 All significant forecasting assumptions have been included in the preparation of the forecast information and have been clearly identified in the LTP. Where significant forecasting assumptions have a high level of uncertainty, that uncertainty has been stated and the potential effects of the uncertainty on the forecast financial information have been provided.

- 8 The LTP includes all the items of operating expenditure and capital projects the Council reasonably expects will be done in the 10 years covered by the plan, based on the best information currently available to the Council.
- 9 The forecasts of capital expenditure and operating expenditure are supported by, and consistent with, underlying information such as asset management plans and the infrastructure strategy.
- 10 The records maintained by the Council were adequate for the preparation of the Council's LTP.
- 11 We have made available to you all supporting documentation on the information and assumptions underlying the forecast information used to prepare the LTP.
- 12 All minutes of meetings of the Council and its sub-committees held to date have been made available to you for inspection, including summaries of recent meetings for which minutes have not yet been prepared or approved.

Performance framework

- 13 The forecast information and proposed performance measures provide an appropriate framework for the meaningful assessment of the actual levels of service. The performance measures reflect the intended levels of service for those activities the Council has chosen to carry out in response to community consultation and legislative requirements. Proposed performance targets are based on the equivalent basis of reasonable and supportable assumptions and underlying information.

Systems and processes

- 14 The Council accepts that it is responsible for establishing and maintaining systems and processes designed to provide reasonable assurance about the integrity and reliability of the forecast information. The Council has maintained effective systems and processes, and they have operated to generate accurate and reliable forecast information.

Legislative compliance

- 15 The Council accepts that it is responsible for ensuring that all applicable aspects of the Act that affect the LTP have been complied with. To the best of its knowledge, the Council has complied with all legislative requirements in the preparation of the LTP.
- 16 The Council has followed the decision-making provisions of Part 6 of the Act in making decisions about the content considered for inclusion and exclusion from the LTP.
- 17 The Council followed the special consultative procedures outlined in the Act in relation to the consultation document. All changes to the underlying information resulting from consultation have been appropriately reflected in the LTP.

- 18 We have a significance and engagement policy that outlines the Council's approach to determining the significance of proposals and decisions in accordance with section 76AA of the Act.
- 19 The Council has considered the balanced budget requirements outlined in section 100 of the Act, and is managing its revenue, expenses, assets, liabilities, and general financial dealings prudently as required by sections 101 and 101A of the Act. We have made adequate provision to meet the expenditure needs of the Council identified in the LTP.
- 20 The Council has adopted and applied the following policies in the development of the LTP:
- A revenue and financing policy that complies with section 103 of the Act and has been prepared after consideration of the matters outlined in section 101(3) of the Act.
 - A liability management policy that complies with section 104 of the Act.
 - An investment policy that complies with section 105 of the Act.
 - A policy on development contributions or financial contributions that complies with section 106 of the Act.
 - A policy on remission and postponement of rates on Māori freehold land that complies with section 108 of the Act.
 - A rates postponement policy adopted under section 110 or rates remission policy adopted under section 109 of the Act.

These policies have formed the basis for the financial parameters used in the preparation of the LTP.

- 21 All the information required by Part 1 of Schedule 10 of the Act has been included in the LTP.
- 22 All the information required by the Local Government (Financial Reporting and Prudence) Regulations 2014 has been included in the LTP.

Generally accepted accounting practice

- 23 The accounting policies applied to the forecast financial statements comply with generally accepted accounting practice and are those that the Council intends to use in the future for reporting historical financial statements. Any change in accounting policy from policies previously applied and reported in historical financial statements has been disclosed in the LTP.
- 24 The estimated effect of the revaluation of service delivery assets has been incorporated into the LTP.
- 25 The forecast financial information has been prepared and presented in accordance with PBE FRS 42 Prospective Financial Statements.

- 26 The forecast financial information has been prepared in accordance with the accounting policies.
- 27 The Council's assumption about future price changes on the forecast financial information is based on the best information currently available to the Council and is reasonable and supportable.

Publication of the LTP and related audit report on the Council's website

- 28 The Council accepts that it is responsible for the electronic presentation of the audited LTP.
- 29 The electronic version of the audited LTP and related audit report presented on the website are the same as the final signed version of the audited LTP and audit report.
- 30 We have clearly differentiated between audited and unaudited information in the preparation of the LTP on the Council's website and understand the risk of potential misrepresentation in the absence of appropriate controls.
- 31 We have assessed the security controls over audited forecast information and the related audit report and are satisfied that procedures in place are adequate to ensure the integrity of the information provided.
- 32 Where the audit report on the full LTP is provided on the website, the LTP is also provided in full.

These representations are made at your request, and to supplement information obtained by you from the records of the Council and to confirm information given to you orally.

Yours sincerely



Sandra Hazlehurst
Mayor



**Hastings District Council
Risk and Assurance Committee
Status of Actions Sheet – July 2021**

Item No.	Meeting Date	Action	Reporting Officer	Progress	Complete
1	27/07/20	<u>Health & Safety Risk Management</u> <ul style="list-style-type: none"> Internal audit against ISO 45001:2018 Gap Analysis standard be undertaken with progress reports to Committee. 	Jennie Kuzman	Addressed on H&S agenda item	
3	18/10/20	<u>Risk Assurance</u> <ul style="list-style-type: none"> Incorporate annual review of growth nodes (industrial and residential) for Committee, focusing on risks being addressed by Council 	GM:C	A focus for Council retreat 6 July, follow-up report to Risk & Assurance	
5	02/02/21	<u>Annual Review of Treasury Management Policy</u> <ul style="list-style-type: none"> Proposed changes to the Treasury Management Policy relating to an adjustment to the net external debt as a percentage of income from 150% up to 175% 	GM:C	Council adopted the revised Treasury Management Policy for inclusion in the 2021-31 LTP	Complete
6	02/02/21	<u>Policies</u> <ul style="list-style-type: none"> Develop compliments and complaints reporting to Operations& Monitoring. 	GM:C	For inclusion in July report	
8	02/02/21	<u>Digital Exclusion</u> <ul style="list-style-type: none"> Invite interested councillors (e.g. Cr Schollum) to be involved with any work in this space in the future. 	Regan Smith	Ongoing	
9	02/02/21	<u>IT Risk and Controls</u> <ul style="list-style-type: none"> Officers investigate a process to provide independent assurance for Council's IT systems to an appropriate level of security. 	CIO	Update included in GM:C Update report	



11	12/04/21	<u>Insurance update and presentation from AON</u> <ul style="list-style-type: none"> Committees administering rural halls/buildings insured through HDC are invited to discuss whether buildings are insured at the right level. 	Jeff Tieman	Ongoing – renewal date September 2022	
12	12/04/21	<u>Consents Review Report</u> <ul style="list-style-type: none"> Officers to follow up to ensure that the Council's use of Facebook was not a risk/liability Ask Your Team questions to be updated so Council understands the customer's perspective. Get ratepayer/customer experience feedback. Report back on number of applications where incomplete information provided and number of applications refused. 	Regan Smith/ GM:P&R " " "	Update to be provided at September meeting	
13	12/04/21	<u>Treasury Activity and Funding</u> <ul style="list-style-type: none"> In next report, Financial Controller to include an overlay of LTP debt projections and ensure they are compliant with Council policy. 	Aaron Wilson	Update to be provided at September meeting	
14	12/04/21	<u>GM: Asset Manager's Update</u> <ul style="list-style-type: none"> A 'risk' lens be put over Council reports to ascertain Council's level of risk. Check whether CE has authority to spend the full amount of monies delegated to a project to complete it asap or if only specific amounts can be spent in a financial year. 	GM: AM GM:C		
15	12/04/21	<u>GM: Corporate Manager's Update</u> <ul style="list-style-type: none"> Council Policies – Officers to keep a close eye on policies, who is the owner and how often should it be reviewed. Lead Team to review list of policies and discuss how best to maintain timely reviews. 	GM:C/GM:P&C	Ongoing	