

Monday, 13 February 2023

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council

Risk and Assurance Committee Meeting

Kaupapataka

Agenda

Te Rā Hui:
Meeting date: **Monday, 13 February 2023**

Te Wā:
Time: **9.00am**

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

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

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

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HASTINGS DISTRICT COUNCIL
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TE KAUNIHERA Ā-ROHE O HERETAUNGA

Risk and Assurance Subcommittee – Terms of Reference

Fields of Activity

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

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

Membership – 7 (including 4 Councillors)

- Independent Chair appointed by Council.
- Deputy Chair appointed by Council.
- 2 external independent members appointed by Council.
- 1 Heretaunga Takoto Noa Māori Standing Committee Member appointed by Council

Quorum – 4 members

DELEGATED POWERS

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

Monday, 13 February 2023

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Hastings District Council

Risk and Assurance Committee Meeting

Kaupapataka

Agenda

Koromatua

Chair: Jon Nichols – External Independent Appointee

Nga Kai Kaunihera

Councillors: Simon Nixon (Deputy Chair), Alwyn Corban, Tania Kerr, and Michael Fowler

Mematanga:

Membership:

External Independent Appointee: Jaun Park

Heretaunga Takoto Noa Māori Standing Committee appointee: To be appointed.

Tokamatua:

Quorum: 4 members

K aihokoe mo te Apiha

Officer Responsible: Group Manager: Corporate – Bruce Allan

Te Rōpū Manapori me te

Kāwanatanga

Democracy & Christine Hilton (Extn 5633)

Governance Services:

Te Rārangi Take

Order of Business

Apologies – Ngā Whakapāhatanga

- 1.0** At the close of the agenda no apologies had been received.
Leave of Absence had previously been granted to Councillor Kerr

2.0 *Conflict of Interest – He Ngākau Kōnatunatu*

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

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

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

Confirmation of Minutes – Te Whakamana i Ngā Minitī

- 3.0** This is the first meeting following the 2022 Triennial Elections and so there are no previous minutes to be confirmed.

4.0 **GM Corporate Update** **7**

5.0 **Insurance Update** **15**

6.0 **Treasury Activity and Funding Update** **19**

7.0 **Annual Report and Audit Wrap-up** **25**

8.0	2023 Risk Horizon Scan	29
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9.0	Risk Assurance Update	33
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10.0	Three Waters Reform Risk Update	35
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11.0	Health, Safety & Wellbeing Risk Management Update	39
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12.0	Minor Items – <i>Ngā Take Iti</i>	
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13.0	Urgent Items – <i>Ngā Take Whakahihiri</i>	
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14.0	Recommendation to Exclude the Public from Item 15	43
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15.0	Health & Safety Contracts - Contractors' Health & Safety Performance Report	
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Monday, 13 February 2023

Item 4

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: Bruce Allan, Group Manager: Corporate

Te Take:
Subject: GM Corporate Update

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

1.1 Legislative Reform

- 1.2 The beginning of 2023 has created some interesting times for the Governments reform programme. Given the uncertainties that prevail following the change of Prime Minister and the signalling of a potential slow down or reprioritisation of some reforms, it is not currently known what impact that these decisions may have. Officers will provide a verbal update to the Committee based on what is known at that time. A summary of the key reform streams is shown in **Attachment 2**, which was the known status at the time of writing.

1.3 Climate Change Response Update

- 1.4 At the Risk and Assurance Committee on 19 September 2022 a range of additional steps were discussed to respond to the challenges of climate change. Following is an update on progress made on implementation of these measures.
- The approach to climate action falls in to the following two main streams:
 - Mitigation: Actions to mitigate climate change focus on reducing carbon emissions, or increase in sequestration. The purpose is to reduce/mitigate climate warming before it causes disruption to natural ecosystems and built environments. Examples of mitigation actions include building energy efficiency or electric vehicles.
 - Adaptation: This stream of work focuses taking action to adapt to the current, and expected, impacts of climate change. This stream assumes a level of climate change is inevitable despite actions to mitigation global warming. Therefore, adaption actions

focus on preparing communities to cope with future climate change impacts, such as more frequent high intensity rain fall events or storm surges.

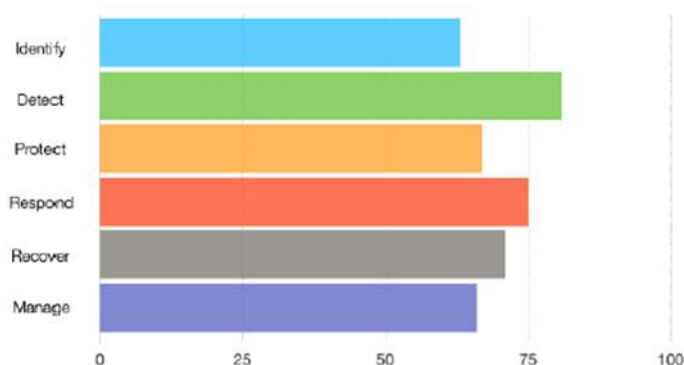
- Climate Risk Assessment for Adaptation: Through collaboration with other local authorities the opportunity to participate in a regional climate change risk assessment led by Hawke's Bay Regional Council has been identified. Considering that the effects of climate change will have region wide impacts, a regional risk assessment should provide more robust information for Hastings District Council planning than an independent Hastings District centric study. Therefore, Council has agreed to participate in the regional assessment in order to understand the impacts of climate change on Council activities.
- Regional Joint Climate Committee has been established by Hawke's Bay Regional Council to provide forum for planning regional emissions reduction and adaptation. Participation in this committee is key to HDC contributing effectively to the regional climate change activities.
- Carbon Footprint for Mitigation: An agreement with EKOS has been signed to survey and calculate Council's own carbon footprint. To support this process an internal project team has been established to gather the information required for the assessment.
- Council Decision Making to promote Adaptation and Mitigation: A two phase approach is being applied to strengthen the focus on climate change related issues in Council decisions. The first phase is to develop and provide training on climate change related guidance material for Council staff to apply when developing Council reports and business cases. Once this guidance and training have been delivered, the review process for Council reports will be expanded to include a check that climate change issues have been considered when they are relevant.
- With the frequency of rain events that have the potential to cause flooding Officers are preparing information for a workshop with Councillors in regards to the flooding risks across the urban area, our procedures and approach to response and preparedness for events. The purpose of this first workshop is to increase awareness and understanding.

1.5 **Cyber Security**

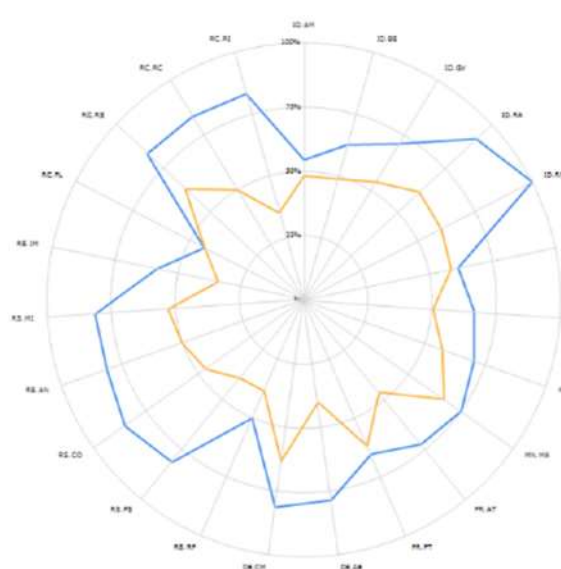
- 1.6 In October 2022, an external cyber security review was conducted by a subject matter expert. The report confirmed Council's continuous cyber security improvement with conformance levels ahead of the national benchmark in all areas.

Information Security Risk Mitigation Summary

This diagram summarised our findings of information security risk mitigation effectiveness.



These results are better than those generally observed during an initial baseline assessment and clearly demonstrate a progressive approach to systems and cybersecurity management across all areas that we assess.



A comparison of the Hastings District Council's baseline assessment results against the ALGIM cybersecurity Programme national benchmark for October 2022 shows that the Council has conformance levels ahead of the national benchmark in all areas and is well ahead of the national benchmark in the Identify, Response and Recover functions.

The benchmark is taken across close to 60% of New Zealand local authorities.

- 1.7 Officers within Information management and business transformation are working through the key recommendations made in the report.
- 1.8 Priority focus areas are multi-factor authentication and further development of Council's cybersecurity training programme.
- 1.9 **Outstanding Actions**
- 1.10 Attached as **Attachment 1** is the schedule of outstanding actions for the Committee.

2.0 Recommendations - *Ngā Tūtohunga*

That the Risk and Assurance Committee receive the report titled GM Corporate Update dated 13 February 2023.

Attachments:

- | | | | |
|---|-------------------|---|---------------|
| 1 | ↓ | Status of Actions - February 2023 | CG-17-6-00001 |
| 2 | ↓ | Statutory Change Timeline - Updated as at 19 Jan 2023 | PMD-9-3-23-72 |



**Hastings District Council
Risk and Assurance Committee
Status of Actions – February 2023**

Item No.	Meeting Date	Action	Reporting Officer	Progress	Complete
1	02/02/2021	<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 report from CIO provided at the previous meeting.	Ongoing and partially complete
2	13/09/2021	<u>Insurance</u> <ul style="list-style-type: none"> Report on possible Council self-insurance and whether deductibles could be increased, to be circulated prior to November meeting 	GM:C	Update included in GM: Corporate report.	
3	19/09/2022	<u>Insurance</u> <ul style="list-style-type: none"> Officers to investigate what could be dropped to keep insurance premiums at current level. Organise a full Council briefing early in new triennium on insurance to inform councillors about areas of work HDC involved in vs degree of risk Council is prepared to take. 	GM:C GM:C		
4	19/09/2023	<u>Finance</u> <ul style="list-style-type: none"> Officers to investigate locking in some HDC debt with fixed cover vs current level of floating cover. 	GM:C/Aaron Wilson	Update provided in the quarterly Treasury Report	
	19/09/2022	<u>Annual Report</u> <ul style="list-style-type: none"> Provide assurance that Council is addressing issues regarding water loss and potential wastage/leaks, and obtaining/disposal of water meters. 	Jess Noiseux/ Aaron Wilson/ Craig Thew		

CG-17-6-00001



	19/09/2022	<u>GM Asset Management</u> <ul style="list-style-type: none"> Undertake a more detailed review of the 3 Waters infrastructure assets and report on the risks involved to the incoming Council in the new year. 	GM:AM	TBC	
	19/09/2022	<u>Climate Change</u> <ul style="list-style-type: none"> Report to Council on recommendations that a climate change impact lens be put over all Council reports and how to embed climate change approach into Council's DNA. 	Regan Smith	Recommendations forwarded to Council on 4 October.	

CG-17-6-00001

Statutory Change Timeline

Last Updated: 19 January 2023

Statutory Change Item	2022			2023												2024					
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
<u>3 Waters Reform</u>	New standards from Taumata Arowai come into effect 14 Nov 2022			Water Services Economic Efficiency and Consumer Protection Bill introduced to Parliament Dec 2022	Submissions on water services legislation bill due on 17 Feb 2024 (LG) and 12 Feb 2024 (community)					Additional water services entities legislation planned to be passed Jul-Sep 2023											New water services entities go live on 1 Jul 2024
<u>Local Government Review</u>	28 Oct – Release of draft report & recommendations								Jun 2023 – Govt to received final report & recommendations												
<u>Resource Management Act Reform</u>	Natural & Built Environment Act (NBA) and Strategic Planning Act (SPA) introduced			30 Jan 2023 – NBA & SPA submissions close				Climate Change Adaptation Act (CPA) planned to be introduced mid-2023		NBA & SPA scheduled to have passed Jul-Sep 2023											
<u>Civil Defence Emergency Management Trifecta Programmes</u>										Jul 2023 - Planned finalisation of National EM Plan and proposed process for EM Bill											

Monday, 13 February 2023

Item 5

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

Nā: Jeff Tieman, Management Accountant
From: Bruce Allan, Group Manager: Corporate

Te Take:
Subject: Insurance Update

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

- 1.1 The purpose of this report is to advise the Risk and Assurance Committee of the insurance arrangements for 2022/23.

2.0 Recommendations - *Ngā Tūtohunga*

That the Risk and Assurance Committee receive the report titled Insurance Update dated 13 February 2023.

3.0 Background – *Te Horopaki*

- 3.1 AON are the lead insurance brokers for Hastings District Council and cover material damage, business interruption, motor vehicles, travel (international only) and all liability policies, except public liability and professional indemnity, which are still covered by Marsh.
- 3.2 Risk and Assurance would ordinarily recommend the placement of Council insurance renewals, however due to the election and impact that has on the meeting schedules and the delays in getting renewal confirmations from AON and the insurers we were unable to take the preferred approach with consulting with the Committee. The Chair of Risk and Assurance was kept apprised as the renewal process was concluded.

- 3.3 Sitting outside of the contract mentioned in 3.1 are the infrastructure policies and they are with AON and LAPP.

4.0 Discussion – *Te Matapakitanga*

- 4.1 Historically, the insurance market cycle was referred to as either being “hard” or “soft”. A hard market was when insurers increased premiums to recover losses from a major event from the previous year or years. A soft market was when the insurers had recovered these losses and competition was driving premiums back down.
- 4.2 The markets are now changing and are moving to a risk-based premium for the region. In our situation, this means we are exposed to risks such as earthquakes, tsunami, liquefaction and some weather events.

MATERIAL DAMAGE

- 4.3 Back in May 2022 the five Hawke’s Bay councils engaged AON to conduct a loss modelling exercise (**Attachment 2**) to identify potential losses for each individual council and as a group. The modelling indicated in a one in 500 year event, the HB group would sustain losses of \$382m and Hastings District Council would incur losses of \$142m. For a one in 1000 year event, the losses for the HB group (**Attachment 1**) increases to \$454m and HDC \$171m. A demand surge of 30% was added to the expected loss of \$454m to give the group a loss limit to take to the market of \$600m.
- 4.4 HDC conducted a formal valuation for the 2021 renewal period. This process is conducted every 3 years, with and inflationary adjustment allowed for in the subsequent years. Based on the advice of our valuers and AON, an inflationary figure of 12% was applied for 2022 renewal process.
- 4.5 To help reduce the pressure on premiums, officers elected to remove certain buildings that were set for demolition within the renewal period and all the toilet blocks in the district.
- 4.6 With the adjustment for new valuations, removal of items mentioned in point 4.5 and additions of new assets, the valuation of the schedule increased by 11.7% (\$545.3m, increased to \$609.0m).
- 4.7 Due to the increases in valuations across the entire renewal market, capital within the insurance industry has been put under pressure. This resulted in our brokers, AON unable to obtain cover for the HB group with for full valuations of their material damage schedules. There was only sufficient capital in the market to obtain cover for the HB group for the loss limit of \$600m.
- 4.8 Premiums for material damage cover increased from \$1.525m to \$1.780m, or 16.7% increase.
- 4.9 Officers requested AON for pricing should the deductible excess increase from its current \$10k to \$100k, \$250k and \$500k. This is to explore possible savings on the premiums. Below is a table showing the possible savings.

Non EQ Deductible	Saving approx.
\$ 10,000	\$ -
\$ 100,000	\$ 24,258
\$ 250,000	\$ 48,516
\$ 500,000	\$ 97,032

CATASTROPHE INSURANCE

- 4.10 LAPP are our insurers for the underground infrastructure. This year there has been a substantial increase due to a 55% increase in asset value (\$1.163b to \$1.798b). The premiums for 2022/23 renewal are \$561,108, up from 2021/22 premium of \$340,275. The claim levels remains the same at \$65m, \$105m and \$150m (**Attachment 3**).
- 4.11 AON are our brokers for the policy covering the bridges. This year’s valuation increased by 19% at \$141.9m up from \$118.5m. The premiums were up 19% also to \$78,932.

LIABILITY POLICIES

- 4.12 Employers, statutory and crime policies have has small increases in this renewal period, with only the public liability and professional indemnity incurring higher premium increases (24%). This has been driven by claims exceeding premiums, pressures on the building industry, insurers withdrawing from the market for this particular cover, pressures on council's consenting process and to free up marginal land for development.

Attachments:

1⇒	AON HB Group loss modelling analysis	IRB-3-20-23-104	Under Separate Cover
2⇒	AON HDC Loss Modelling Analysis	IRB-3-20-23-105	Under Separate Cover
3⇒	Insurance Renewal Summary 2022/23	IRB-3-26-23-77	Under Separate Cover

Monday, 13 February 2023

Item 6

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

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

Te Take:
Subject: **Treasury Activity and Funding Update**

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

- 1.1 The purpose of this report is to update the Risk and Assurance Committee on treasury activity and funding issues.
- 1.2 Since the last update in July 2022, in November 2022 Council has borrowed \$15m additional funds to continue to fund 2022/23 capital expenditure and in February 2023 has borrowed a further \$20m to continue to fund capital spend.
- 1.3 Officers have added an additional standby funding facility through the LGFA of \$15m, giving Council total facility access of \$30m. This will allow Council to stay within Treasury policy liquidity limits of between 110% – 170%.
- 1.4 The Council's current total external debt is \$272m as at 13th February 2023. Offsetting this is \$20m of bank deposits, giving a net external debt position of \$252m.
- 1.5 Officers have reviewed the Treasury Policy (**Attachment 2**) and have not recommended any changes.
- 1.6 Council is currently compliant with its Treasury Management Policy.
- 1.7 The Reserve Bank of New Zealand (RBNZ) raised its Official Cash Rate (OCR) to 4.25% at its last review, with a further rise in February 2023 likely.

2.0 Recommendations - *Ngā Tūtohunga*

- A) That the Risk and Assurance Committee receive the report titled Treasury Activity and Funding Update dated 13 February 2023.

- B) That the Committee endorse the recommendation that no changes be made to the Treasury Policy, as reviewed by council officers.

3.0 Background – *Te Horopaki*

- 3.1 The Hastings District Council has a Treasury Policy which is a summarised version of the Treasury Management Policy and forms part of the 2021-2031 Long Term Plan. Under these policy documents, responsibility for monitoring treasury activity is delegated to the Risk and Assurance Committee.
- 3.2 Council is provided with independent treasury advice by Miles O'Connor of Bancorp Treasury Services and receives daily and monthly updates on market conditions.
- 3.3 Under the Treasury Policy, formal reporting to Council occurs quarterly and regular more in-depth treasury reporting is provided for the Risk and Assurance Committee.

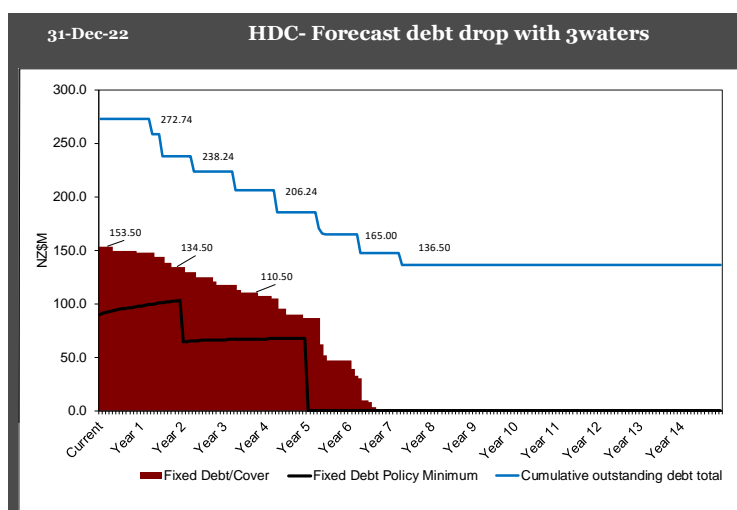
4.0 Discussion – *Te Matapakitanga*

- 4.1 Council's debt portfolio is managed within macro limits set out in the Treasury Policy. It is recognised that from time to time Council may fall out of policy due to timing issues. The Treasury Policy allows for officers to take the necessary steps to move Council's funding profile back within policy in the event that a timing issue causes a policy breach.
- 4.2 Council's current total external debt is \$272.7m as at 13 February 2023 (\$237.7m as at 30th June 2022). Offsetting this are \$20m of bank deposits (\$32m as at 30th June 2022), giving a net external debt position of \$252m. This is presented in the Treasury Position 13th February 2023 Report (**Attachment 1**).
- 4.3 Officers regularly forecast cash flows needed in light of Council's large capital programme underway. In consultation with Bancorp treasury advisors, Council borrowed \$15m in November 2022, with a mix of fixed and floating maturities, with a further \$20m borrowed February 2023. This is itemised in the table below:

Type	Deal Date	\$('000)	Maturity Date	Rate
Floating	14 th November 22	5.0	20 April 29	BKBM + 65.0 B.P
Floating	14 th November 22	10.0	15 April 30	BKBM + 66.7 B.P
Floating	7 th February 23	20.0	1 st July 24	BKBM + 31.3 B.P

- 4.4 It should be noted that the \$20m debt drawn down in February 2023 has a maturity date of 1st July 2024. This debt has been linked to the 3 waters capital spend and the maturity date was taken out knowing that the 3 waters entity will repay the portion that is 3 waters debt of Council debt as it matures.
- 4.5 The 3 waters National Transition Unit is expecting to supply Councils with their assessed settlement statements shortly which will include the assessed levels of debt associated with 3 waters and therefore set to be transferred to the new water entity. There will be a negotiation process to settle on the 1 July 2022 balance and that is likely to take place later in February.
- 4.6 With the increasing level of debt, it is important that Council remain within treasury limits as set out by Council's treasury policy. Liquidity is one of the metrics that is required by Treasury policy to be between 110 -170%. Currently, Council has a \$15m standby banking facility with Westpac which along with any terms deposits has been enough to maintain liquidity within the required parameters.

- 4.7 With capital spend now matching the budgeted spend in the current financial year, any cash reserves have been used up, and with additional debt of \$35m drawn down in the current financial year, the level of facility is not enough to maintain the required amount of liquidity.
- 4.8 Officers are working through adding a \$15m facility from the LGFA, and whilst unlikely to be drawn on is to maintain the level of liquidity as required by the Treasury policy. As Council debt reduces over time, especially the 3 waters debt portion, officers can review the facilities available and reduce if necessary.
- 4.9 Officers have also had discussions with Council treasury advisers over the level of debt cover that is currently in play. With the current cycle of OCR increases coming close to a peak, it has been agreed to review the cover in May 2023, as swap rates will likely fall. This is already playing out in the markets with forward starting swaps being priced at lower rates compared to current date swaps.
- 4.10 Whilst Council is well covered in the short/medium term, the other factor affecting the longer term strategy is the 3waters transfer of debt to the 3waters entity. As the debt falls the requirement for cover will also fall.
- 4.11 It should also be noted on the Treasury position dashboard, Council's cost of funds is now at 4.35%, which is a reflective of the rising finance costs within the debt market.
- 4.12 As was requested at the previous Risk and Audit Subcommittee meetings, officers have created a graph that forecasts the future level of debt cover that would be in place if the water reform was to take place and 50% of Council debt due to water was to be taken over by the new water entity.
- 4.13 It is now expected that as each tranche of debt matures, it has been indicated by the NTU that the portion of that tranche of debt that relates to 3 waters will be taken over by the new entity. This will happen each year for around five years. Any holding costs for the debt that Council will hold until it becomes due will be paid will be borne by the water entity.



Graph: Forecast

- 4.14 The light blue line shows council's debt and how it is forecasted to fall in relation to the portion of the 3waters debt falling off. The brown block is the fixed debt cover that council already has in place. As can be seen from the level of cover in place over the next five years ranges between 56% -53% cover.
- 4.15 Every year officers review the treasury policy, to ensure that it meets requirements and that reflects best practice. This year officers have reviewed the policy and have not recommended any changes to the committee.
- 4.16 The Reserve Bank of New Zealand (RBNZ) raised its Official Cash Rate (OCR) to 4.25% at its last review, with a further rise in February 2023 likely.

5.0 Next steps – *Te Anga Whakamua*

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

Attachments:

1⇒	Treasury Dashboard 7th February 2023	FIN-15-01-23-29	Under Separate Cover
2⇒	Treasury Policy Reviewed 2023	FIN-15-01-23-31	Under Separate Cover

Summary of Considerations - *He Whakarāpopoto Whakaarohanga*

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

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

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

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

Māori Impact Statement - *Te Tauākī Kaupapa Māori*

There are no known impacts for Tangata Whenua.:

Sustainability - *Te Toitūtanga*

This report promotes sustainable financing costs ensuring the economic wellbeing of communities in the present and for the future.

Financial considerations - *Ngā Whakaarohanga Ahumoni*

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

Significance and Engagement - *Te Hiranga me te Tūhonotanga*

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

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

There has been no external engagement:

Risks

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

REWARD – <i>Te Utu</i>	RISK – <i>Te Tūraru</i>
To assist officers to manage Council's Treasury risk; Finances, Reputation.	Cashflows and finance costs; Finances, Service Delivery, Reputation.

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

There are no implications for the Rural Community Board:

Monday, 13 February 2023

Item 7

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

Nā: Aaron Wilson, Financial Controller
From: Jess Noiseux, Financial Improvement Analyst

Te Take:
Subject: Annual Report and Audit Wrap-up

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

- 1.1 The purpose of this report is to present the Closing Report from Council's auditors Ernst & Young (EY) and report in more detail some of the technical aspects of the report presented to Council at the adoption of the 2021/22 Annual Report and 2021/22 Summary Annual Report in December 2022.
- 1.2 Attached as **Attachment 1** is the Closing Report to Council for the year ended 30 June 2022 from Council's auditors EY.

Finalisation of the 2022 Annual Report

- 1.3 The adoption of the 2022 Annual Report was later than normal due to staff shortages with our former auditors Audit New Zealand and the late change to our new auditors Ernst Young (EY). The level of engagement required from officers was significantly higher than in prior years due to the nature of a first time audit, as well the unusual circumstances where the change in auditors occurred in the middle of an annual audit cycle.
- 1.4 Council adopted the Annual Report and Summary 2021/22 at the 8th of December 2022 Council meeting subject to minor amendments. The 2021/22 Annual Report and Summary Annual Report were subsequently signed off and published on the 15th of December.

Qualified audit opinion

- 1.5 In 2021 Council received a qualified audit opinion over the activity groups' statement due to issues in two separate performance measures. Those measures were the *Number of complaints – issue around completeness of data* and *Water loss – issue around reliance of reported data*

- 1.6 Officers worked through the year to try and resolve these so as to avoid another qualified opinion. However, as detailed below, this was not attainable and Council received another qualified opinion over the water performance for the one performance measure issue that remained.

Number of complaints – issue around completeness of data

- 1.7 This was an issue across several councils in both the 2021 and 2020 financial years, partly due to the ambiguity in some of the guidance from the Department of Internal Affairs (DIA) and how this was interpreted. In August 2020, Council implemented a number of changes to resolve the issue identified by Audit NZ. However, Council is also reliant on Palmerston North City Council's (PNCC) system and processes for recording complaints received after hours and limitations in this process resulted in another qualification in the 2020/2021 Annual Report.
- 1.8 From initial discussions with PNCC, Officers were confident that appropriate after hours call centre data from PNCC had been obtained for the 2021/22 financial period. The call data is now correctly categorised into appropriate activities.
- 1.9 However, when scrutinised, it became difficult to prove that the reporting provided by PNCC was complete. Reporting to Council remains focused on service request calls as opposed to calls where a complaint has been made.
- 1.10 Officers also ran into issues with pulling some of the reports from the HDC Call centre system, gaps in the data were identified. When Customer Service staff were migrated to a new version of MiCollab to enable remote working during Covid, the call history was lost. Summary data was still available, and Officers used this to produce the annual report disclosure, but the loss in the audit trail meant EY couldn't easily test the underlying data for accuracy.
- 1.11 Officers are continuing to work with PNCC and Micollab to try and resolve these issues for the 2022/23 financial year.

Water loss – issue around reliance of reported data

- 1.12 As discussed at the previous Committee meeting, Council do not have sufficient water meters installed on residential connections to report a statistically reliable water loss percentage.
- 1.13 Officers investigated the alternative method allowable by the DIA for measuring water loss (minimum night flow analysis - MNF), and unfortunately it was concluded that the MNF methodology results were not reliable. Because both methods are considered statistically unreliable, officers chose not to report any results for this measure in the Annual Report and to instead disclose what work is being done to improve the accuracy of the data for this measure.
- 1.14 On the basis that what Officers disclosed was accurate, EY did not qualify on this performance measure for the 2021/22 Annual Report. However, because comparative information from the 2020/21 Annual Report was included (as required), EY were required to highlight this in their audit opinion.
- 1.15 New water meters continue to be installed; however, it is unlikely that sufficient meters will be in place by June 2023 to enable Officers to report a statistically reliable water loss percentage for the 2022/23 financial year.

Asset Valuations

- 1.16 Infrastructure assets are the most significant balance on Council's balance sheet. Last year, 3 water assets were due for revaluation and in the course of assessing fair value it became evident that roading assets would need revaluing as well.
- 1.17 The revaluations for infrastructure assets resulted in an overall gain of \$551m across roading and 3 waters.

Roading

- 1.18 Roding assets were significantly affected by the increasing cost of construction and in particular the impact of increased oil prices on bitumen. The impact of these increasing replacement costs resulted in an uplift of \$163m in roading asset value.
- 1.19 While roading assets value increased significantly, there was very little increase in asset useful lives. This indicates that renewal expenditure is not keeping up with the ageing of these assets, i.e. roading assets are on average further through their expected useful life. Current renewals expenditure is not high enough to keep roading assets at a stable point of asset conditioning.

3 Waters

- 1.20 3 waters had an uplift of \$388m on an asset base pre-valuation of \$671m, a 58% increase overall. This was significantly higher than what has been seen at other Councils. However underlying values provided by Officers were supported by recent contract pricing and third party pricing indices and EY were satisfied with the evidence provided and accepted Councils position.
- 1.21 EY have strongly recommended Council obtain an external valuation this year. Officers plan to implement this as part of the 2022/23 annual report process.

Effect on depreciation

- 1.22 With such substantial valuation increases over the last two years (Park assets were revalued in 2021), and without useful lives increasing as much, there is a significant increase in depreciation in the 2022/23 financial year. Officers have calculated an \$11.6m impact from the 2022 valuation uplifts on infrastructure depreciation for the 2022/23 financial period.

The valuations undertaken also provide updated depreciation rates, based on useful lives that reflect the condition of the assets at the time of valuation. Officers are currently working through the recommended changes to depreciation rates from these valuations. The potential impact for the 2022/23 financial period is a further \$5m should all recommended depreciation rate changes be implemented.

The below table illustrates the potential impact on depreciation for the 2022/23 financial year (noting that \$6m out of the \$16m total is already reflected in December quarterly financial reporting). \$11.6m of this is unavoidable and is purely reflective of valuation uplifts.

Asset Class	Total impact on 2022/23 depreciation	Due to change in useful lives		Due to valuation uplifts (already committed)	
Roding	\$4,745,397	48%	\$2,255,584	52%	2,489,812
Stormwater	\$2,368,143	18%	429,432	82%	1,938,711
Wastewater	\$6,082,613	3%	198,192	97%	5,884,421
Water Supply	\$2,403,219	45%	1,080,763	55%	1,322,455
Parks	\$1,097,155	100%	1,097,155	0%	0
Total	\$16,696,526		5,061,126		11,635,399

- 1.23 At the time of writing EY were yet to release their draft management letter for management's response and action. This will be provided to the Risk and Assurance Committee in due course when it has been finalised and released.

2.0 Recommendations - Ngā Tūtohunga

That the Risk and Assurance Committee receive the report titled Annual Report and Audit Wrap-up dated 13 February 2023.

Attachments:

1 ➡	Auditors Closing Report to Council for the year ended 30 June 2022	FIN-07-01-22-471	Under Separate Cover
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Item 7

Monday, 13 February 2023

Item 8

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

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

Te Take:
Subject: 2023 Risk Horizon Scan

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

- 1.1 The purpose of this report is to provide the Committee with an opportunity to review the Council's current strategic risk register and undertake a risk horizon scan.
- 1.2 The current risk register (**Attachment 1**) summarises the top nine (9) risks in relation to Council achieving the objectives set out in the Long Term Plan. In addition to the strategic risk register, it is noted that:
 - Risks relating to the achievement of business as usual activities, are held in a separate enterprise risk register which is managed by the Lead Team.
 - The full register of enterprise risks mentioned in the above bullet point, aggregate to the single strategic risk 'Significant operational service failure'.

2.0 Recommendations - *Ngā Tūtohunga*

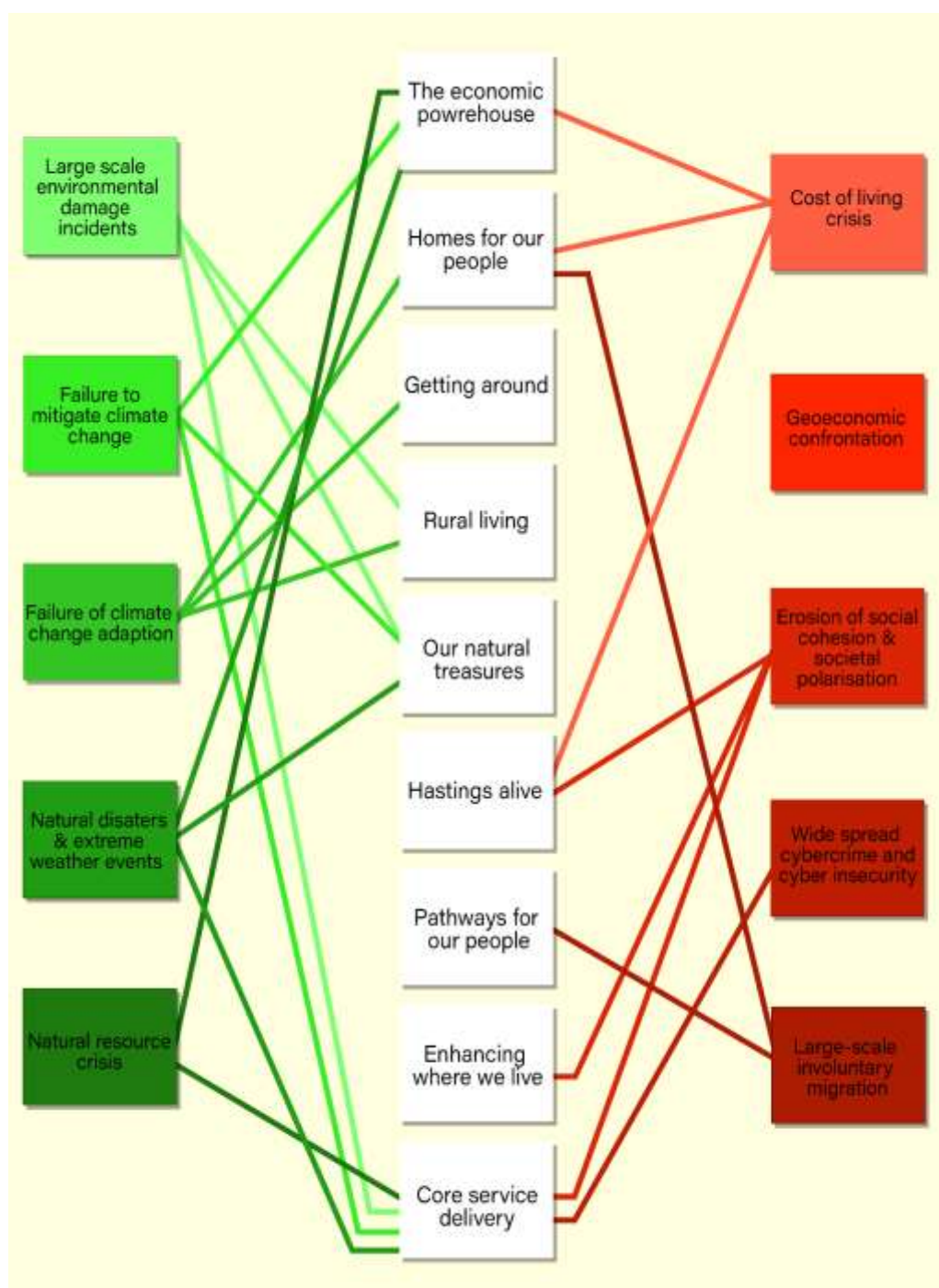
That the Risk and Assurance Committee receive the report titled 2023 Risk Horizon Scan dated 13 February 2023.

3.0 Discussion – *Te Matapakitanga*

- 3.1 The strategic risk register was most recently updated and approved by Council on 24 February 2022.
- 3.2 The most recent update introduced the risks 'Environmental, Social, Governance (ESG) and Cultural failure', 'Cyber security threat' and 'Truth decay', an alteration to 'Spatial & asset management planning' becoming 'Growth planning'.

3.3 The following documents are provided to the Committee for the purpose of discussing any new or emerging risks to Council's objectives:

- Executive Summary of the World Economic Forum's (WEF) [2023 Global Risk Report \(Attachment 2\)](#). Key points relevant to Council's goals from this report are; Cost of Living Crisis (inflation) and how this could drive food insecurity, and impacts of changing climate.
- Extract from the PwC [Annual Global CEO Survey](#) for 2023 (**Figure 1**). Key points from this summary relevant to Council are; regulation change, labour shortage and technology disruption.
- **Figure 1** below illustrates which of the top 10 short term risks (less than 2 years) from the WEF Global Risk Report (shown in green and red) could have an impact on Council's strategic objectives (shown in white). *Note: for the purpose of simplicity, the connections have been limited to a maximum of the top three goals impacted by each risk.*



Attachments:

1⇒	Executive Summary - WEF Global Risks Report 2023	PMD-9-3-23-66	Under Separate Cover
2⇒	PwC Annual Global CEO Survey 2023 (extract)	PMD-9-3-23-67	Under Separate Cover

Item 8

Monday, 13 February 2023

Item 9

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

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

Te Take:
Subject: Risk Assurance Update

1.0 Executive Summary – Te Kaupapa Me Te Whakarāpopototanga

1.1 This report provides the Committee with a copy of the final reports for the following risk assurance reviews completed during 2022:

- Loss of key knowledge
- Asset management improvement plans

1.2 Loss of key knowledge assurance review

- Council's enterprise (tier 2) risk register includes the risk, loss of key knowledge, which is aggregated to the strategic (tier 2) risk, significant operational service failure.
- The review's scope was based upon the critical controls identified within the risk's bowtie assessment, including:
 - Use of documentation and procedures relevant to roles
 - Management of single points of knowledge
 - Wellbeing support, including EAP and flexible working arrangements
 - Performance planning, including adequate resourcing and managing poor performance
 - Process for ensuring appropriate remuneration levels
- The review resulted in one medium risk finding and two low risk findings, with an overall assessment of substantially effective.
- As is stated in the final report (**Attachment 1**), the review identified the areas of wellbeing support and performance planning as being highly effective controls.

- Recommendations and respective due dates have been agreed to with relevant members of the Lead Team. These will be tracked through to completion by the Risk Assurance Team.

1.3 Asset management improvement plans assurance review

- Asset Management Plans (AMP) are identified as a key control in the Infrastructure Service Failure enterprise risk. In light of the importance of asset planning to meet the demand for housing and growth in industrial activities, the Council recognises the need for robust AMPs.
- Because the technical detail in the Council AMPs has been independently reviewed at various times, the current review focused on implementation of AMP improvement plans to deliver continuous improvement in asset management planning practices.
- The effectiveness of the improvement plan process was evaluated by considering the following key areas:
 - The status of the relevant asset management plans, including whether the plan has been formally endorsed, and the date of next review.
 - Review the AMP improvement plans and any associated register.
 - Confirm that there is evidence showing how improvement plans are being formally managed and adapted as required.
- It was clear from external reviews of the Council AMPs that improvement in planning practices are being implemented. In particular the Transportation AMP showed marked improvement in the recent assessment by the national Road Efficiency Group.
- The main opportunities for improvement identified in the review relate to development of a systematic approach to approving, implementing and monitoring the AMP improvement plans (**Attachment 2**).

2.0 Recommendations - Ngā Tūtohunga

That the Risk and Assurance Committee receive the report titled Risk Assurance Update dated 13 February 2023.

Attachments:

1⇒	Executive Summary - Loss of key knowledge review report	PMD-9-3-23-68	Under Separate Cover
2⇒	Executive Summary - Asset management improvement plans review report	PMD-9-3-23-69	Under Separate Cover

Monday, 13 February 2023

Item 10

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

Nā: Regan Smith, Risk & Corporate Services Manager
From: Craig Thew, Group Manager: Asset Management
Carly Price, 3 Waters Transition Manager

Te Take:
Subject: Three Waters Reform Risk Update

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

- 1.1 The purpose of this report is to provide the Committee with an update on the provisions in place to support seamless transitions of water services to the new water entity under the Three Waters Reform programme, in order for the Committee to determine whether the material risks have been identified and that suitable mitigations are in place.

2.0 Current Situation

- 2.1 At the time of writing the recent central Government political changes have not resulted in a formal announcement or change to the Three Waters Reform programme. As a result, the underlying legislation driving the transition programme remains the same.
- 2.2 In addition, there has been no change in proprieties communicated to officers through the National Transition Units (NTU) responsible for establishing the new water entities. Therefore, work continues to prepare Hastings District Council (HDC) services for transition by the established target date of 30 June 2024.

3.0 Water Transition

- 3.1 To manage the transition to the new water entity a 3 Waters (3W) Transition Manager has been appointed who has developed a Water Transition Strategy and associated Implementation Plan.
- 3.2 The Water Transition Strategy objective is to “ensure reliable and quality service provision now, throughout and after the transition for ratepayers, including ensuring:

- Service provision (both 3W and other HDC services such as Transport) is not disrupted significantly or provided at a lower LoS because of the Reform.
- HDC's 3W team, assets and systems are best placed for incorporation into a new entity, so ratepayers get best service from the new entity from the start.
- HDC's non-3W services are prepared for working with the new entity in place of the HDC 3W's service."

3.3 The Water Transition Strategy identifies the following areas that need to be managed to ensure reliability and quality of services is maintained during the transition. Actions to address each of these areas are then defined the implementation plan.

- Business as usual delivery maintained.
- People supported.
- Commercial/legal considerations managed.
- System data and interfacing integrity maintained.

4.0 Risk Summary

4.1 The risks to successfully achieving the transition objectives are summarised in **(Attachment 1)**. This risk profile is based on the original 3 Waters Reform Risk Analysis workshop undertaken in April 2021, which has been reviewed and updated in consultation with the 3W transition team. To support the Risk Profile summary a detailed table of tactical risks identified by the transition project is provided in **(Attachment 2)**.

4.2 Key points from the risk profile are:

- The level of benefit (opportunity risk) that can be expected from the transition is considered to outweigh the potential downsides (threat risks).
This can be seen in the Risk Profile chart below, as the chart shows the Benefit bar (in blue) extending further to left of the Neutral point (black line), than the Threat bar (in orange) extends to the right.



- The significant benefits identified relate to having a strong service partner and reduced Council service responsibilities. These are balanced against the material risks of inability to deliver growth plans including provision of sufficient water capacity, and problems created by the uncertainty around Government requirements which will probably cause a protracted transition.
- However, while the balance of benefit compared to threat is favourable, the level of threat does sit outside of the Conservative risk appetite Council would normally apply to core services (represented by the blue rectangle). Because the transition requirements are mandated Council is not able to implement preventative controls or opt out of this change. Therefore, the exceedance of Council's risk appetite can only be managed through mitigation controls based on monitoring and respond to issues as they arise. This is the purpose of the transition team.

5.0 Recommendations - *Ngā Tūtohunga*

- A) That the Risk and Assurance Committee receive the report titled Three Waters Reform Risk Update dated 13 February 2023.
- B) That the Risk and Assurance Committee confirm that the material risks to a successful transition of 3 Waters services to the new water entity have been identified, and that the mitigation plans for these risk are suitable and likely to be effective.

Attachments:

1⇒	Three Waters Reform Strategic Risk Profile February 2023	PMD-9-3-23-70	Under Separate Cover
2⇒	Three Waters Detailed Risk report February 2023	PMD-9-3-23-71	Under Separate Cover

Monday, 13 February 2023

Item 11

Te Hui o Te Kaunihera ā-Rohe o Heretaunga

Hastings District Council: Risk and Assurance Committee Meeting

Te Rārangi Take

Report to Risk and Assurance Committee

Nā:
From: Jennie Kuzman, Health, Safety and Wellbeing Manager

Te Take:
Subject: Health, Safety & Wellbeing Risk Management Update

1.0 Executive Summary – *Te Kaupapa Me Te Whakarāpopototanga*

- 1.1 The purpose of this report is to provide an update to the Risk and Assurance Committee in regards to the management of Health and Safety risks within Council.
- 1.2 This report provides information on:
 - Health & Safety at Work Reform Progress
 - Health, Safety & Wellbeing Objectives 2023-2025
 - Health, Safety & Wellbeing Critical Risk Profile – Conflict and Violence

2.0 Recommendations - *Ngā Tūtohunga*

That the Risk and Assurance Committee receive the report titled Health, Safety & Wellbeing Risk Management Update dated 13 February 2023.

3.0 Background – *Te Horopaki*

- 3.1 The purpose of this report is to provide information to the Committee in regards to the management of Health and Safety risks within Council.
- 3.2 This issue arises due to the Health and Safety at Work Act 2015 and the requirement of that legislation for Elected Members to exercise due diligence to ensure that Council complies with its Health and Safety duties and obligations.

4.0 Discussion – Te Matapakitanga

4.1 Health and Safety at Work Reform Progress

4.2 As previously advised to the committee in the February 2022 meeting, the Government announced in late 2021 impending changes to a range of Health and Safety at Work Act Regulations in relation to plant and structures (this covers a wide range of topics: work machinery, equipment and tools, mobile plant such as tractors, quad bikes and elevated work platforms, existing regimes for pressure equipment, cranes, and fairground rides, working at heights and excavations). This has an obvious impact upon Council operations in particular construction and infrastructure projects.

4.3 To date this reform has not progressed further and is currently sitting with the Ministry of Business, Innovation and Employment (MBIE) whom advise that proposed regulations will be released in 2023 for feedback. Further information can be found online at: <https://www.mbie.govt.nz/business-and-employment/employment-and-skills/health-and-safety/health-and-safety-reform/>

4.4 Health, Safety & Wellbeing Objectives 2023-2025

4.5 Organisational Health, Safety and Wellbeing objectives have been set by the Lead Team for the three year period (1 January 2023 – 31 December 2025), a copy of these are attached for your information (**Attachment 1**). Progress towards these objectives will be tracked through existing regular health and safety reporting.

4.6 Health, Safety & Wellbeing Critical Risk Profile – Conflict and Violence

4.7 Council has 12 critical health, safety and wellbeing risks which impact upon the organisation. In no particular order, these are listed below:

- Risk of serious health and/or safety effects from manual handling of loads or repetitive or forceful movements
- Risk of fatality when working at height, resulting from a fall from height or a falling object
- Risk of fatality from exposure to plant and machinery
- Risk of adverse physical and mental health effects from exposure to aggression, physical violence and verbal abuse from members of the public and service users
- Risk of fatality when working in excavations
- Risk of fatality from loss of containment and/or exposure to a hazardous substance
- Risk of fatality from exposure to a moving vehicle
- Risk of fatality or serious health effects from exposure to harmful levels of noise, vibration, dust, or biological hazards
- Risk of serious health effects from exposure to asbestos
- Risk of fatality when working in confined spaces
- Risk of serious health effects from exposure to factors causing stress
- Risk of serious health and/or safety effects from fatigue and working while fatigued.

4.8 A bowtie risk analysis was completed for each of these 12 critical health, safety and wellbeing risks in the years 2015-2017. These bowtie analyses are currently being fully reviewed and subsequently a critical risk profile will be created for each. The intention of the critical risk profile approach is to provide a simple (and concise) mechanism to convey the key components of the risk and mitigations.

4.9 The conflict and violence risk was selected as the first risk profile to be developed, following the review of the working alone policy and the current review of the conflict and violence policy. A copy of this profile is attached for your information (**Attachment 2**).

Attachments:

- | | | | |
|----|---|-----------------|----------------------------|
| 1⇒ | Objectives 2023-2025 (Approved 1 February 2023) -
(No personal information included) | HR-03-5-1-23-26 | Under
Separate
Cover |
| 2⇒ | Critical Risk Profile - #1- Conflict & Violence - 1
February 2023 - (No personal information included) | HR-03-6-3-23-70 | Under
Separate
Cover |

Item 11

HASTINGS DISTRICT COUNCIL

RISK AND ASSURANCE COMMITTEE MEETING

MONDAY, 13 FEBRUARY 2023

RECOMMENDATION TO EXCLUDE THE PUBLIC

SECTION 48, LOCAL GOVERNMENT OFFICIAL INFORMATION AND MEETINGS ACT 1987

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

15 Health & Safety Contracts - Contractors' Health & Safety Performance Report

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

<i>GENERAL SUBJECT OF EACH MATTER TO BE CONSIDERED</i>	<i>REASON FOR PASSING THIS RESOLUTION IN RELATION TO EACH MATTER, AND PARTICULAR INTERESTS PROTECTED</i>	<i>GROUND(S) UNDER SECTION 48(1) FOR THE PASSING OF EACH RESOLUTION</i>
15 Health & Safety Contracts - Contractors' Health & Safety Performance Report	<p>Section 7 (2) (b) (ii)</p> <p>The withholding of the information is necessary to protect information where the making available of the information would be likely to unreasonably prejudice the commercial position of the person who supplied or who is the subject of the information.</p> <p>The report contains sensitive Health & Safety information relating to third party activities..</p>	<p>Section 48(1)(a)(i)</p> <p>Where the Local Authority is named or specified in the First Schedule to this Act under Section 6 or 7 (except Section 7(2)(f)(i)) of this Act.</p>