



**STRATFORD
DISTRICT COUNCIL**

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Our reference:

16 July 2020

AUDIT & RISK COMMITTEE MEETING OF COUNCIL

Notice is hereby given that the **Audit & Risk Committee** meeting of Council will be held on **Tuesday 21 July 2020 at 4pm.**

Timetable for 21 July 2020 as follows:

1pm	Tikanga training
2.45pm	Workshop for Councillors - Solid Waste Projects
3.45pm	Afternoon tea for Councillors
4pm	Audit & Risk Committee meeting

Yours faithfully



Sven Hanne
CHIEF EXECUTIVE

2020 - Agenda - Audit & Risk - July (21/07/2020)

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AUDIT & RISK COMMITTEE MEETING
TUESDAY 21 JULY 2020 AT 4.00 PM

A G E N D A

1. **WELCOME**
2. **APOLOGIES**
3. **ANNOUNCEMENTS**
4. **DECLARATION OF MEMBERS INTEREST**
Elected members to declare any real or perceived conflicts of interest relating to items on this agenda.
5. **ATTENDANCE SCHEDULE**
Attendance schedule for 2019 - 2020 Audit and Risk Committee meetings.
6. **PROGRAMME OF WORKS**
D19/32844 (Page 8)

RECOMMENDATION

THAT the Audit and Risk Committee's programme of works for 2020 be received.

Moved/Seconded

7. **CONFIRMATION OF MINUTES**
 - 7.1 **Audit and Risk Committee Meeting Minutes – 19 May 2020**
D20/10274 (Pages 9-16)

RECOMMENDATION

THAT the minutes of the Audit and Risk Committee Meeting held on Tuesday 19 May 2020 be confirmed, with any amendments, as a true and accurate record.

Moved/Seconded

8. **MATTERS OUTSTANDING**
D18/27474 (Page 17)

RECOMMENDATION

THAT the matters outstanding be received.

Moved/Seconded

9. **INFORMATION REPORT – AUDIT MATTERS RAISED**

D20/17088 (Pages 18-24)

RECOMMENDATION

THAT the report be received.

Recommended Reason

This report informs the Committee of the issues identified in the final Audit New Zealand Management Report for the 2018/19 Annual Report, summarising the actions that have or intend to be taken by Council officers to respond to audit recommendations with respect to each issue raised.

Moved/Seconded

10. **INFORMATION REPORT – INTERNAL AUDIT FINDINGS**

D20/12225 (Pages 25-38)

RECOMMENDATION

THAT the report be received.

Recommended Reason

The Audit and Risk Committee is tasked with reviewing and monitoring the internal audit activities of Council on behalf of elected members.

Moved/Seconded

11. **INFORMATION REPORT – FINANCIAL RISK MANAGEMENT REPORT**

D20/17692 (Pages 39-50)

RECOMMENDATION

THAT the report be received.

Moved/Seconded

12. **INFORMATION REPORT – FRAUD RISK ASSESSMENT**

D20/17929 (Pages 51-61)

RECOMMENDATION

THAT the report be received.

Recommended Reason

This report looks at the potential fraud risk areas, and addresses the matters raised by Audit New Zealand in the 2018/19 Annual Report audit in relation specifically to Bribery and Corruption.

Moved/Seconded

13. **INFORMATION REPORT – AUDIT ARRANGEMENTS 2019/20**

AUDIT NEW ZEALAND

D20/18308 (Pages 62-109)

RECOMMENDATION

THAT the Audit and Risk Committee receives Audit New Zealand’s engagement letter, proposal letter and audit plan for the 2019/20 annual audit.

Recommended Reason

Reviewing the annual audit arrangements is within the scope of the responsibility of the Audit and Risk Committee.

Moved/Seconded

14. **INFORMATION REPORT – RISK REVIEW**

D20/16840 (Pages 110-131)

RECOMMENDATION

THAT this report be received.

RECOMMENDED REASON

To provide an update to the Audit and Risk Committee of any changes to the Council Risk Register and advise the Committee of any incidents in relation to the Top Ten Risk Register from the previous quarter.

Moved/Seconded

15. **INFORMATION REPORT – INSURANCES FOR 2020/21**
D20/18324 (Pages 132-211)

RECOMMENDATION

THAT the report be received.

Recommended Reason

To inform the Audit and Risk Committee of the insurance premium and policy changes for the 2018/19 financial year, and give an update on insurance claims made in the previous quarter.

Moved/Seconded

16. **DECISION REPORT – CLIMATE CHANGE**
D20/18468 (Pages 212-246)

RECOMMENDATIONS

1. THAT the report be received.
2. THAT Elected Members recommend the adoption of Options 1a or b depending on their preference, or pass an alternative recommendation that best reflects their desired direction.
3. THAT Elected Members recommend the adoption of Options 2a or b depending on their preference, or pass an alternative recommendation that best reflects their desired direction.

Recommended Reason

This report was produced on request of elected members and as such elected members should be in a position to express their preference. As outlined in the report, if elected members choose to recommend the implementation of new or strengthening of existing policy it is important that they acknowledge the likely business-wide financial and non-financial implications this is likely to have.

Moved/Seconded

17. **INFORMATION REPORT – HEALTH AND SAFETY**
D20/18492 (Pages 247-250)

RECOMMENDATION

THAT the report be received.

Moved/Seconded

18. **GENERAL BUSINESS**

19. **QUESTIONS**



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Please exit through main entrance.

Once you reach the footpath outside please turn left and walk towards the Bell tower congregating on lawn outside the Council Building.

Staff will guide you to an alternative route if necessary.

If there is an earthquake – drop, cover and hold where possible. Stay indoors till the shaking stops and you are sure it is safe to exit or remain where you are until further instruction is given.

5. Attendance schedule for 2019 – 2020 Audit and Risk Committee meetings.

<u>Date</u>	<u>17/12/19</u>	<u>17/03/20</u>	<u>19/05/20</u>	<u>21/07/20</u>	<u>15/09/20</u>	<u>17/11/20</u>
Meeting	A	A	A	A	A	A
Neil Volzke	✓	✓	✓			
Grant Boyde	✓	✓	✓			
Rick Coplestone						
Peter Dalziel	✓	✓	✓			
Jono Erwood	✓	✓	✓			
Amanda Harris			✓			
Alan Jamieson	✓	✓	✓			
Vaughan Jones						
Min McKay	✓	✓	✓			
John Sandford			✓			
Gloria Webby						
Kura Denness (Chair)	✓	✓	✓			

Key	
A	Audit & Risk Meeting
	Non committee member
✓	Attended
A	Apology/Leave of Absence
AB	Absent
S	Sickness
(AV)	Meeting held by Audio Visual Link

AUDIT & RISK COMMITTEE PROGRAMME OF WORKS - 2020

The Audit and Risk Committee meet five times a year in March, May, July, September and November. The items below are what the Committee will focus on in the 2020 calendar year.

1. Standing items will be discussed at every meeting against an established framework.
2. Specific items are one-off policies or processes that are expected to be addressed in 2020.

Regular Standing Agenda Items

- Audit NZ Correspondence received – Director Corporate Services
- Health & Safety Bi-Monthly Report – Health and Safety Advisor
- Risk Management Report on top ten risks including any incidents and risk mitigation actions taken – Senior Leadership Team
- Financial Management Report – Director Corporate Services
- Audit NZ Matters raised in previous year audit – Director Corporate Services

Annual Agenda Items

- Civil Defence Readiness – Chief Executive **MAY**
- Review of Insurances – Director Corporate Services **JULY**
- Cyber Risk Review and Update – IT Manager **NOVEMBER**
- Audit and Risk Committee Self-Review – Chair **NOVEMBER**

Specific One-off Agenda Items

- Fraud, Bribery and Corruption (response to audit recommendations) - **JULY**
- Long Term Plan 2021-31 Risk Management/Minimisation – **SEPTEMBER**
- IANZ accreditation (Building Control Authority audit) **NOVEMBER**
- Climate Change Response - **JULY**

Note: This programme is flexible – dates may change, and additional reports may be added at the request of members of the Audit and Risk Committee.

MINUTES OF THE AUDIT & RISK COMMITTEE MEETING OF THE STRATFORD DISTRICT COUNCIL HELD IN THE COUNCIL CHAMBERS, STRATFORD DISTRICT COUNCIL ON TUESDAY 19 MAY 2020 AT 4.00 PM

7.1

PRESENT

K Denness (the Chairman), the District Mayor N C Volzke, the Deputy Mayor A L Jamieson, Councillors P S Dalziel, J M S Erwood and M McKay.

IN ATTENDANCE

The Director Community Services – Ms K Whareaitu, the Director Corporate Services – Mrs T Radich, the Director Environmental Services – Mr B Sutherland, the Director Assets – Mrs V Araba, Councillors G W Boyde, A K Harris and W J Sandford, the Executive Administration Officer – Ms R Vanstone, the Health & Safety and Emergency Management Advisor – Mr M Bestall (*part meeting*), and one member of the media (the Daily News).

1. WELCOME

The Chairperson Ms K Denness welcomed the District Mayor, Councillors and staff.

2. APOLOGIES

No apologies were received.

3. ANNOUNCEMENTS

There were no announcements.

4. DECLARATION OF MEMBERS INTEREST

There were no declarations of interest.

5. ATTENDANCE SCHEDULE

The attendance schedule for 2019 – 2020 Audit and Risk Committee meetings was attached.

6. PROGRAMME OF WORKS

D19/32844 (Page 8)

RECOMMENDATION

THAT the Audit and Risk Committee’s programme of works for 2020 be received.

ERWOOD/VOLZKE
Carried
A&R/20/13

7.1

7. CONFIRMATION OF MINUTES

7.1 Audit and Risk Committee Meeting Minutes – 17 March 2020

D20/7601 (Pages 8-16)

RECOMMENDATION

THAT the minutes of the Audit and Risk Committee Meeting held on Tuesday 17 March 2020 be confirmed, with any amendments, as a true and accurate record.

McKAY/DALZIEL
Carried
A&R/20/14

8. MATTERS OUTSTANDING

D18/27474 (Page 17)

RECOMMENDATION

THAT the matters outstanding be received.

McKAY/JAMIESON
Carried
A&R/20/15

The following points were noted:

- In response to the request for an update on the Climate Change Response Report, the District Mayor advised that this matter was a work in progress. The Director – Environmental Services noted that the three territorial authorities would convene at the earliest opportunity to consider the draft of a regional stud that has been commissioned.
- The Health & Safety and Emergency Management Advisor advised that the lone worker status item had been discussed and concluded at the previous meeting.
- The Director – Community Services noted that a job description and advertisement for the Chair role had been reviewed and would be advertised as soon as possible.
- In response to a question about whether the Council could exit the Local Government Funding Agency’s (“LGFA”) guarantor scheme, the Director – Corporate Services advised that the Council could exit as a guarantor where:

- Council debt had reduced to less than \$20,000,000 (currently \$14,500,000, but predicted to exceed \$20,000,000 by June 2021), and
- Council's commitment under the guarantee would only cease once the longest LGFA bond, at the time the Council ceases to become a guarantor with LGFA, matures (currently April 2033).

9. INFORMATION REPORT - ANNUAL REPORT 2018/19 – AUDIT OUTCOMES

D20/8187 (Pages 18-24)

RECOMMENDATION

THAT the report be received.

Recommended Reason

This report informs the Committee of the issues identified in the final Audit New Zealand Management Report for the 2018/19 Annual Report, and summarises their findings and the actions to be taken by Council officers to respond to audit recommendations.

JAMIESON/ERWOOD
Carried
A&R/20/16

The Director – Corporate Services noted that Council was preparing working papers for the upcoming audit. The interim audit would commence on 25 May 2020 with auditors on-site for two weeks reviewing significant items prior to the full audit which would commence in the last week of August. Council had requested that the audit be brought forward this year.

Questions/Points of clarification:

- The Deputy Mayor requested an update on Council's request to the Auditor-General for a change of auditor. Mr Hanne noted that the Auditor-General had made it clear that the current arrangement would not change for the 2019/20 audit however Mr Ryan had indicated that the engagement period could be shortened in the future.
- The Deputy Mayor noted the irony in Council's being asked to consider cost reductions when annual audit fees would increase by 1.5 per cent.
- The Chair sought an update on the contract management register. Mrs Radich confirmed that Council was awaiting a patch from Civica and that the deadline for that work would likely be met although it would not be a priority given that Council already had a number of other urgent IT projects awaiting Civica's resolution and already had a robust system in place.

10. **INFORMATION REPORT – RISK REVIEW**

D20/8094

(Pages 25-29)

RECOMMENDATION

THAT this report be received.

RECOMMENDED REASON

To provide an update to the Audit and Risk Committee of any changes to the risk register and advise of any incidents in relation to the Top 10 Risk Register from the previous quarter.

ERWOOD/DALZIEL

Carried
A&R/20/17

7.1

The Director – Corporate Services noted the following points:

- Failure of a Significant Contractor was added to the risk register and given a ‘high’ risk rating.
- The COVID-19 Response Bill would prove to be helpful in terms of giving Council a further year to review bylaws due for revocation this year.
- Management of the Infectious Disease Outbreak/Pandemic risk would be reported on in other reports to this Council.

The Chief Executive left the meeting briefly at 4.25pm and returned at 4.27pm.

Questions/Points of clarification:

- The Chair was pleased to note that credit checks were being completed for contractors, particularly the larger ones.
- The District Mayor noted that the failure of contractors considered a likely occurrence two months ago, was a reality in the current circumstances. He also noted that the impact of government policy changes in this situation was positive.
- Mayor Volzke advised the committee that an announcement was due very soon on three waters and he expected this to have a significant impact.

11. **BI-MONTHLY REPORT – HEALTH AND SAFETY**

D20/7961

(Pages 48-51)

RECOMMENDATION

THAT the report be received.

McKAY/VOLZKE

Carried

A&R/20/18

7.1

The Health & Safety and Emergency Management Advisor noted that aside from the COVID-19 pandemic, the health and safety arena had been relatively quiet since the last meeting. COVID-19 had been a defining and amazing event with the goalposts shifting hourly. Coming out of the pandemic called for a staggered approach to ensure the safety of staff and their families.

Questions/Points of clarification:

- The Chair asked how many people had been diagnosed with COVID-19 in the Stratford District. The Chief Executive responded that he was aware of two local cases.
- Councillor Boyde praised council staff for a job well done during the COVID-19 pandemic response. This was reiterated by the Deputy Mayor. Mr Bestall acknowledged Mr Hanne’s leadership and effort as regional Controller.
- In response to a question from the District Mayor concerning the outstanding matter of the swim school, Mr Hanne confirmed that the school’s learn to swim sessions would not restart until council had received the required pre-qualification documentation by the agreed date of 3 June 2020. Swim squad sessions would restart this week once the relevant documentation from trainers was received.
- Mayor Volzke asked about the pool safe standards and how council benefited from the accreditation process given that not all public pools subscribe. Mr Hanne noted that the pool safe accreditation requirements state that trainers be qualified from the age of 16 years. He viewed this as an appropriate requirement. Other councils allow people slightly younger to operate with special requirements for supervision however those facilities are generally bigger with more staff. Mr Hanne noted that it would be ill-conceived to opt out of pool safe accreditation as this would put the entire facility at risk and would significantly increase the workload of staff who would be required to regularly audit.

12. INFORMATION REPORT - CIVIL DEFENCE UPDATE

D20/8088 (Pages 52-58)

RECOMMENDATION

THAT the report be received.

Recommended Reason

It is a function of this committee to stay abreast of Council’s readiness and ability to meet its requirements and obligations as laid out in the Taranaki Civil Defence Group’s constituting agreement.

McKAY/JAMIESON

Carried
A&R/20/19

7.1

The Chief Executive noted the following points:

- The COVID-19 event had provided an opportunity to assess the region’s emergency readiness.
- The Morris Report triggered the move of the civil defence function away from the regional council and saw a significant increase in resourcing and staffing. In 2017 the regional/collective effort commenced. While this model was being established, central government moved the goalpost further through legislative change. This Council’s investment in the regional civil defence function has increased ten-fold.
- Stratford District Council now contributes 47 volunteers to the regional effort, an increase of 7 on the previous year. The Director – Environmental Services Mr Blair Sutherland has volunteered to be the Alternate Controller. Portable equipment and packs are ready and available.
- By way of an update, the 11 staff who directly contributed at the EOC during COVID-19 worked the equivalent of 148 full-time eight hour days – that represented a quarter of Council staff contributing to the event and is on a par with other council’s efforts.
- Mr Hanne noted that he was extremely proud of Council staff at the EOC – they were outcomes focussed, productive, well liked and pragmatic. Their efforts were equally matched by staff who have kept Council running and those who have performed equally important roles.

Questions/Points of clarification:

- The District Mayor acknowledged that this Council had done well to effectively start from almost nothing to where it is now – it had required a lot of investment. He also acknowledged the Chief Executive’s lead role and congratulated him on being part way through the Response and Recovery Leadership Programme qualification.
- The Health & Safety and Emergency Management Advisor also acknowledged Mr Hanne as the Controller, adding that he had gained the respect of his staff and other councils in the sometimes high pressure environment. Mr Bestall felt a keen sense of pride.
- The Chair noted the contribution of this Council in terms of expense and time to the effort.
- Councillor Dalziel asked whether it was fair to say that Stratford District Council had punched above its weight in terms of the regional effort? Mr Hanne confirmed this

adding that other organisations may have been lighter contributors in the initial response but as the effort was now entering the ‘long tail of recovery’ which required the same level of staffing, those organisations were delivering in that phase.

- The Chair asked whether the council was prepared for a second wave of infections. Mr Hanne confirmed this.
- The Chief Executive explained the relevance of the public health legislation versus the civil defence legislation following a question from the District Mayor.
- The Chair commented on observations from the northern and southern road blocks noting the high numbers travelling in Alert Levels 3 and 4.

The Health & Safety and Emergency Management Advisor left the meeting at 5.10pm.

13. INFORMATION REPORT – FINANCIAL RISK MANAGEMENT REPORT

D20/8096 (Pages 98-102)

<p><u>RECOMMENDATION</u></p> <p><u>THAT</u> the report be received.</p> <div style="text-align: right; margin-top: 20px;"> <p><u>JAMISTON/DALZIEL</u> Carried A&R/20/20</p> </div>

The Director – Corporate Services noted that the lockdown had affected council revenue.

Questions/Points of clarification:

- Councillor Boyde, in referring to page 99 of the agenda, noted his serious concern around incomplete capital expenditure projects and asked that these be brought back to Council for approval.
- Mr Hanne clarified that ‘carry overs’ required council approval. He also noted that carry overs were a natural function of council business. If the view was broadened from 12 months to 18 months, the 20 per cent of council’s work that was carried over was being completed in that period. When considering the 2-3 year timeline, Council has delivered on everything that it has committed to. Mr Hanne noted that 20 per cent carry over was not a failure to deliver.
- Councillor Boyde asked when referring to the capital expenditure summary, whether it was a risk to have a ‘wish list’.
- The District Mayor clarified that this year would be unique as some projects would be funded by government stimulus funding and there would be a certain amount of reprioritisation of funds. We would know more in the coming weeks, he said.
- Mayor Volzke noted, when referring to income and cash flow, how income from fees and charges versus rating income exposed councils during an economic downturn. He referred to the Auckland City Council which topped the table in terms of fees and charges which equated to 75 per cent of their rate take, suggesting a vulnerability. The New Plymouth District Council featured in the top 10–29 per cent. He noted that 10 per cent of this Council’s cash revenue came from fees and charges.
- The Chair noted her interest in the cash flow forecast, given that the loss of income from Council facilities was not recoverable.

14. AUDIT NEW ZEALAND CORRESPONDENCE

- Audit NZ – Letter to Local Authorities – Responding to COVID-19 & audit fees
D20/8158 (Pages 113-114)

RECOMMENDATION

THAT the correspondence be received.

JAMIESON/DALZIEL
Carried
A&R/20/21

7.1

15. GENERAL BUSINESS

- 15.1 Insurance Claims - no insurance claims were made in the period up to the end of April 2020.

16. QUESTIONS

The meeting closed at 5.26pm.

K Denness
CHAIRMAN

Confirmed this 21st day of July 2020.

N Volzke
DISTRICT MAYOR

AUDIT & RISK COMMITTEE MATTERS OUTSTANDING INDEX

REF NO.	ITEM OF MATTER	MEETING RAISED	RESPONSIBILITY	CURRENT PROGRESS	EXPECTED RESPONSE
	Climate Change Response Report (Mayor)	17 December 2019	Sven Hanne	<i>Complete</i>	Report – item 16
	Swim School response following pool instructor health incident (Mayor)	17 September & 17 December 2019	Mario Bestall	<i>Complete</i>	In Health and Safety Report – item 17
	Chair appointment process		Sven Hanne/Mayor	<i>Vacancy has closed. Currently shortlisting.</i>	

INFORMATION REPORT



TO: Audit and Risk Committee F19/13-D20/17088

FROM: Director – Corporate Services

DATE: 21 July 2020

SUBJECT: ANNUAL REPORT 2018/19 – PROGRESS ON AUDIT ISSUES

RECOMMENDATION

THAT the report be received.

Recommended Reason

This report informs the Committee of the issues identified in the final Audit New Zealand Management Report for the 2018/19 Annual Report, summarising the actions that have or intend to be taken by Council officers to respond to audit recommendations with respect to each issue raised.

Moved/Seconded

1. PURPOSE OF REPORT

The purpose of this report is to inform the Committee of the issues identified in the final Audit New Zealand Management Report for the most recent year-end external audit, and summarises the actions that have or are to be taken by Council officers to respond to audit recommendations.

This is in line with the Audit and Risk Committee's Terms of Reference which includes a responsibility *"To review the external audit findings and the annual financial statements and report back to the Council"*.

2. EXECUTIVE SUMMARY

Audit New Zealand issued an unmodified Audit opinion for the year ended 30 June 2019 on 29 October 2019. As a follow up, Audit New Zealand issued a Management Report setting out the findings from the audit, highlighting areas where Council is doing well, and making recommendations for improvement.

Appendix 1 lists each of the issues identified by Audit New Zealand that came with some form of recommendation, and the current status.

3. LOCAL GOVERNMENT ACT 2002: SECTION 10

The Annual Report is an important way in which Council demonstrates its actions are aligned with Section 10 of the Local Government Act 2002. Audit matters raised contribute to the above by ensuring the Annual Report is fit for purpose and compliant with legislation.

4. BACKGROUND

Audit New Zealand carried out their annual audit of Council's financial statements for the year ended 30 June 2019, on behalf of the Controller and Auditor-General, from September 2019 to October 2019.

An unmodified audit opinion was issued by Audit New Zealand. This means that, in the auditor's opinion, the financial statements and commentary within the annual report were presented, in all material respects, in accordance with legislation and the financial reporting standards.

The Annual Report 2019/20 was adopted by Council on 29 October 2019.

It is normal that the auditors will provide recommendations for improvement to ensure a high standard is maintained in terms of internal controls and accuracy in collecting and recording information that is required to be publically reported. A summary of the recommendations is provided in **Appendix 1** to this report. A progress update on these recommendations will continue to be provided to the Committee at each meeting.

5. INFORMATION SUMMARY

Refer to the Audit New Zealand management report, included in the Correspondence section of the December 2019 Audit and Risk Committee meeting agenda.

6. STRATEGIC ALIGNMENT

6.1 Direction

The Annual Report is a statutory requirement as is the Audit of that report. It is largely reporting historical information, whereas the Annual Plan and Long Term Plan are forward looking and direction setting.

6.2 Annual Plan and Long Term Plan

The Annual Report compares the actual results for the year ended 30 June 2019 against the budget as per Year 1 of the Long Term Plan.

6.3 District Plan

The Annual Report does not have a direct relationship with the District Plan.

6.4 Legal Implications

There are no legal implications - the Annual Report was completed in accordance with the Local Government Act 2002.

6.5 **Policy Implications**

There are no policy implications to consider directly. However, some of the audit recommendations may involve Council having to review particular policies.

Attachments

Appendix 1 - Schedule of Audit Matters Outstanding



Tiffany Radich
DIRECTOR CORPORATE SERVICES



Approved by
K Whareaitu
ACTING CHIEF EXECUTIVE

DATE 14 July 2020

APPENDIX 1

Audit matters raised from audit of Annual Report 2018/19

Recommendation	Current status	Comments	Timeframe
<p>Reconciliation between the general ledger and the asset management system</p> <p>Management should ensure that capital additions in the general ledger are reconciled to those capitalised in Asset-Finda on a monthly basis. This reconciliation should include a report on the depreciation charged.</p>	In progress	<p><i>Due to existing processes, the only time the two systems are reconciled is at asset revaluation dates. The Accountant and GIS Officer are continuing to work on a solution that enables monthly reconciliation of asset values between AssetFinda and Authority. The new GIS officer has a work program relating to this area which is currently focusing on updating Assetfinda with Authority work order projects, and monthly meetings have been established with asset managers to ensure projects are capitalised on a timely basis.</i></p>	Ongoing
<p>Bribery and Corruption</p> <p>The District Council should:</p> <ul style="list-style-type: none"> • Send policy reminders to key staff members in high risk roles for example those involved in the procurement process. • Institute formal awareness related to the policies and guidance for bribery and corruption. • Undertake a formal risk assessment to identify where it is most at risk for bribery and corruption. • Ensure there is regular reporting on bribery and corruption and related activities. • Implement mechanisms to ensure the controls in relation to bribery and corruption are adequate. These could include - results from any investigations, staff surveys, feedback from training, targeted internal audits. 	In progress	<ul style="list-style-type: none"> • <i>Policy reminders to key staff members is raised at SLT or via staff newsletter and/or addressed directly by the Director.</i> • <i>Formal awareness and education of Council policies recommended.</i> • <i>Formal risk assessment completed.</i> • <i>Reporting to audit and risk committee where there is a need, addressed in July 2020 A&R meeting.</i> • <i>Internal audit carried out early 2020 – no incidences of breaches in relation to bribery and corruption were identified.</i> 	Ongoing

Recommendation	Current status	Comments	Timeframe
<p>Assessment of asset condition be carried out at valuation cycles</p> <p>Having appropriate information over the condition of assets and taking this into account when revaluing will give the District Council a better picture of their assets. This will also mean the District Council will have better information for asset management planning.</p>	To consider for next infrastructure valuation.	<p><i>Asset condition is reviewed regularly to inform the programme of works. However, in terms of the three yearly asset valuations asset condition was not an essential consideration, due to the significant cost of adding this component and data already being held, collected by contractors, in relation to asset condition.</i></p>	2021/22
<p>Support for status of completed assets</p> <p>Improve the documentation and processes confirming the status of work-in-progress as complete.</p>	Complete	<p><i>WIP will be reconciled each month and confirmed by SLT – to ensure there are no completed assets sitting in WIP to be capitalised. The capital expenditure report is emailed to budget managers monthly to confirm if any projects are complete and require capitalisation..</i></p>	Complete
<p>Recording and reporting of mandatory measures not in line with Department of Internal Affairs (DIA) guidance</p> <p>Management should ensure the system for recording complaints includes all complaints received for each event.</p>	Complete - Temporary solution sufficient for long term	<p><i>Legislation imposes mandatory performance measures for complaints regarding water, stormwater, and wastewater to be measured individually. Front counter staff create a CRM task for every complaint associated with the three waters. A spreadsheet register is used where there are multiple complaints about the same issue affecting more than one property.</i></p>	Complete
<p>Verbal advice obtained on employment matter</p> <p>Management should ensure that advice obtained in relation to legal, compliance and employment related matters is in writing.</p>	One-off issue	<p><i>This recommendation has been passed on to Human Resources and the Senior Leadership Team.</i></p>	Complete

Audit Matters raised in previous years' audits outstanding

Recommendation	Current status	Comments	Timeframe
<p>Contract management register</p> <p>Consider improvements to the contract management register and processes to include a whole-of-Council contract management system.</p>	In progress	<i>Work is being undertaken by IT to link work orders to contracts and set up workflows to enable more effective contract management. Currently awaiting patch from Civica to resolve integration issues.</i>	30/06/20
<p>Fraud policy awareness and risk assessment</p> <p>Complete a formal fraud risk assessment taking into consideration the whole of Council and its operations as well as increase the level of awareness around its fraud policy.</p>	Complete	<i>A formal fraud risk assessment was completed in June 2020.</i>	Complete
<p>RAMM Database accuracy</p> <p>Recommended that council cleanse the RAMM database to ensure accuracy of asset data, in readiness for the 2018-28 LTP.</p>	Complete	<i>Council has been progressing this and assessed the data as sufficiently reliable for the 2018-28 LTP and the 2018/19 revaluation.</i>	Complete
<p>Impairment of property, plant and equipment</p> <p>The District Council puts in place a formal evidenced process for review of impairment indicators which is in line with the accounting standards. The process should also take in to account specific contract rates where applicable to obtain a more accurate reflection of any impairment. We also note that asset condition is not taken in to account in the valuation.</p>	Complete	<i>Council assets are assessed for impairment each year in the last quarter of the financial year, unless it is a revaluation year in which case an impairment assessment may not be required (depending on date of revaluation).</i>	Complete

Recommendation	Current status	Comments	Timeframe
<p>Capitalisation of assets</p> <p>Capital projects should be capitalised on the date that the asset becomes available for use and a quarterly review of work-in-progress balances be performed by the Asset Managers and the Financial Accountant. This review should focus on the validity of the total work-in-progress balances and whether any of this amount should be capitalised.</p>	Complete	<p><i>Most one-off capital items are capitalised as the invoice is entered. From the 2019/20 financial year, a new work order will be created for each capital project enabling clarity over project costs, and amount to capitalise is much easier to determine once the project is complete.</i></p>	Complete
<p>Implement a formal WIP review process</p> <p>The District Council should implement a formal system that easily identifies what makes up the work-in-progress at any given time.</p>	Complete	<p><i>Finance staff now prepare a monthly report of outstanding Work In Progress, reconciled to the WIP balance in the GL.</i></p>	Complete

INFORMATION REPORT



TO: Audit and Risk Committee

F19/13-D20/12225

FROM: Corporate Accountant

DATE: 21 July 2020

SUBJECT: INTERNAL AUDIT REPORT 2019/20

RECOMMENDATION

THAT the report be received.

Recommended Reason

The Audit and Risk Committee is tasked with reviewing and monitoring the internal audit activities of Council on behalf of elected members.

Moved/Seconded

1. **PURPOSE OF REPORT**

The purpose of this report is to enable the Audit and Risk Committee to carry out its function of reviewing the Internal Audit activity of the council by providing the final Internal Audit Report 2020, conducted by Stratford District Council staff.

2. **EXECUTIVE SUMMARY**

The Audit and Risk Committee have, in its Terms of Reference adopted in June 2017, an obligation to:

1. Agree the internal audit programme, review the findings of internal audits, and to monitor management response and implementation of their recommendations.
2. To ensure that recommendations highlighted in internal audit reports are actioned by management.
3. To review the internal auditors and their activities.

This report provides the Committee with the opportunity to action the obligations above.

Key findings:

- Compliance and Legislation – all processes followed, but some policies and bylaws were not reviewed within the recommended timeframe
- Financial – some procurement steps were done informally and documented later; and no records for theft by contractor or visitor;
- Health and Safety Wellbeing – training to be provided for dealing with abusive customers; require better recording of the health and welfare of the farm cows

and pound animals; no driver register or training provided for vehicles / drivers; insufficient information provided when invoicing customers; additional checks to be made when customers paying by credit card

- Operational – no records held of any contractor damage to property.

3. LOCAL GOVERNMENT ACT 2002: SECTION 10

How is the subject of this report applicable to the purpose of the Act?

- Is it for the provision of good quality local infrastructure? If so, why?; **OR**
- Is it for the performance of a good quality regulatory function? If so, why?; **OR**
- Is it for the performance of a good quality local public service?

AND

- Is it in a way that is most cost-effective to businesses and households? If so, why?

Good quality means, infrastructure, services, and performance that are efficient and effective, and appropriate to present and anticipated future circumstances.

Local public service means, a service provided for the community which is for the benefit of the District.

A local authority must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. (Section 101 of the Local Government Act 2002 “the Act”). The internal audit process is a mechanism by which senior management and elected members can get some form of assurance that the council is managing its assets prudently.

4. BACKGROUND

- 4.1 The purpose of carrying out an annual internal audit is to provide additional assurance to the Audit and Risk Committee that the Council is managing its risks effectively. It fulfils the Council’s responsibilities in the Risk Management Policy approved in September 2017. The following is an excerpt from the Council’s Risk Management Policy:

*“**FRAME** - Risk management practices are framed in the context of the Council’s risk appetite; The Stratford District Council’s strategic and business objectives; and the strategic, environmental and organisational context within which the Stratford District Council operates and from which risks arise.*

***ASSESS** - what, why and how events may arise are identified, existing controls determined, and risks are analysed in terms of their likelihood and impact in the context of those controls.*

***RESPOND** – Stratford District Council develops and implements specific risk management plans - with controls and treatments for high impact risks, or monitoring measures for lower or accepted risks – in response to risks.*

***MONITOR** - Monitoring and review occurs throughout the risk management process, with oversight and review of Risk Registers and any changes that might affect them; this includes communication, consultation and reporting at all stages that enables the Stratford District Council to minimise losses and capitalise on opportunities.”*

- 4.2 The attached audit report relates to the first in-house internal audit undertaken since the inception of the Audit and Risk Committee. Unlike the previous internal audits which were undertaken by external consultants, this audit was done by council staff, however still focused primarily on risks contained in Council's Risk Register.
- 4.3 A wider risk based audit is considered to be a more effective use of an internal auditor, rather than focusing purely on a financial based audit. At year end, external auditors undertake a significant review of the Council's financial processes, testing of asset and liability balances, and substantive transactional testing. In addition, the auditors review the effectiveness of internal controls in the finance function. Council officers are actively identifying ways to minimise and reduce the incidence of errors, or deliberate acts of fraud, on an ongoing basis.
- 4.4 It was considered good practice to undertake this year's internal audit by council staff. In addition to cost savings, this also gave the auditors a better understanding of processes within other departments, assisting with individual personal development and cross department collaboration. The staff responsible for the function being audited also directly benefited from the audit as it was an opportunity for them to revisit their current processes and procedures.
- 4.5 The internal audit was carried out in line with the Internal Audit Plan (**Appendix 2**), approved by the Audit and Risk Committee at the March 2020 meeting. The intention was to start the audit in March 2020, however due to COVID 19 it did not start until May 2020. As expected, the audit identified areas for improvement and these are commented on in the next section.

5 INFORMATION SUMMARY

- 5.1 Ten staff – nine from Corporate Services Department, and one other staff member – were each allocated a risk to audit. They were provided with a template for guidance on how to approach the audit, and the suggestions on steps to take to be able to come to recommendations.
- 5.2 Attached as **Appendix 1** is a summary of the work undertaken, the findings, and resulting recommendations. These are summarised below:
- a) ***Compliance Legislation – Incorrect planning advice***
All processes were followed, and data was correct, however it is recommended that the processes be promapped.
 - b) ***Compliance Legislation – Bylaws and Policies***
Not all Bylaws and Policies were reviewed within the recommended timeframe. Recommended that the Policy Register be updated more frequently, i.e. as a policy change is made; and that a Bylaws register be created.
 - c) ***Financial – Procurement contracts***
In the contract tested, some of the procurement steps were done informally and documented at a later date. Recommended that council perform internal audits on random samples of procurement processes as tenders are received.

d) Health and Safety wellbeing – Abusive customers

A lack of suitable training has been provided to relevant staff, at their respective locations, on how to deal with abusive customers. Recommended that a process for training be documented, implemented and updated as required.

e) Health and Safety wellbeing – Animal welfare

Cow welfare – council not actively monitoring the welfare of the cows. Pound animals – hard copy register only, and no reporting of statistics. Recommended to include the welfare of cows as an agenda item at sharemilker farm meetings; include pound statistics in regular reports; and implement a new electronic register that records all pound information.

f) Health and Safety Wellbeing – Council vehicle accidents

No drivers register kept; no training for non-normal conditions is provided; and no information on a vehicle accident procedure in the vehicles. Recommended to create a register of all drivers, including licence expiry dates and class of licence; provide suitable training where required; and provide information on what to do in the unfortunate event of an accident in each vehicle.

g) Operational – Contractor damage to property

There is no record of contractor damage, and no system or process to record such damage to either council or private property. Recommended to implement a procedure for recording and reporting contractor damage.

h) Financial – Theft by contractors

No record of which cleaners are rostered by the building maintenance contractors each night, so there is no way of knowing who might be in the building/s, and each one would have the keypad ID number for access to the buildings. All visitors that were checked during the day had signed in to the register. Recommended that the process for cleaners be looked at further; and for the administration building, visitors record who they are seeing when they sign in.

i) Financial – credit card payments

One payment by credit card was processed as EFTPOS, with a loss of revenue of 50 cents. Recommended that additional checks be made at time of payment to confirm the card type that is being used.

j) Financial – Revenue from fees and charges

Supporting information not supplied in all invoice requests; correct authorisations not provided; and insufficient information given to enable a debtor to confirm the charge is correct. Recommended that more detail be provided when charging an hourly rate; all invoices are correctly authorised, and that a check box be added to the internal invoice request form to confirm that the charge is in accordance with the annual plan / long term plan.

6 STRATEGIC ALIGNMENT

6.1 Direction

	Explain
Is there a strong link to Council's strategic direction, Long Term Plan/District Plan?	No
What relationship does it have to the communities' current and future needs for infrastructure, regulatory functions, or local public services?	Ensuring protection of Council financial, infrastructure, and people assets

6.2 Annual Plan and Long Term Plan

There are no implications on the Annual Plan or Long Term Plan as a result of the internal audit.

6.3 District Plan

There is no direct connection with the District Plan.

6.4 Legal Implications

Potential legal implications if recommendations not considered;

- Council could be subject to a judicial review or dispute if incorrect planning advice given
- Staff and customers could be exposed to violence, leading to litigation
- Animal welfare agencies could intervene
- Possibility of death or serious injury in a vehicle accident could lead to litigations
- If council or private property damaged council could be liable

6.5 Policy Implications

Potential policy implications if recommendations not considered:

- Polices and Bylaws may become unenforceable, and council could be acting illegally
- If the Procurement Policy is not followed then council could be subject to industry, media and legal scrutiny.

Attachments:

Appendix 1 - Summary of work undertaken, findings, and recommendations

Appendix 2 - Internal Audit Plan – originally presented at the March 2020 Audit and Risk Committee meeting



Christine Craig
CORPORATE ACCOUNTANT



Tiffany Radich
DIRECTOR – CORPORATE SERVICES



Approved by
Kate Whareaitu
ACTING CHIEF EXECUTIVE

DATE 14 July 2020

INTERNAL AUDIT PLAN - SUMMARY OF FINDINGS AND RECOMMENDATIONS

RISKS FROM COUNCIL'S RISK REGISTER

Risk No.	Risk category and subject	Risk description	Control description	What auditor will be looking for	Work undertaken	Findings	Recommendations
2	Compliance and Legislation - Incorrect Planning Advice	IF Council gives out wrong advice on LIM, or issues Resource Consent when it should not have, THEN it could be subject to a judicial review or similar form of dispute process involving legal costs, possible fines, and reputational damage.	Quality assurance. Resourcing and ongoing training of competent staff. Low tolerance for poor quality documentation from consent applicants. Good quality legal counsel. Council has professional indemnity, public liability, and statutory liability insurance.	Check that all staff responsible for any planning work and issuing LIM's for council are fully trained, and have ongoing training plans for the future, and ensure that all consent application documentation is of good quality.	Reviewed current processes and documentation, and the samples of LIM's and resource consents issued. Reviewed training records.	<p>* Confirmed that the data provided is accurate and in accordance with council records.</p> <p>* No changes to the processes are required, and there are robust LIM checklists in place, however there are no formal training records or procedures.</p>	<p>* That the processes for both issuing LIM's and resource consent applications and processing be Promapped.</p> <p>* This can be taken from the LIM checklist, and ensures that no steps are missed.</p> <p>* Also a training plan be implemented to ensure staff are kept up to date with policies, and current legislation.</p>
4	Compliance and Legislation - Bylaws and Policies	IF Council fails to keep Policies and Bylaws up to date, THEN the Policies and Bylaws may become unenforceable and irrelevant, and council could be acting illegally, or the policy is not fit for purpose.	Quality assurance, Resourcing levels maintained, Regular Policy Schedule review by CEO. Regular review of Bylaw timetable maintained in Content Manager.	Check when each bylaw or policy was last reviewed, in accordance with council's policy and bylaw register, and ensure that there are no bylaws or policies that are overdue for a review.	Checked the Policy Register to ensure all policies were up to date, and that the review dates align with the register. Also checked that Bylaws had a register.	<p>*The Policy Register appears to not be updated regularly, and some review dates in the register do not align with those in the policy documents.</p> <p>* Some policies had a longer review period than the recommended three year period.</p> <p>*All Bylaws were amended recently and have only recently become stand alone regulation documents.</p>	<p>*All policies that are overdue need to be reviewed immediately, to remain relevant and enforceable.</p> <p>*The Policy Register to be updated continually.</p> <p>*A Bylaws register should be created, to ensure no updates are missed.</p>

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25	Financial - Procurement contracts	IF procurement contracts entered into are not cost-effective and do not comply with Council's Procurement Policies THEN council projects could go over budget and council procurement could be subject to industry, media, legal scrutiny.	Ensure procurement policy and procurement manual are appropriate, comply with legislation and good practice, and followed by all staff and significant contracts are reviewed by an independent professional.	Check council's contract register for compliance with the policies and also costs of each project are within the final contract price.	There were only two contracts in this time period. The procurement policy and processes were reviewed for each contract.	<p>* The procurement policy was not able to be followed fully for the first contract due to the nature of the contract works.</p> <p>* The other contract followed the process of procurement, however some steps were done informally, and corrected formally after the fact.</p>	<p>* An internal audit is conducted by an independent staff member for all contracts, to ensure all processes, from pre-award to completion, are followed.</p> <p>* The whole process has now been promapped, so if there are no issues found after four contracts then every second contract is audited internally.</p> <p>* This ensures that council have 100% compliance with policies and legislation, and can reduce the likelihood of scrutiny or liability in the future.</p>
31	Health and Safety Wellbeing	IF abusive customers come into any of the Council's service centres, THEN there is the risk that council staff or the general public could be harmed or exposed to violence.	Staff have personal alert alarms if in danger, customer service training and policies on how to deal with situations so they do not escalate. Security cameras in place. Fob access required to access staff office area. Mayor's office is secured by glass entry way.	Check there are procedures in place at each service centre location, that are appropriate for each individual site, and that all relevant staff are aware of these procedures.	Visited each location and reviewed the respective processes to deal with abusive customers. Checked what training is provided to all staff at each location and that it is relevant and fit for purpose.	<p>* Not all staff have been trained in the de-escalation or panic button procedures.</p> <p>* There are no formal records of training undertaken, and a number of suggestions were made on how to enhance security at all sites.</p> <p>* The ADT duress alarm procedures does not have all current staff names recorded.</p>	<p>* De-escalation refresher training is required. Council to adopt a process to follow for each location, that each staff member is made aware of and signs it. This would then be recorded in a register.</p> <p>* The ADT records must be updated immediately, and on change of any staff.</p>
33	Health and Safety Wellbeing - Animal Welfare	IF an animal that has been impounded is injured or dies due to maltreatment, or animals are mistreated on the council farm THEN this could result in animal welfare agency scrutiny and possible fines.	Quality assurance, ongoing training / Awareness of HSE requirements and responsibilities, Vet Care / Assessments. Ensure notification is given to new animals being impounded so that compliance officer ensures the animals are being cared for and regularly fed and have access to water. Monthly farm meetings to bring up any animal welfare issues. Property Officer to regularly visit farm and make visual assessment of cow welfare.	Check that the Compliance Officer is aware of all HSE requirements, and has suitable training in the welfare of animals. Check if there is a register of animals that arrive in the pound, that also records all actions taken regarding their welfare. Check that the Property Officer provides regular written reports on the assessment of the cows on the farm.	Spoke to Property Officer and Compliance Officer. Reviewed the Sharemilker's recent health and safety report and three farm meeting reports since September 2019. Reviewed the pound records and code of welfare for dogs.	<p>* Council is not actively monitoring the welfare of cows on the farm. Although the general wellbeing and feeding of the cows is reported by the sharemilker at farm meetings, council does not routinely check on the condition of the cows, but would raise concerns where necessary. The Property Officer advised that it is not council's place to monitor or report on the welfare of the cows as they are owned by the sharemilkers.</p> <p>* Dog pound records are kept in a hardcopy book, and includes all details relating to the impoundment. An electronic register is being developed. Dogs are fed daily, and the pound is cleaned daily, which will now be easier with the upgrade. This aligns with the code of welfare for dogs. Training is provided for staff dealing with the pound animals.</p>	<p>* Cows - Council is not currently taking active steps to mitigate the reputational risk at the farm as they are limited by not owning the cows. Therefore to ensure that general health and welfare of the cows is discussed at every farm meeting, it is added as an agenda item.</p> <p>* Dogs / animals - to include pound statistics in regular reports to council and to ensure destruction decisions are documented. Finalise implementation of the new electronic register and remove the paper copy register. Also include in the register when the dogs were fed, the pound cleaned, and that a visual assessment of the animals was conducted.</p>

2020 - Agenda - Audit & Risk - July - Information Report - Internal Audit Findings

36	Health and Safety Wellbeing - Council Vehicle accident	IF a staff member has an accident in a council vehicle, THEN this could result in possible death or serious injury and damage to motor vehicle asset.	All staff must have a full drivers licence, all staff are aware of procedures if there is an accident. Staff driver training to be provided to regular drivers. GPS and mobile phone tracking.	Verify that all staff who drive, or are going to drive, council vehicles, have full drivers licences, and are suitably trained in driving specific vehicles and in specific conditions.	Random sample testing for valid driver licences; check staff are aware of what to do in the event of an accident; check staff are suitably trained to drive in different conditions; check council's vehicle use policy.	Taken from various random samples - Not all staff could immediately present a valid drivers licence when asked. Not all licence details were held by HR. Not all staff had vehicle accident awareness. There was a need for driver training in off road, or non-normal conditions. There is no staff register. The tracking software does not record the name of the driver. The internal vehicle booking process could be enhanced.	Create a drivers register, and update as needed. Provide training for non-normal conditions. Information on a vehicle accident procedure to be placed in each vehicle, and all staff made aware of it. Update council's vehicle use policy around accountability and communication of any change to employees licence information. Add the drivers name to the tacking software. Add extra fields to the vehicle booking calendar.
45	Operational - Contractor - damage to property	IF maintenance contractor damages council or private property while carrying out contracted work, THEN council could be liable for damages and additional expenditure.	Stringent Operational procedures: Daily reporting of compliance. Regular liaison with contractor and regulators to monitor performance to ensure compliance. Contractor pre-approval process. Council has material damage insurance policy, excess \$5k.	Ensure that daily compliance reporting is being done, which must include records of liaison with contractors, and the outcomes of the monitoring.	One maintenance contract was reviewed for clauses in relation to contractor damage. Council's CRM reporting register was viewed to see what was reported by staff or the public on contractor damage.	There is no record of any contractor damage history, and no system or processes to record any incidents of contractor damage. The contractor provides monthly reports to council but there was no mention of any contractor damage. This information could be useful in providing the contractor's work history, or for council to make improvements to property, or as needed.	Establish a procedure for recording and reporting contractor damage, and update the control measure for this risk to reflect this. Ensure information regarding any instances of contractor damage to either council or private property is included in the monthly report, and if no damage then this must also be stated.
63	Financial - theft by contractors	IF contractors have unrestricted access to council property and /or information, THEN there is an opportunity for theft and consequently loss of Council assets.	All contractors must go through a pre-qualification process. Visitors to Council buildings must sign in. Access to the building has now been restricted with the use of fobs. Protected records are stored in a safe or locked storage room.	Check access to council property and information that any contractor or third party may have access to.	Spoke with the relevant staff responsible for the cleaning of the administration building and the Archives Room, to verify whether there is any documentation for the processes, and whether visitors are signing in and out.	Currently there is no documented process for the cleaners.. At present staff do not know which cleaners are rostered on each night, but they do have access to various buildings. Cleaners currently sign in via a paper based system and their company has them scan a Q code at each site. There is also no documented process for visitors entering the building. However following a check on all visitors that were in the building at specific times, it was verified that they had all signed in to the ipad. Three staff have access to the Archives Room, which is locked at all times unless approval is given to enter.	Council's Property Officer to look at the process for cleaners' access to the buildings, and to login to the Q code application monthly to review who has been onsite to ensure that it is being used by all cleaners. For visitor access at the service centre, when signing in on the iPad, recommend an extra field be added, to record who they are visiting.

AD-HOC AREAS NOT IDENTIFIED BY THE RISK REGISTER

Risk No.	Risk category	Risk description	Control description	What auditor will be looking for	Work undertaken	Findings	Recommendations
-	Financial - Credit Card payments	IF customers paying by credit card at council's administration building front counter are not charged the merchant fee, THEN council is short of revenue and the cost will ultimately be borne by all ratepayers.	All payments made by credit card by customers at the administration building front counter must have the merchant fees added to the total amount paid. All staff must be made aware of the procedure to be followed to ensure that the correct fee is charged on each transaction where applicable.	Check all receipts from daily banking sheets have the fee added on to the total payment.	All daily receipting reports checked for the month	There was only one receipt where a credit card was swiped but no merchant fee was charged. The value of the transaction was \$20, so lost revenue was 50 cents.	<ul style="list-style-type: none"> * Double check with the customer that they are paying by credit card rather than eftpos. * Check the printed eftpos machine receipt to confirm the card type used. * Generate a report from Paymark each month to confirm all credit card transactions had the merchant fee charged.
-	Financial - Revenue from fees and charges	IF customers are charged a fee that is not in Council's approved Fees and Charges document, or is not set by relevant statute or legislation, or a separate stand alone agreement, THEN council can not legitimately charge this fee, it can be contested, and council would lose potential revenue, thus becoming a cost to the ratepayers.	Prior to a customer being required to pay any fees or charges, excepting rates, staff must first ensure that the relevant fee or charge is approved in the Fees and Charges document, or other relevant documentation. All staff to be made aware of the current document, and advised whenever there is a change of any sort.	That all invoices processed through the sundry debtors system for a specific period are in accordance with council's fees and charges manual, to ensure all charges are valid. Check payments taken at any service centre location are also in accordance with the fees and charges.	Three months of sundry debtors invoice requests were checked, to ensure that all charges were in accordance with the Fees and Charges as adopted by council.	<ul style="list-style-type: none"> * Some invoices for hourly rate charges did not state the number of hours charged e.g. just showed a total of \$255, when it was actually 1.5 hours at \$170 per hour. * One invoice request was from a staff member to charge themselves. * Some invoices had no supporting information. * A credit note was requested but not correctly authorised. 	<ul style="list-style-type: none"> * Where there is an hourly rate, state the number of hours charged so it is clear how the amount was calculated. * If charging yourself, always get a manager to authorise it, and verify that the charges are correct. * All requests must have supporting information attached. * All credit notes must be approved in accordance with the financial delegations.

RISKS FROM COUNCIL'S RISK REGISTER

Risk No.	Risk category	Risk subject	Risk description	Risk score raw	Control description	Residual risk score	Why this risk is to be reviewed	What auditor will be looking for	How will it be audited	Role and staff member responsible for activity	Staff member assigned the internal audit
2	Compliance and Legislation	Incorrect Planning Advice	IF Council gives out wrong advice on LIM, or issues Resource Consent when it should not have, THEN it could be subject to a judicial review or similar form of dispute process involving legal costs, possible fines, and reputational damage.	3 Moderate	Quality assurance. Resourcing and ongoing training of competent staff. Low tolerance for poor quality documentation from consent applicants. Good quality legal counsel. Council has professional indemnity, public liability, and statutory liability insurance.	1 Low	To ensure that there is no situation where a decision relating to a consent can be challenged in the future for incorrect information or processes.	Check that all staff responsible for any planning work and issuing LIM's for council are fully trained, and have ongoing training plans for the future, and ensure that all consent application documentation is of good quality.	Document training received by respective staff members. Sample 1 in every 5 LIM's issued over the period September to November 2019, and 3 resource consents, to ensure data provided is accurate, in accordance with council records. To be completed by 30 April 2020.	Planner, Quality Assurance Officer, Quality Assurance Manager, and Director Environmental Services	Revenue Manager
4	Compliance and Legislation	Bylaws and Policies	IF Council fails to keep Policies and Bylaws up to date, THEN the Policies and Bylaws may become unenforceable and irrelevant, and council could be acting illegally, or the policy is not fit for purpose.	8 High	Quality assurance, Resourcing levels maintained, Regular Policy Schedule review by CEO. Regular review of Bylaw timetable maintained in Content Manager.	3 Moderate	To ensure council is acting legally at all times when enforcing bylaws and policies.	Check when each bylaw or policy was last reviewed, in accordance with council's policy and bylaw register, and ensure that there are no bylaws or policies that are overdue for a review.	Check all policies have been reviewed within 3 years. Check all bylaws reviewed within 12 years. Ensure there are up to date Policy and Bylaw Registers.	Executive Administration Officer	Revenue Officer
25	Financial	Procurement contracts	IF procurement contracts entered into are not cost-effective and do not comply with Council's Procurement Policies THEN council projects could go over budget and council procurement could be subject to industry, media, legal scrutiny.	6 High	Ensure procurement policy and procurement manual are appropriate, comply with legislation and good practice, and followed by all staff and significant contracts are reviewed by an independent professional.	1 Low	To ensure that all procurement contracts comply with the relevant policies to make sure that projects are kept within budget, and if there is an over expenditure it is to be reported to council at the next Policy and Services Meeting.	Check council's contract register for compliance with the policies and also costs of each project are within the final contract price.	Select 2 contracts awarded between September and November 2019. Ensure the tender process was followed correctly, noting such things as the number of quotes obtained, and any potential conflict of interest declared. Check contract price, and compare to engineer's estimate.	Relevant contract managers	Finance and Business Improvement Officer

31	Health and Safety Wellbeing	Abusive customers	IF abusive customers come into any of the Council's service centres, THEN there is the risk that council staff or the general public could be harmed or exposed to violence.	4 High	Staff have personal alert alarms if in danger, customer service training and policies on how to deal with situations so they do not escalate. Security cameras in place. Fob access required to access staff office area. Mayor's office is secured by glass entry way.	2 Moderate	To ensure that there are procedures in place to protect both staff and the public should a customer become abusive on the premises.	Check there are procedures in place at each service centre location, that are appropriate for each individual site, and that all relevant staff are aware of these procedures.	Check what training has been provided to all staff at each location, and that this is recorded in a register. Check the procedures have been documented for each location for staff to follow should a situation arise, that they are fit for purpose, and that all relevant staff are familiar with it.	Respective customer service area team leaders	Health and Safety Advisor
33	Health and Safety Wellbeing	Animal Welfare	IF an animal that has been impounded is injured or dies due to maltreatment, or animals are mistreated on the council farm THEN this could result in animal welfare agency scrutiny and possible fines.	3 Moderate	Quality assurance, ongoing training / Awareness of HSE requirements and responsibilities, Vet Care / Assessments. Ensure notification is given to new animals being impounded so that compliance officer ensures the animals are being cared for and regularly fed and have access to water. Monthly farm meetings to bring up any animal welfare issues. Property Officer to regularly visit farm and make visual assessment of cow welfare.	2 Moderate	To ensure that council is acting responsibly regarding animal welfare, and is not subject to any external investigation and penalties or fines. This could compromise council's ability to impound animals in the future. To ensure the continuing welfare of the cows on council's farm, to enable milk production, and revenue, to be maintained.	Check that the Compliance Officer is aware of all HSE requirements, and has suitable training in the welfare of animals. Check if there is a register of animals that arrive in the pound, that also records all actions taken regarding their welfare. Check that the Property Officer provides regular written reports on the assessment of the cows on the farm.	Check what training has been provided for staff dealing with pound animals. Check the register of animals in the pound, to ensure it is up to date, and includes all animals in and out of pound, when food provided, sufficient drinking water at all times, when pound cleaned etc. Check that the Property Officer provides regular reports, e.g. monthly, on the welfare of the sharemilker's cows.	Property Officer, and Compliance Officer	IM Specialist
36	Health and Safety Wellbeing	Council Vehicle accident	IF a staff member has an accident in a council vehicle, THEN this could result in possible death or serious injury and damage to motor vehicle asset.	4 High	All staff must have a full drivers licence, all staff are aware of procedures if there is an accident. Staff driver training to be provided to regular drivers. GPS and mobile phone tracking.	3 Moderate	To ensure that the likelihood of any damage to property (including vehicles) and injury to people is minimised as much as possible.	Verify that all staff who drive, or are going to drive, council vehicles, have full drivers licences, and are suitably trained in driving specific vehicles and in specific conditions.	Check the register for all council staff who may drive a council owned vehicle, for a valid drivers licence, endorsements, and expiry dates. Check any staff that drive either off road or in a vehicle other than a passenger car, are fully trained in the type of vehicle and the conditions.	Health and Safety Advisor	IT Support Officer

45	Operational	Contractor - Damage to Property	IF maintenance contractor damages council or private property while carrying out contracted work, THEN council could be liable for damages and additional expenditure.	4 High	Stringent Operational procedures: Daily reporting of compliance. Regular liaison with contractor and regulators to monitor performance to ensure compliance. Contractor pre-approval process. Council has material damage insurance policy, excess \$5k.	3 Moderate	To ensure council has procedures in place to make sure there is no liability for damages or additional expenditure as a result of lack of reporting, monitoring and follow up.	Ensure that daily compliance reporting is being done, which must include records of liaison with contractors, and the outcomes of the monitoring.	Review the compliance reporting records for one maintenance contractor, for the period September to November 2019, including records of liaison with contractors, and the outcomes of the monitoring. Ensure all issues have been followed up on and resolved and performance aligns with the contract.	Roading Asset Manager, Services Asset Manager, Property Officer, Parks and Reserves Officer, and Director Assets	Director Corporate Services
63	Financial	Theft by Contractors	IF contractors have unrestricted access to council property and /or information, THEN there is an opportunity for theft and consequently loss of Council assets.	4 Moderate	All contractors must go through a pre-qualification process. Visitors to Council buildings must sign in. Access to the building has now been restricted with the use of fobs. Protected records are stored in a safe or locked storage room.	2 Moderate	To ensure that there is no opportunity for theft by contractors.	Check access to council property and information that any contractor or third party may have access to.	Undertake 10 random spot checks over the next 2 weeks of any non-staff in the building, ensuring they have correctly signed in to the building, and out again, by viewing the visitors book. Also check the back door, as this is to be for staff use only, by monitoring it for a 15 minute period on three days, at different times of the day. Check procedures with the Property Manager for building cleaners, and weekend car cleaners, to ensure that procedures are followed, e.g for building alarm, etc. Check with the IM Specialist who has access to the Archives Room.	Roading Asset Manager, Services Asset Manager, Property Officer, Parks and Reserves Officer, and Director Assets	IT Manager

AD-HOC AREAS NOT IDENTIFIED BY THE RISK REGISTER

Risk No.	Risk category	Risk subject	Risk description	Risk score raw	Control description	Residual risk score	Why this risk is to be reviewed	What auditor will be looking for	How will it be audited	Role and staff member responsible for activity2	Staff member assigned the internal audit3
-	Financial	Credit card payments	IF customers paying by credit card at council's administration building front counter are not charged the merchant fee, THEN council is short of revenue and the cost will ultimately be borne by all ratepayers.	-	All payments made by credit card by customers at the administration building front counter must have the merchant fees added to the total amount paid. All staff must be made aware of the procedure to be followed to ensure that the correct fee is charged on each transaction where applicable.	-	To ensure that all customers that pay by credit card are charged the merchant fee, so there is no loss of revenue to council.	Check all receipts from daily banking sheets have the fee added on to the total payment.	Check the month of January 2020 daily cash up reports to ensure all customers paying by credit card at the main counter are charged the credit card fee.	Corporate Accountant	Junior IT Support Officer
-	Financial	Revenue from fees and charges	IF customers are charged a fee that is not in Council's approved Fees and Charges document, or is not set by relevant statute or legislation, or a separate stand alone agreement, THEN council can not legitimately charge this fee, it can be contested, and council would lose potential revenue, thus becoming a cost to the ratepayers.	-	Prior to a customer being required to pay any fees or charges, excepting rates, staff must first ensure that the relevant fee or charge is approved in the Fees and Charges document, or other relevant documentation. All staff to be made aware of the current document, and advised whenever there is a change of any sort.	-	To ensure that all revenue charged is in accordance with the fees and charges or other documents. Otherwise council could be challenged as to the validity of the charge, and may then lose potential revenue, as well as reputational damage.	That all invoices processed through the sundry debtors system for a specific period are in accordance with council's fees and charges manual, to ensure all charges are valid. Check payments taken at any service centre location are also in accordance with the fees and charges.	Check the months of November 2019 to January 2020 debtor invoices to ensure all charges are correct, and comply with the current fees and charges manual.	Revenue Officer and Revenue Manager	Corporate Accountant

INFORMATION REPORT



TO: Audit and Risk Committee
FROM: Director – Corporate Services
DATE: 21 July 2020
SUBJECT: FINANCIAL RISK MANAGEMENT REPORT

F19/13 – D20/17692

RECOMMENDATION

THAT the report be received.

Moved/Seconded

11

Attachments (as at 30 June 2020, interim results only):

1. Statement of Comprehensive Revenue and Expenses
2. Capital Expenditure Report
3. Treasury Report
4. Cashflow Forecast – one year

1.0 Financial Summary

1.1 Operating Results Summary

Revenue

Actual revenue for the year is down on budgeted revenue by \$2,873,503. This is largely due to the Council subdivision section sales not fully materialising by June 2020. As at July 2020, 12 sections out of 33 have been sold.

Despite Covid-19, user charges revenue is above budget by \$74,976. Building Consents, Resource Consents, Food and Health Licences, Solid Waste transfer station charges, Farm, Penalties on late payments revenue have all come in over the annual budget.

Expenditure

Personnel Costs is over budget by \$457,555, but offsetting that is operational expenditure which is under budget by \$734,023 as Council has achieved savings in other areas, including procurement contract savings – particularly in relation to the Water Supply activity.

Other Expenditure

The loss on disposal of \$293,275 relates to the demolition costs of the ANZ building and the write-off of the carrying value of the building.

Interest rates are lower than anticipated and debt was not as high as budgeted, so finance costs have come in \$242,096 under budget.

1.2 Capital Expenditure Summary

Total capital expenditure for the year 2019/20 is summarised below. *Note – figures may change as there may still be invoices yet to be processed at the time this report was prepared (close off date is 9 July).*

	Annual Plan Budget	Carry Forwards 2019/20	Total Budget	Actual Spend	Budget Unspent	Carry Forwards 2020/21
Growth	793,700	267,139	1,060,839	577,774	483,065	300,000
Service Level	2,239,430	771,652	3,011,082	920,059	2,091,023	919,769
Replacements	4,433,870	925,830	5,359,700	3,446,389	1,913,311	1,264,905
Total	7,467,000	1,964,621	9,431,621	4,944,222	4,487,399	2,484,674

The carry forward projects were approved by Council in June 2020, and included the following uncompleted projects:

- Council Subdivision (some remaining work to complete sections)
- Wastewater reticulation capacity increase
- Water Supply – zoning
- Stratford Discovery Trail
- Broadway / Prospero Place Upgrade
- Water Supply – grit tank replacement

2.0 Treasury Report

2.1 Treasury Summary

The last Treasury Report provided to the Audit and Risk Committee was as at April 2020. Changes from April 2020 to June 2020 are summarised below:

- A \$1,000,000 LGFA loan, fixed at 1.99% for a one year term, matured in May 2020.
- A new \$1,000,000 LGFA loan, fixed at 1.38% for a seven year term, was issued in May 2020.
- The weighted average interest rate on debt has reduced from 2.60% to 2.56% due to the refinancing activity referred to above.
- Term deposits increased from a total of \$3,000,000 to \$4,000,000 (permanent increase to cover reserves).
- The weighted average interest rate on investments reduced from 2.38% to 1.74%.

2.2 Treasury Management Policy compliance

As at 30 June 2020, all treasury covenants were met.

	Actual	Policy
Actual Fixed Debt	87%	>60%
Actual Floating Debt	13%	<60%
Fixed 1-3 years	19%	10-60%
Fixed 3-5 years	35%	10-60%
Fixed >5 years	23%	5-60%
Debt Matures 1-2 years	19%	10-60%
Debt Matures 2-4 years	35%	10-60%
Debt Matures > 4 years	23%	10-60%
Debt Servicing to Revenue Ratio	2%	<10%
Debt to Revenue Ratio	65%	<130%
Liquidity Ratio	108%	>110%
Net Debt per Capita	\$ 1,609	<\$3,000
Net Debt per Ratepayer	\$ 3,220	No specified limit

2.3 LGFA (Local Government Funding Agency) Update

All 67 member Councils of the LGFA have now approved and signed the relevant documents to allow for:

1. Lending to Council Controlled Organisations (CCO's)
2. Councils can now apply to be tested at the group level rather than the parent level for compliance with LGFA covenants
3. An increase in the Borrower Notes percentage from 1.6% to 2.5%
4. Minor changes, of a technical nature, to lending documents.

The effective date for the amendments is 6 July 2020.

As at 30 June 2020, total local government debt with LGFA was \$10.9billion. Stratford District Council's guarantee is 0.22%, so a total of \$23,980,000 in the highly unlikely case that everyone defaults and all other options to recover the debts are proved unsuccessful.

3.0 Cashflow Forecast / Funding Requirements

3.1 Cashflow Forecast Summary

Due to current uncertainties with forecast revenue receipts, and capital expenditure program (likely that some capital projects may be brought forward to stimulate the local economy), the cashflow report presented only provides a 12 month outlook. A three year forecast will be prepared once more is known on the potential effects of Covid-19 on Council's cash inflows and outflows.

The forecast for the next 12 months shows that next June an extra \$2,000,000 may be required.

3.2 Cashflow Assumptions:

- No decline in revenue receipts as a result of Covid-19.

- Sale of assets receipts depends on the ability to settle on property sales in the months specified. There is some uncertainty around whether deposits and settlements on the subdivision sections will be regularly sold from now on, however titles have now been issued for all sections, and as at the writing of this report 12 sections (of 33) have gone unconditional.
- New Swimming Pool construction work will commence from January 2021 and the \$3m funding for the pool will be received from this time also.
- The weighted average interest rate on debt will remain at 2.6%.
- Interest rates on investments will average 1.7%.

4.0 Outstanding Debtors

4.1 Summary of Debtors

The below table shows outstanding debtors as at 30 June 2020. At this stage, there are no strong indicators of delayed or non-payment of invoices as a result of Covid-19.

Category	Total Outstanding	Overdue > 3 months	Notes relating to outstanding balances
Rates	\$227,262	\$8,606	The overdue balance for rates debtors is what is owed for previous financial years i.e. up to 30 June 2020 (9 debtors as at 30 June). The amount includes some rates where legal proceedings have commenced. All outstanding rates are charged a 10% penalty on what is outstanding at the end of each quarter.
Water Billing	\$111,732	\$26,614	Seven debtors are overdue, one debtor has entered into an approved Council payment arrangement. The property that was in default for some time has sold and will clear on settlement. A 10% penalty is applied each quarter on all amounts overdue. Enquiries into leaks are being made for others, and reminders sent to the rest.
NZTA	\$267,424	\$0	Roading claim.
Infringements	\$59,375	\$59,375	All debtors are overdue and with the Ministry of Justice for collection.

All Other Debtors	\$261,136	\$50,658	The overdue debtors relate to cemetery accounts, consents, wastewater discharge, and other one-off type invoices. The majority of overdue debtors are being actively pursued by debt collectors, unless they have entered into an approved payment arrangement.
TOTAL	\$926,929	\$145,253	



Tiffany Radich
DIRECTOR – CORPORATE SERVICES



Approved By:
 Kate Whareaitu
ACTING CHIEF EXECUTIVE

DATE 14 July 2020

Statement of Comprehensive Revenue and Expense

For the Year Ended 30 June 2020 (Interim)

	June '20 Actual YTD	June '20 Budget YTD	Variance YTD	Total Budget 2019/20	June '19 Actual
Revenue					
Finance Revenue	\$97,455	\$126,000	(\$28,545)	\$126,000	\$98,263
NZTA Financial Assistance	\$3,464,730	\$3,741,000	(\$276,270)	\$3,741,000	\$4,767,204
Community Grants and Donations	\$216,517	\$124,000	\$92,517	\$124,000	\$97,670
Provincial Growth Funding	\$42,001	\$0	\$42,001	\$0	\$0
Rates Revenue other than Water Supply Rate	\$12,385,075	\$12,345,000	\$40,075	\$12,345,000	\$11,838,929
Water Supply Targeted Rate	\$345,096	\$462,000	(\$116,904)	\$462,000	\$259,458
Sundry Revenue	\$47,166	\$41,000	\$6,166	\$41,000	\$38,520
Dividends (Civic Financial Services)	\$54,930	\$0	\$54,930	\$0	\$0
Financial Contributions	\$47,147	\$0	\$47,147	\$0	\$56,673
Sale of land	\$1,550,404	\$4,360,000	(\$2,809,596)	\$4,360,000	\$0
User Charges for Services	\$2,323,976	\$2,249,000	\$74,976	\$2,249,000	\$2,220,000
Total Revenue	\$20,574,497	\$23,449,000	(\$2,873,503)	\$23,449,000	\$19,376,717
Operating Expenditure					
Personnel Costs	\$4,030,555	\$3,573,000	(\$457,555)	\$3,573,000	\$3,187,712
Other Direct Operating Costs	\$9,369,977	\$10,104,000	\$734,023	\$10,104,000	\$10,622,288
Total Operating Expenditure	\$13,400,532	\$13,677,000	\$276,468	\$13,677,000	\$13,810,000
(See attached Breakdown to Activity Cost)					
Other Operating Expenditure					
Loss on disposal of assets	\$293,275	\$0	(\$293,275)	\$0	\$195
Depreciation	\$4,336,512	\$4,308,300	(\$28,212)	\$4,308,300	\$4,056,286
Finance Costs	\$397,904	\$640,000	\$242,096	\$640,000	\$423,878
Impairment landfill costs	\$23,346	\$0	(\$23,346)	\$0	\$476,847
Sundry Expenditure	\$1,290	\$0	(\$1,290)	\$0	\$9,856
Total Other Expenditure	\$5,052,327	\$4,948,300	(\$104,027)	\$4,948,300	\$4,967,062
Total Expenditure	\$18,452,859	\$18,625,300	\$172,441	\$18,625,300	\$18,777,062
Net Surplus (Deficit)	\$2,121,638	\$4,822,700	(\$2,701,062)	\$4,822,700	\$599,655
Other Comprehensive Revenue and Expense					
Gain/(Loss) on Property Revaluation	\$1,067,662	\$19,588,000	\$18,520,338	\$19,588,000	\$0
Total Other Comprehensive Revenue and Expense	\$1,067,662	\$19,588,000	\$18,520,338	\$19,588,000	\$0
TOTAL COMPREHENSIVE REVENUE AND EXPENSE FOR THE YEAR	\$3,189,300	\$24,410,700	\$15,819,276	\$24,410,700	\$599,655
Capital Revenue/Expenditure is made up of:					
NZTA Funding for Roading capital projects	\$1,595,066	\$1,839,000			
Provincial Growth Funding	\$42,001	\$0			
Community Grants and Donations	\$213,340	\$124,000			
Sale of Land	\$1,550,404	\$4,360,000			
Expenditure funded from reserves	TBC	(\$1,500,300)			
Loss on disposal of assets	(\$293,275)	\$0			
	\$3,107,536	\$4,822,700			
Net Surplus/(Deficit) after removing capital Revenue/Expenditure	(\$985,898)	\$0	(\$985,898)		

CAPITAL EXPENDITURE SUMMARY BY ACTIVITY AS AT 30 JUNE 2020 (INTERIM)

Council Activity	Project Description	2019/20 Annual Plan Budget (a)	Funds Carried Forward (b)	Total Funds Available (a + b)	2019/20 Actual Expenditure YTD	Projected year end forecast	2019/20 Projected under/(over) spend	Expected Project Completion Date	Comments
GROWTH - to meet additional demand									
Economy	Proposed Council subdivision	793,700	267,139	1,060,839	577,774	577,774	300,000	CARRY FORWARD APPROVED	Total cost to date for the entire project is \$3,915,000. It is anticipated that the final cost will be approximately \$4.2m. Projected completion date is 30 September 2020.
Total Growth Expenditure		793,700	267,139	1,060,839	577,774	577,774	300,000		
LEVEL OF SERVICE - to improve the level of service on an existing asset or provide an additional asset to increase a service level									
Roading - Financially assisted NZTA	LED Lighting Upgrade	0	16,112	16,112	44,461	44,461	(28,349)	COMPLETED	The overspend will come from the roading reserve, with the savings from power charges, and the under verandah lighting budget not being required this year.
Roading - Provincial Growth Fund shovel ready projects	Various safety improvements	0	0	0	41,002	41,002	(41,002)	ON-GOING	External funding, and this expenditure is for consultants fees only.
Roading non-subsidised	Kerb & Channel Improvements	0	68,313	68,313	25,408	25,408	42,905	COMPLETED	This was used for Mangaotuku Road improvements, and Ferdinand, Montjoy and Margaret Streets kerb and channel.
Stormwater	Reticulation Capacity Increase	108,150	91,945	200,095	357,616	357,616	(157,521)	COMPLETED	This over spend was from the manhole lid safety screen budget in the line below. All lids on private property have been completed, and are now part of this the reticulation capacity increase programme of works, for the inlets and outlets in the pipe systems.
Stormwater	Manhole Lid Safety Screens	120,320	184,192	304,512	0	0	304,512	COMPLETED	See above
Wastewater	Camper van drainage facility	0	5,000	5,000	0	0	5,000	NOT COMPLETED	
Wastewater	Reticulation capacity increase	102,520	75,980	178,500	32,589	32,589	145,911	CARRY FORWARD APPROVED	This budget will be used at the time of the Broadway upgrade (NZTA led project) which has been deferred to 2020/21.
Wastewater	Safety screens	33,160	32,300	65,460	0	0	65,460	NOT REQUIRED	There are no longer any manholes on private property with no screens
Wastewater	Pump station telemetry	82,000	0	82,000	0	0	82,000	CARRY FORWARD APPROVED	A carry forward is proposed to 2020/21 as other options of communication are being investigated
Wastewater	Bulk discharge	51,300	0	51,300	0	0	51,300	CARRY FORWARD APPROVED	This is part of the project on the line above regarding communication options
Wastewater	Stage 2 treatment - Oxidation Pond	768,920	8,200	777,120	31,514	31,514	745,606	NOT REQUIRED	Council have now received a consent for a trial period of 3 years. The scope of the project will then be determined after this trial period ends.
Water Supply	Water Meter Installation	30,750	1,677	32,427	31,299	31,299	1,128	COMPLETED	

2020 - Agenda - Audit & Risk - July - Information Report - Financial Risk Management Report

Council Activity	Project Description	2019/20 Annual Plan Budget (a)	Funds Carried Forward (b)	Total Funds Available (a + b)	2019/20 Actual Expenditure YTD	Projected year end forecast	2019/20 Projected under/(over) spend	Expected Project Completion Date	Comments
Water Supply	Zoning	307,500	184,166	491,666	16,009	16,009	475,657	CARRY FORWARD APPROVED	This was carried forward from the previous year, as the tender received was unacceptable. The project has now been reviewed, as a bigger contract with 4 different job sites. Each site is to be done separately, in order to obtain a more favourable price, so will take longer to complete. The project went out for tender in January 2020, has been awarded, and will commence in the next financial year.
Water Supply	Toko reservoir	51,250	0	51,250	2,782	2,782	48,468	NOT COMPLETED	
Water Supply	Stratford street work rider mains	30,750	0	30,750	0	0	30,750	CARRY FORWARD APPROVED	This budget will be used at the time of the Broadway upgrade (NZTA led project) which has been deferred to 2020/21.
Parks and Reserves	Park Development	15,300	0	15,300	15,299	15,299	1	COMPLETED	
Parks and Reserves	Walkway development	15,300	0	15,300	15,454	15,454	(154)	COMPLETED	King Edward Park and Cardiff Walkway
Parks and Reserves	Walkway signs	10,200	10,000	20,200	3,182	3,182	17,018	CARRY FORWARD APPROVED	Waiting on template design and branding refresh.
Parks and Reserves	King Edward Park accessible path	46,000	0	46,000	45,640	45,640	360	COMPLETED	
Parks and Reserves	Plantings and signs	12,250	10,212	22,462	0	0	22,462	CARRY FORWARD APPROVED	This is on hold until a template has been designed, as per the Walkway Signs above.
Parks and Reserves	Victoria Park bike park	0	25,000	25,000	13,302	13,302	11,698	CARRY FORWARD APPROVED	Project detail design is complete, and tender documentation being prepared but delayed, pending a reassessment of the project scope.
Parks and Reserves	Discovery Trail	102,100	49,475	151,575	3,320	3,320	148,255	CARRY FORWARD APPROVED	100% grant funded - waiting on design confirmation.
Swimming Pool	Various Pool improvements	43,900	0	43,900	14,848	14,848	29,052	COMPLETED	50% grant funding
Swimming Pool	Pool development	0	0	0	16,409	16,409	(16,409)	COMPLETED	
Aerodrome	Level operational area	0	3,021	3,021	3,020	3,020	1	COMPLETED	
Civic Amenities	Demolish ANZ building	76,600	0	76,600	61,185	61,185	15,415	COMPLETED	
Civic Amenities	Broadway / Prospero Place upgrade	112,300	0	112,300	31,671	31,671	80,629	CARRY FORWARD APPROVED	Initial designs have been procured, carry forward remaining budget to complete project.
Civic Amenities	LED Entrance way sign	0	0	0	35,902	35,902	(35,902)	COMPLETED	The total cost for this project (over two years) was \$90,876, of which \$70,000 was grant funded, and the overspend of \$20,000 is to be funded from the Broadway / Prospero Place upgrade project above.
Farm	Emergency generator	30,000	0	30,000	0	0	30,000	NOT REQUIRED	A generator will not be purchased and will be hired as required
Farm	Landscaping / riparian planting	15,310	6,059	21,369	10,625	10,625	10,744	COMPLETED	The riparian planting project is coming to an end so not all of the budget is required.
Animal Control	New dog pound	61,300	0	61,300	56,352	56,352	4,948	COMPLETED	This will be complete by 30 June, there are just a few things still to be finished off.

2020 - Agenda - Audit & Risk - July - Information Report - Financial Risk Management Report

Council Activity	Project Description	2019/20 Annual Plan Budget (a)	Funds Carried Forward (b)	Total Funds Available (a + b)	2019/20 Actual Expenditure YTD	Projected year end forecast	2019/20 Projected under/(over) spend	Expected Project Completion Date	Comments
Miranda Street Office	Heating in archive room	0	0	0	5,200	5,200	(5,200)	COMPLETED	Required to meet record storage requirements
Pensioner Housing	Conservatories	12,250	0	12,250	5,970	5,970	6,280	COMPLETED	Tender process has commenced. The budget was for 2 conservatories but now only doing 1 as the remaining unit already has a back porch.
Total Level of Service Expenditure		2,239,430	771,652	3,011,082	920,059	920,059	2,091,023		

REPLACEMENTS - replaces an existing asset with the same level of service provided

Roading - Financially assisted NZTA	Unsealed Road metalling	844,600	(44,600)	800,000	422,732	422,732	377,268	COMPLETED	Revised NZTA approved budget due to overspend in 2018/19
Roading - Financially assisted NZTA	Sealed Road resurfacing	800,000	(50,000)	750,000	773,858	773,858	(23,858)	COMPLETED	Revised NZTA approved budget due to overspend in 2018/19. Reseals commenced at the end of January 2020.
Roading - Financially assisted NZTA	Drainage Renewals	568,300	(43,300)	525,000	429,640	429,640	95,360	COMPLETED	Revised NZTA approved budget due to overspend in 2018/19. Reseals commenced at the end of January 2020.
Roading - Financially assisted NZTA	Pavement Rehabilitation	762,100	(19,320)	742,780	871,484	871,484	(128,704)	COMPLETED	Revised NZTA approved budget due to overspend in 2018/19. Monmouth Road rehabilitation has been completed.
Roading - Financially assisted NZTA	Structure Components Replacement	96,100	(16,100)	80,000	181,315	181,315	(101,315)	COMPLETED	Revised NZTA approved budget due to overspend in 2018/19. Lower Kohurtahi Road bridge repairs commenced in January 2020.
Roading - Financially assisted NZTA	Traffic Servcies Renewals	63,100	(13,100)	50,000	100,740	100,740	(50,740)	COMPLETED	Revised NZTA approved budget due to overspend in 2018/21
Roading - Financially assisted NZTA	Sealed Road resurfacing-Special purpose	52,000	49,800	101,800	8,211	8,211	93,589	CARRY FORWARD APPROVED	It is proposed to carry forward this years budget to be done as one bigger project in 2020/21.
Roading non-subsidised	Underverandah lighting	12,300	0	12,300	161	161	12,139	COMPLETED	The savings will go toward the LED lights.
Roading	Traffic counters	0	0	0	26,459	26,459	(26,459)	COMPLETED	Current traffic counters are no longer compatible with software so replacements are required, to accurately count traffic volumes.
Solid Waste	Building renewals	40,800	0	40,800	0	0	40,800	CARRY FORWARD APPROVED	The building maintenance report has been received, however due to COVID-19, no physical work has been undertaken.
Stormwater	Weather events emergency fund	2,560	0	2,560	2,560	2,560	0	COMPLETED	This will be transferred to the reserve for an emergency fund.
Stormwater	Reticulation Renewals	54,330	220,565	274,895	138,145	138,145	136,750	COMPLETED	
Wastewater	Step / aerate treatment renewals	30,700	18,978	49,678	10,666	10,666	39,012	NOT REQUIRED	This was for part of the stage 2 treatment project for the oxidation ponds, however the design has changed and is no longer needed.
Wastewater	Tretament pond renewals	51,300	0	51,300	0	0	51,300	NOT REQUIRED	This was for part of the stage 2 treatment project for the oxidation ponds, however the design has changed and is no longer needed.
Wastewater	Reticulation renewals	410,000	0	410,000	143,080	143,080	266,920	CARRY FORWARD APPROVED	This budget will be used at the time of the Broadway upgrade (NZTA led project) which has been deferred to 2020/21.

2020 - Agenda - Audit & Risk - July - Information Report - Financial Risk Management Report

Council Activity	Project Description	2019/20 Annual Plan Budget (a)	Funds Carried Forward (b)	Total Funds Available (a + b)	2019/20 Actual Expenditure YTD	Projected year end forecast	2019/20 Projected under/(over) spend	Expected Project Completion Date	Comments
Water Supply	Laterals	31,370	0	31,370	4,259	4,259	27,111	COMPLETED	
Water Supply	Stratford street work rider mains	210,000	0	210,000	7,913	7,913	202,087	CARRY FORWARD APPROVED	This budget will be used at the time of the Broadway upgrade (NZTA led project) which has been deferred to 2020/21.
Water Supply	Reticulation renewals	0	0	0	19,668	19,668	(19,668)	COMPLETED	
Water Supply	Infrastructure general Stratford	25,620	25,000	50,620	0	0	50,620	NOT COMPLETED	
Water Supply	Infrastructure general Midhirst	3,070	639	3,709	0	0	3,709	NOT COMPLETED	
Water Supply	Infrastructure general Toko	1,600	0	1,600	0	0	1,600	NOT COMPLETED	
Water Supply	Treatment plant replacements	0	37,023	37,023	30,127	30,127	6,896	COMPLETED	
Water Supply	Grit tank replacement	0	250,000	250,000	1,505	1,505	248,495	CARRY FORWARD APPROVED	The project did not commence in 2018/19 and has been carried forward to this year. The tender will now be awarded before 30 June 2020 and the physical works will be carried out in 2020/21 year. As this is specialist work, there are limited contractors that are able to do the work.
Water Supply	Meter replacements	51,260	50,000	101,260	7,646	7,646	93,614	CARRY FORWARD APPROVED	The balance of this project will be done in 2020/21 due to the unavailability of the contractor's resources, as it is a specialised task.
Water Supply	Patea delivery line	0	259,400	259,400	0	0	259,400	CARRY FORWARD APPROVED	See above comments for the grit tank replacement. These two projects have been combined as the Patea delivery line feeds in to the grit tank.
Water Supply	Hydrants	15,170	9,865	25,035	23,373	23,373	1,662	COMPLETED	
Civic Amenities	WMC - replace furniture	2,530	0	2,530	2,227	2,227	303	COMPLETED	
Pensioner Housing	Appliance replacements	22,460	0	22,460	21,732	21,732	728	COMPLETED	
Farm	Heat pump replacement	0	0	0	3,683	3,683	(3,683)	COMPLETED	
Miranda Street Office	Furniture Replacement	3,100	0	3,100	3,813	3,813	(713)	COMPLETED	
Communications	Website redevelopment	0	75,065	75,065	450	450	74,615	NOT COMPLETED	This project was carried forward from the 2018/19 year due to internal resourcing and re-prioritisation.
Corporate	Computers/Peripherals/ Software	140,000	65,915	205,915	148,623	148,623	57,292	CARRY FORWARD APPROVED	Replace PC's with Laptops, carry forward \$20k of unspent money - only replace upon end of life of PC's.
Corporate	AssetFinda and GIS software replacement	15,000	0	15,000	0	0	15,000	CARRY FORWARD APPROVED	The project was delayed due to COVID-19, currently in the process of confirming completion timeframes.
Corporate	Telephone System	50,000	50,000	100,000	0	0	100,000	CARRY FORWARD APPROVED	A decision has been made to upgrade the existing phone version rather than a whole new system being purchased and installed. To carry forward \$25k only.
Corporate	Vehicle Replacement	54,500	0	54,500	55,125	55,125	(625)	COMPLETED	
Corporate	Miscellaneous	20,000	0	20,000	7,194	7,194	12,806	COMPLETED	This includes civil defence equipment for the local ECC.
Total Replacement Expenditure		4,433,870	925,830	5,359,700	3,446,389	3,446,389	1,913,311		
TOTAL EXPENDITURE		\$7,467,000	\$1,964,621	\$9,431,621	\$4,944,222	\$4,944,222	\$4,304,334		

LIABILITIES AND INVESTMENTS STATEMENT AS AT 30 JUNE 2020					
Public Debt Statement					
Lender	Amount	Interest Rate	Term (Years)	Date Drawn	Maturity Date
LGFA (floating)	\$ 2,000,000	1.31%	1	April 2020	April 2021
LGFA	\$ 1,500,000	2.62%	3	August 2018	May 2021
LGFA	\$ 2,000,000	2.81%	4	August 2018	April 2022
LGFA	\$ 1,000,000	1.55%	3	April 2020	April 2023
LGFA	\$ 1,500,000	3.47%	5	May 2018	May 2023
LGFA	\$ 2,000,000	2.53%	5	May 2019	May 2024
LGFA	\$ 2,000,000	3.38%	7	August 2018	April 2025
LGFA	\$ 1,000,000	2.02%	6	April 2020	April 2026
LGFA	\$ 1,000,000	1.38%	7	May 2020	April 2027
LGFA	\$ 1,500,000	3.65%	9	August 2018	April 2027
	\$ 15,500,000	2.56%			
Internal Debt Register					
Activity	Amount	Start Date	Term	Interest Rate	Details
Water	\$ 1,510,000	2013	N/a	2.56%	Water treatment plant
	\$ 1,510,000				
Committed Cash Facilities					
Lender	Facility Value	Outstanding	Rate		
TSB Bank	\$ 1,000,000	\$ -	BKBM* + 3%		
	\$ 1,000,000				
Investment Statement					
Bank / LGFA	Amount	Interest Rate	Term (Days)	Start	End
Westpac	\$ 1,000,000	1.52%	66	4/05/2020	9/07/2020
TSB	\$ 1,000,000	2.15%	124	8/04/2020	10/08/2020
Westpac	\$ 1,000,000	1.51%	105	28/05/2020	10/09/2020
Westpac	\$ 1,000,000	1.76%	119	12/06/2020	9/10/2020
	\$ 4,000,000	1.74%			
LGFA	\$ 32,000	2.13%	1827	10/05/2019	10/05/2024
LGFA	\$ 32,000	0.91%	378	7/04/2020	20/04/2021
LGFA	\$ 24,000	2.22%	992	27/08/2018	15/05/2021
LGFA	\$ 32,000	2.41%	1326	27/08/2018	14/04/2022
LGFA	\$ 16,000	1.15%	1103	7/04/2020	15/04/2023
LGFA	\$ 24,000	3.06%	1826	24/05/2018	24/05/2023
LGFA	\$ 32,000	2.98%	2423	27/08/2018	15/04/2025
LGFA	\$ 16,000	1.62%	2199	7/04/2020	15/04/2026
LGFA	\$ 16,000	0.98%	2530	11/05/2020	15/04/2027
LGFA	\$ 24,000	3.25%	3153	27/08/2018	15/04/2027
	\$ 248,000	2.16%			
Shareholdings Statement					
	No. of Shares	Share Price	Value of Shares		
Fonterra	158,716	\$ 3.74	\$ 593,598		
Ravensdown	17,920	\$ 1.00	\$ 17,920		
Civic Financial Services Ltd	65,608	\$ 0.93	\$ 61,015		
			\$ 672,533		
Other Investments					
	Date Drawn	Amount	Interest Rate	Details	
Loan to Stratford Health Trust	2010	\$ -	Nil	Repaid in June 2020	

*BKBM - The Bank Bill Market Rate is a short term interest rate used widely in NZ as a benchmark for pricing debt.

CASHFLOW FORECAST FOR THE YEAR ENDED JUNE 2021

	Jun-20	Jun-20 ACTUAL	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
OPENING BALANCE	3,970,426	3,970,426	4,074,299	3,238,532	5,347,315	4,234,098	3,176,212	4,656,020	3,586,803	981,036	1,341,819	422,602	139,716	403,570
Rates	200,000	427,967	400,000	3,280,000	540,000	350,000	2,800,000	400,000	370,000	2,900,000	400,000	400,000	2,900,000	430,000
NZTA Refunds	192,055	184,756	400,000	209,000	126,000	265,000	250,000	650,000	250,000	450,000	750,000	750,000	420,000	180,000
Fees and Charges	250,000	343,566	350,000	319,000	300,000	200,000	250,000	350,000	240,000	350,000	350,000	350,000	320,000	320,000
Sale of Assets	1	140,230	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
Interest Revenue	8,666	8,811	5,783	5,783	5,783	5,783	5,783	5,783	5,783	5,783	5,783	5,783	5,783	5,783
Other Income	2	-	983,240	-	-	-	-	-	1,000,000	1,000,000	1,000,000	-	-	-
Total Cash In	790,951	2,098,570	1,280,783	3,938,783	1,096,783	945,783	3,430,783	1,530,783	1,990,783	4,830,783	2,630,783	1,630,783	3,770,783	1,060,783
Salaries and Wages / Elected Members	410,000	417,580	410,000	400,000	400,000	440,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Payments to Suppliers - Operating	500,000	802,776	800,000	730,000	790,000	550,000	700,000	800,000	400,000	370,000	900,000	400,000	500,000	800,000
Major contract payments	900,000	774,340	800,000	700,000	600,000	900,000	950,000	1,400,000	3,600,000	3,700,000	2,000,000	1,000,000	2,500,000	2,000,000
Interest Expense	-	-	6,550	-	-	113,669	70,975	-	6,550	-	-	113,669	106,929	-
GST Paid	-	-	100,000	-	420,000	-	170,000	-	190,000	-	250,000	-	-	-
Total Cash Out	1,810,000	1,994,697	2,116,550	1,830,000	2,210,000	2,003,669	1,950,975	2,600,000	4,596,550	4,470,000	3,550,000	1,913,669	3,506,929	3,200,000
(Increase)/Reduce Term Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	2,000,000
Borrowing /(Repaying) Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CLOSING BALANCE	2,951,377	4,074,299	3,238,532	5,347,315	4,234,098	3,176,212	4,656,020	3,586,803	981,036	1,341,819	422,602	139,716	403,570	264,353
Net Debt	10,284,000	10,284,000	10,284,000	10,284,000	10,284,000	10,284,000	10,284,000	10,284,000	10,284,000	10,284,000	10,284,000	10,284,000	10,284,000	12,284,000

Notes re Cashflow Forecast:

1. One section in the subdivision settled in June. After that, there are currently no other sections under contract. \$10,000 was received for the sale of land where Colonel Malone stands.
2. Other income relates to: \$58,240 was received for the TET Grant, \$40,000 was received from the Stratford Health Trust repaying the remainder of their loan, \$855,000 was received for Construction of five Capital Projects - Roading. Grant income expected to fund \$3m of the cost of the pool (total budgeted cost \$15m).

INFORMATION REPORT



TO: Audit and Risk Committee
FROM: Director – Corporate Services
DATE: 21 July 2020
SUBJECT: FRAUD RISK ASSESSMENT 2020

F19/13-D20/17929

RECOMMENDATION

THAT the report be received.

Recommended Reason

This report looks at the potential fraud risk areas, and addresses the matters raised by Audit New Zealand in the 2018/19 Annual Report audit in relation specifically to Bribery and Corruption.

Moved/Seconded

1. PURPOSE OF REPORT

The purpose of this report is to inform the Committee of the work that has been undertaken by Council officers in the identification of fraud risk areas to Stratford District Council and addresses the matters raised by auditors in the 2018/19 Annual Report audit.

2. EXECUTIVE SUMMARY

Audit New Zealand issued an unmodified Audit opinion for the year ended 30 June 2019 on 29 October 2019.

However, a number of recommendations were made by Audit NZ to improve Council's financial controls. One of them included a recommendation on initiating a Fraud Risk Assessment, including an assessment on Bribery and Corruption risks.

Attached to this report is the initial Fraud Risk Assessment which will be reviewed annually. Although there are no specific areas of serious control weaknesses, the assessment resulted in some recommendations to improve the fraud control environment.

3. LOCAL GOVERNMENT ACT 2002: SECTION 10

The Annual Report is an important way in which Council demonstrates its actions are aligned with Section 10 of the Local Government Act 2002. Fraud controls contribute to ensuring the Annual Report is fit for purpose and compliant with legislation.

4. BACKGROUND

Audit New Zealand carried out their annual audit of Council's financial statements for the year ended 30 June 2019, on behalf of the Controller and Auditor-General, from September to October 2019.

Although an unmodified audit opinion was issued by Audit New Zealand, it is normal that the auditors will provide recommendations for improvement to ensure a high standard is maintained in terms of internal controls and accuracy in collecting and recording information that is required to be publically reported.

The below is taken from the Final Audit Report 2019 from Audit New Zealand:

Audit NZ Findings:

We have confirmed that the District Council has a code of conduct and the ethical guidelines which effectively explain what bribery and corruption is, and set out clearly the expectations of employees and contractors should bribery or corruption be identified. The District Council updated its Fraud policy during the year. We reviewed the updated policy and made some recommendations in line with the Ministry of Justice guidance.

In our view, the code of conduct and the ethical guidelines are not sufficiently promoted by management or those charged with governance, and we have the following comments to make about how the code of conduct and the ethical guidelines are known about and used.

- *The District Council does not send policy reminders to key staff members in high risk roles for example those involved in the procurement process.*
- *There is no formal awareness related to the policies and guidance for bribery and corruption. This has been raised in previous years in relation to general fraud, refer to Appendix 1.*

In our view, the entity needs to improve its processes to ensure that it can satisfy itself that there are adequate controls in place to mitigate the risks of bribery and corruption, and we have the following recommendation to make.

- *A risk assessment to be undertaken to identify where the District Council is most at risk for bribery and corruption.*

In our view, the entity needs to improve its processes for notifying and dealing with breaches of the code of conduct and the ethical guidelines, and incidents of bribery and corruption, and we have the following recommendation to make.

- *Management should ensure there is regular reporting on bribery and corruption and related activities.*
- *Management should implement mechanisms to ensure the controls in relation to bribery and corruption are adequate. These could include - results from any*

investigations, staff surveys, feedback from training, targeted internal audits. At a minimum there should be reporting to those charged with governance (i.e. Councillors) on an annual basis in some form.

Fraud policy awareness and risk assessment recommendation

Complete a formal fraud risk assessment taking into consideration the whole of Council and its operations as well as increase the level of awareness around its fraud policy.

Council officer's response to the auditor recommendations are detailed below:

Management comment

The Council's Anti-Fraud Policy was recently updated in July 2019 to the Anti-Fraud and Corruption Policy with an addition of discussion on Bribery and Corruption, and a definition of Corruption.

The Council also updated the Human Resource Policy to expand the section on Conflict of Interests – the updated policy was sent out to all staff in April 2019.

The Procurement Policy was also updated in May 2019, with a new and comprehensive section on Conflicts of Interest, including discussion on bribes and corruption.

Agree that Stratford District Council (SDC) does not currently invest in a formal fraud awareness programme. However, the finance team provide regular updates in the fortnightly internal staff newsletter on fraud/procurement risks and provide regular guidance to all staff on Council policy.

SDC intends to carry out an internal audit over the next six months and will include a review.

Agree that a risk assessment to identify where the District Council is most at risk for bribery and corruption will be helpful – will put this on SDC's action plan. We will also add this as a specific risk to the Council risk register.

Outcomes from the reviews mentioned above will be reported to the Audit and Risk Committee.

Fraud policy awareness is carried out fortnightly via the staff newsletter with different fraud issues highlighted and explained. Implementing a formal fraud risk assessment and fraud training will be the next areas to consider.

5. INFORMATION SUMMARY

The Council's Fraud Officer, charged with responsibility for preventing, detecting, and dealing with reported instances of fraud, is the Director – Corporate Services.

In June 2020, the Fraud Officer carried out a formal Fraud Risk Assessment across the various areas of Council. It found that, although there were many good control areas in place, the main area Council could improve on is with regards to staff education on Council policies and processes, particularly the Anti-Fraud and Corruption Policy and the Procurement Policy.

In the past year, the Finance team have used the staff newsletter to publish various fraud related policies and processes in an effort to educate staff. However, this approach is only mildly effective as the read rate of the newsletter is around 50%.

Examples of areas covered over the past year include:

- Conflicts of Interest
- Quizzes with multi-choice covering various areas
- Petty cash and employee reimbursement claims

In addition, emails are often sent out to all staff regarding fraud prevention educational topics.

Council officers are looking into developing a staff intranet where all policies are accessible easily via a intranet policy link and notifications let staff know when policies have been changed and what the changes are.

6. **STRATEGIC ALIGNMENT**

6.1 **Direction**

The Council's vision and Community Outcomes cannot be achieved if bribery, corruption and fraud are not controlled and eliminated.

6.2 **Annual Plan and Long Term Plan**

Ensuring the process of reporting against each of the documents above is robust and accurate is a key outcome of the fraud risk assessment.

6.3 **District Plan**

Limited connection with the District Plan.

6.4 **Legal Implications**

Refer to Council's Anti-Fraud and Corruption Policy for any legal implications as a result of actual incidences.

6.5 **Policy Implications**

The Anti-Fraud and Corruption Policy is robust and fit for purpose.

Attachment

Appendix 1 – Fraud Risk Assessment



Tiffany Radich
DIRECTOR CORPORATE SERVICES

A handwritten signature in black ink, appearing to read 'K Whareaitu', is centered on the page.

Approved by
Kate Whareaitu
ACTING CHIEF EXECUTIVE

DATE 14 July 2020

APPENDIX 1

FRAUD RISK ASSESSMENT - STRATFORD DISTRICT COUNCIL				
Fraud Risk Category	What could go wrong	Control Measures in Place Yes/No	Current Control Measures in place	Further Recommended Control Measures
Creditors	False Invoices accepted resulting in payment for goods/services not received	Yes	One up approval is required, preparer and authoriser. Authoriser must authorise within delegated authority. System controlled and reviewed by Finance Officer, and Corporate Accountant, and random testing by Director - Corporate Services carried out monthly (this is documented).	N/a - controls are sufficient.
	Payment made to fictitious supplier	Yes	Documentation for new creditors and changes made to creditors bank accounts must include a deposit slip. Report is run at least annually to match creditor payments against employee bank accounts in the payroll system.	N/a - controls are sufficient.
	Kick backs are received by staff for awarding a contract, or favouring a supplier	Yes	Procurement policy and manual sets frameworks.	Formal staff education on procurement manual.
	Conflict of interest. Contracts are awarded to parties related to individuals involved in the decision making process	Yes	Contracts are required to be signed off by directors. Directors are required to complete and update annually a conflict of interest register.	Awareness could be raised through regular reminders via staff newsletter and as per above.
Petty Cash	Theft of Petty Cash	Yes	Petty Cash tin is locked and stored in a secure place. When petty cash is used it is recorded and authorised with one up approval. When the float gets low, a reconciliation is done. The float is replenished and at that time a reconciliation is done and the float is topped up.	N/a - controls are sufficient.
Cash Receipting	Cash is taken from tills or floats	Yes	Daily reconciliation of tills and floats and independent sign off.	N/a - controls are sufficient.
Information systems	Excessive internet use, downloading illegal/inappropriate material for personal use (theft of work time, data)	Yes	Council requires all new staff to sign that they have read the Information Technology Acceptable Use policy which include guidelines on these matters. Manager awareness of staff activity. IT occasionally review excessive use reports and bring to attention of employee's manager.	N/a - controls are sufficient.
	Personal toll calls without paying for them	No	Usage is occasionally monitored by IT department.	Cost vs benefit of monitoring not considered worthwhile currently.
Payroll	Payments made to fictitious employee	Yes	Audit reports produced for each pay. Independent reconciliation with payroll changes with audit reports signed off by Director monthly. The payroll is reviewed and checked by two staff members.	Source documentation evidencing bank account could be attached to audit reports.
	Timesheets altered to increase hours	Yes	Timesheets approved by one up manager.	Ensure timesheet approvers review the timesheets before signing off - education through staff newsletter and email reminders.

APPENDIX 1

Fraud Risk Category	What could go wrong	Control Measures in Place Yes/No	Current Control Measures in place	Further Recommended Control Measures
	Leave not properly recorded (taken but no leave application)	Yes	Supervisors/Managers/Group Managers monitor and review all leave applications. The payroll staff are often aware of who is on leave and check that leave has been applied for.	Education - all managers should be aware of their staff being at work or not and request a leave application to be made in a timely manner.
	Payments made to employees who have left	Yes	All staff must complete an exit form prior to leaving. Must have a meeting with HR to hand back in anything and final pay must be signed off by payroll. Payroll review process is undertaken by two staff members.	N/a - controls are sufficient.
	False expenses claim are submitted	Yes	Expense claims require authorisation from one-up Manager and original receipts required to be attached.	Education - pre-approval from one-up Manager should be sought before spending personal funds on business related expenditure.
	Taking longer lunches and other breaks unapproved	Yes	In LibraryPlus & Museum most staff work to a roster which is monitored by the managers.	IT are currently looking into an upgrade to the phone system which will enable an electronic record of when staff are physically present and logged in at work.
	Taking a sick day to avoid using annual leave	Yes	Manager awareness. Medical note may be requested if there is suspicion this is occurring.	Staff education, clarification about when sick days should be used vs annual leave.
Elected Members mileage and expense claims	Elected Members receive incorrect payment and reimbursements	Yes	Executive Assistant checks each claim and these are double checked by Payroll.	N/a - controls are sufficient.
Theft of Assets	iPads and Surface Pros can be stolen from the office	Yes	Booking system for iPads and Surface Pros in place to keep track of these assets. There is a locked cupboard where these can be held securely.	Ensure cupboard with iPads and Surface Pros is locked when there are no staff in the office and the key is hidden from sight.
Theft of council items	Stationary items stolen for personal use	No		Cost vs benefit of monitoring not considered worthwhile currently.
Rates	Correct additional/removal of charges on rates	Yes	For any rates changes during the year a rates supplementary sheet is completed showing additions and removal of services. Once these are loaded , the sheet is saved into Content Management. If charges are added during a rating year, as these cannot be added to the rates, a debtors invoice is completed charging for the service for the remainder of the year as per fees and charges. This is signed by both the assets team and revenue team. This is in a journal file. Auditors check a selection each visit.	There is still a risk that an officer could remove a rate charge without anyone knowing.
Banking	Changes made to bank files	Yes	Two approvals required to bank files.	Additional audit reports on banking files, once they have been uploaded to the bank
	AP and DD incorrectly paid	Yes	Two approvals required to bank files.	Document and review regularly and signed off to ensure Automatic Payments & DD appropriate

APPENDIX 1

Fraud Risk Category	What could go wrong	Control Measures in Place Yes/No	Current Control Measures in place	Further Recommended Control Measures
	Misappropriation of funds	Yes	Creditors payments are reviewed and checked by Corporate Accountant and spot checks on invoices are carried out at the same time. Payments to external parties require two approvals in the bank, however, any transfers within councils own bank accounts can be made by one person. E.g. transfer money into the daily operational account to ensure there are sufficient cleared funds for wages .	N/a - controls are sufficient.
Water meters	Deliberately under invoicing for water usage	Yes	The water by meter invoicing process includes two separate departments - engineering dept and Revenue dept and all water meter usage reads are reviewed and checked by Revenue Manager. There is an internal control as the meter reads are updated in Authority four times a year and any mistake or deliberate understatement should be corrected by the next quarter.	Internal auditor or Corporate Accountant could select samples for review and check each quarter.
	Credit applied to water account	Yes	Credit notes are to be signed by One up manager.	Internal auditor or Corporate Accountant could select samples for review and check each quarter.
Sundry Debtor Invoices - Credit	Crediting a customer account without reason	Yes	Credit notes are to be signed by One up manager.	Internal auditor or Corporate Accountant could select samples for review and check each quarter.
General	Misuse of confidential information for private gain	No		Education. Small town, people talk.
Motor Vehicles (Private Use)	Staff use motor vehicles for own private use.	Yes	All vehicles are booked in the outlook calendar and the booking must state the driver booking the vehicle and the business purpose/location for the vehicle.	N/a - controls are sufficient.
Treasury	Misappropriation of funds	Yes	Any transfer of funds are approved by two authorised staff members - one of which must be a Director/CEO.	N/a - controls are sufficient.
Financial Statements	Financial Statements could include a material misstatement due to fraud	Yes	The Council produces monthly, and annual reports which are reviewed by finance staff, senior leadership team, policy and services committee, and audit & risk committee. Audit NZ carries out a thorough audit for a Council of our size.	N/a - controls are sufficient.
Department/Unit Name	BUILDING			
Purchasing	Purchase items for personal use or benefit.	Yes	One up approval is required for all expenditure.	N/a - controls are sufficient.
Theft of Assets	Council equipment removed from vehicles for personal use	Yes	A monthly vehicle equipment checklist is completed with each monthly vehicle check.	N/a - controls are sufficient.

APPENDIX 1

Fraud Risk Category	What could go wrong	Control Measures in Place Yes/No	Current Control Measures in place	Further Recommended Control Measures
Electronic signatures	Identity theft or fraud occurs as a result of signatures on building consents being misused.	No	Multiple staff review each resource consent currently. However, both the Quality Assurance Officer and Manager have the ability to load and issue building consents including adding the two signatures.	Recommend that Simpli is reconfigured so that two signatures on a building consent cannot be added by the same officer.
Bribery	Applications treated favourably at processing and inspection stages	Yes	BCA Quality Manual has a robust Conflict of Interest Procedure which is monitored for each application. All staff are required to notify Council if receiving any gifts from a third party in connection with their employment (last notified all staff in Feb 2020).	N/a - controls are sufficient.
LIMs	Staff do not pay for a LIM. Staff use information for property speculation.	No	Very low risk of property speculation as most properties advertised publicly and private sales know the person purchasing the property. There is a gap in terms of staff not paying for a LIM but this is considered to be low impact.	N/a - controls are sufficient.
Department/Unit Name: Contact Centre				
Cash tills	Theft of money from tills	Yes	Cash is locked in safe at night. Money counted in the morning to verify the float is correct. The banking is already cashed up and separated from the till at night and kept in a safe in a sealed armourguard bag and is later reconciled through the bank.	N/a - controls are sufficient.
Cash receipting	Not receipting full amount of cash and pocketing the rest	Yes	In most cases, there are two staff on to observe. Generally, the public expects, and is given, a receipt for their payment. If the customer received a reminder notice for payment they would then come back to the front counter - CCTV cameras could verify. Don't take much cash these days.	N/a - controls are sufficient.
Theft from safe	Items or cash removed from the safe. Money is also held for other staff in the building (leaving gift money etc)	Yes	Four staff have the key to the safe. Safe is not open when staff not in office. There are floats held in the safe but they are in an additional locked cupboard.	Dixie to review
Department/Unit Name				
Creditors	Buying goods for personal use on SDC accounts, including creditors and retail store accounts.	Yes	One up authoriser needs to understand what they are approving payment of and only sign off if expenditure aligns with procurement policy.	Staff education

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Fraud Risk Category	What could go wrong	Control Measures in Place Yes/No	Current Control Measures in place	Further Recommended Control Measures
Petty Cash	Theft of Petty Cash	Yes	Petty Cash tin is locked and stored in a secure place. Petty cash is signed out, and change signed back in when receipt returned. Finance Officer prepares reconciliation when required and Corporate Accountant authorises the reimbursement.	N/a - controls are sufficient.
Cash Receipting	Cash is taken from tills or floats	Yes	I-site/AA (float \$160): every night balanced, \$200 float. Float is locked in cupboard. Only one key but able to be accessed by all staff. Library: every night balanced, \$100 float. Float and takings are locked in safe. Key is available in the desk in the office. Pool: every night balanced, float \$150. Takings are sealed into separate bag dated, locked in safe at pool until armouguard collect, 5 people have access to the safe code.	Could limit access to key/safe for large cash balances over say \$1,000.
	Cash is taken from customer but not receipted into system.	Yes	In most cases, there are two staff on to observe. Generally, the public expects, and is given, a receipt for their payment. Manager awareness. CCTV cameras.	N/a - controls are sufficient.
Conflict of Interest	Not recording hall hire for themselves or a friend	Yes	Invoicing for hall hire done directly from the booking calendar but segregation of duties from invoicing to booking.	N/a - controls are sufficient.
Theft	Taking books from the sales trolley and not paying for them		Manager awareness	
Department/Unit Name	Planning			
Bribery	Treating applications favourably at processing or monitoring stage.	Yes	All Planning reports and bond refunds are peer reviewed before being put forward for approval. Photographic evidence of compliance is retained for consent monitoring. All staff are required to notify Council if receiving any gifts from a third party in connection with their employment (last notified all staff in Feb 2020).	N/a - controls are sufficient.
Department/Unit Name	Assets Team			
Procurement and Purchasing	Staff purchase equipment for own purposes and tenders are let to family and friends or to firms for personal gain.	Yes	Procurement manual sets out prescribed processes. One-up approval process. Conflict of interest declaration required for tenders.	N/a - controls are sufficient.
Fuel	Fuel theft	Yes	Monthly vehicle fuel card and receipt recon, fuel consumption analysed by Health and Safety/HR Advisor.	Analyse vehicle fuel consumption regularly and get signed off by manager.

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Fraud Risk Category	What could go wrong	Control Measures in Place Yes/No	Current Control Measures in place	Further Recommended Control Measures
Misuse of Contractors	Favours from contractors	No	Awareness created (Staff and Contractors). Stratford is a small town, people talk. All staff are required to notify Council if receiving any gifts from a third party in connection with their employment (last notified all staff in Feb 2020).	Staff education
Department/Unit Name	IT Unit			
Theft of Assets	Equipment could be taken home	Yes	Asset register - physical audit to be part of internal audit.	An official borrowing form could be used for all IT equipment taken out of the building.
Procurement and Purchasing	Conflict of interest / procurement policy not followed	Yes	One up approval to check. Secondary review by Finance team.	N/a - controls are sufficient.
Information Systems	Information being inappropriately accessed by IT admin	No	We have audit logging turned on in key systems to pick up on this. For example Authority Payroll logs any changes made by a user who may have access granted.	N/a - controls are sufficient.
Information Systems	Wrong access provided allowing more access than required	Yes	New user and leaving user forms to be completed by Manager - usually copying an existing staff profile	N/a - controls are sufficient.
Information Systems	Users not deleted	Yes	Once yearly check with HR and audit	N/a - controls are sufficient.
Information systems	Records being accessed inappropriately	Yes	Folders have restricted access, particularly where confidential information is involved.	More time for monitoring would be good.

INFORMATION REPORT



TO: Audit and Risk Committee F19/13-D20/18308

FROM: Director – Corporate Services

DATE: 21 July 2020

SUBJECT: AUDIT ARRANGEMENTS 2019/20 AUDIT NEW ZEALAND

RECOMMENDATION

THAT the Audit and Risk Committee receives Audit New Zealand’s engagement letter, proposal letter and audit plan for the 2019/20 annual audit.

Recommended Reason

Reviewing the annual audit arrangements is within the scope of the responsibility of the Audit and Risk Committee.

Moved/Seconded

1. PURPOSE OF REPORT

The purpose of this report is to inform the Committee of the issues identified in the final Audit New Zealand Management Report for the most recent year-end external audit, and summarises the actions that have or are to be taken by Council officers to respond to audit recommendations.

This is in line with the Audit and Risk Committee’s Terms of Reference which includes a responsibility *“To review the external audit findings and the annual financial statements and report back to the Council”*.

2. EXECUTIVE SUMMARY

Audit New Zealand have provided a proposal, and audit plan to undertake the Stratford District Council’s audit. The engagement letter sets out the respective responsibilities of the Council and Audit NZ, as the Council’s auditor.

Audit NZ’s proposal letter sets out the audit contract for the audit of the Annual Report for 2019/20 only. This proposal includes the fees for the audit also, which have been budgeted at \$108,283 plus GST.

3. **LOCAL GOVERNMENT ACT 2002: SECTION 10**

The Annual Report is an important way in which Council demonstrates its actions are aligned with Section 10 of the Local Government Act 2002. The audit process gives elected members and the wider public confidence that the Annual Report is accurate, free from material errors, fit for purpose, and compliant with legislation.

4. **BACKGROUND**

The Audit and Risk Committee Terms of Reference were last reviewed and approved in December 2019. The below has been taken from the Scope and Responsibilities section of the Terms of Reference:

AUDIT

1. *To review and recommend to the Council the appointment of the external auditors and their fees.*
2. *To review the external audit findings with regards to the Annual Report and Long Term Plan and monitor management's implementation of the auditor's findings.*
3. *To approve the annual internal audit programme, review the findings of internal audits and to monitor management response and implementation of the recommendations.*
4. *To liaise with internal and external auditors and receive audit reports.*

This report enables the Committee to fulfil its responsibilities under the Terms of Reference.

5. **INFORMATION SUMMARY**

Refer to the attached Audit NZ Engagement Letter, Proposal Letter, and Audit Plan for the 2020 audit.

6. **STRATEGIC ALIGNMENT**

6.1 **Direction**

The Annual Report is a statutory requirement as is the Audit of that report. It is largely reporting historical information, whereas the Annual Plan and Long Term Plan are forward looking and direction setting.

6.2 **Annual Plan and Long Term Plan**

The Annual Report compares the actual results for the year ended 30 June 2020 against the budget as per Year 1 of the Long Term Plan.

6.3 **District Plan**

The Annual Report does not have a direct relationship with the District Plan.

6.4 **Legal Implications**

There are no legal implications - the Annual Report was completed in accordance with the Local Government Act 2002.

6.5 **Policy Implications**

There are no policy implications to consider directly. However, some of the audit recommendations may involve Council having to review particular policies.

Attachments


Appendix 1 – Audit NZ Engagement Letter

Appendix 2 – Proposal Letter

Appendix 3 – Audit Plan for the 2020 audit



Tiffany Radich
DIRECTOR CORPORATE SERVICES



Approved by
Kate Whareaitu
ACTING CHIEF EXECUTIVE

DATE 14 July 2020



31 Amesbury Street
PO Box 149, Palmerston North 4440

2 July 2020

Neil Volzke
Stratford District Council
PO Box 320
Stratford 4352

Dear Neil

Audit Engagement Letter

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all “public entities”, including Stratford District Council, under section 14 of the Public Audit Act 2001. The Auditor-General has appointed me, Chris Webby, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audit of the Stratford District Council’s financial statements and performance information. We will be carrying out this annual audit on the Auditor-General’s behalf, for the year ended 30 June 2020.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the Council and me, as the Appointed Auditor, for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the Stratford District Council’s financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit (typically those matters will relate to issues of financial management and accountability).

We will carry out the audit in accordance with the Auditor-General’s Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether the Stratford District Council’s financial statements and performance information are free from material

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misstatement. The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

Your responsibilities

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- providing us with:
 - access to all information relevant to preparing the financial statements and performance information such as records, documentation, and other information;
 - all other information, in addition to the financial statements and performance information, to be included in the annual report;
 - additional information that we may request from the Stratford District Council for the purpose of the audit;
 - unrestricted access to Council members and employees that we consider necessary; and
 - written confirmation concerning representations made to us in connection with the audit.

In addition, the Council is responsible:

- for the preparation of the summary financial statements and summary performance information;
- for making the audited summary financial statements and summary performance information readily available to the intended users of that information; and
- for including our audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that we have reported on that information.

The Council's responsibilities extend to all resources, activities, and entities under its control. We expect that the Council will ensure:

- the resources, activities, and entities under its control have been operating effectively and efficiently;

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- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;
- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the Council and/or the individuals within the Stratford District Council with delegated authority, to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred – regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The Council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Appendix 1. Appendix 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the Council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

The Council should have documented policies and procedures to support its responsibilities. It should also regularly monitor performance against its objectives.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether the financial statements of the Stratford District Council:

- present fairly, in all material respects:
 - its financial position; and
 - its financial performance and cash flows for the financial year;
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards Reduced Disclosure Regime.

We are also responsible for forming an independent opinion on whether the performance information of Stratford District Council:

- presents fairly, in all material respects, the performance for the financial year, including:
 - its performance achievements as compared with forecasts; and
- complies with generally accepted accounting practice in New Zealand.

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In addition to the above we are also responsible for forming an independent opinion whether:

- the funding impact statement of Stratford District Council, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the annual plan; and
- the statement about capital expenditure for each group of activities of Stratford District Council, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the annual plan; and
- the funding impact statement for each group of activities of Stratford District Council, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Long-term plan.

We are also required to report on whether the Stratford District Council has:

- complied with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report; and
- made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence) Regulations 2014.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Stratford District Council's internal controls. However, we will communicate to you in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the Council and the Stratford District Council have carried out their activities;
- consider laws and regulations relevant to the audit;

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- be alert for issues of waste – in particular, whether the Council obtained and applied the resources of the Stratford District Council in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the Council and the Stratford District Council have met Parliament’s and the public’s expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of a lack of financial prudence.

Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of Stratford District Council; including being independent of management personnel and members of the Council. This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with the objectivity of the audit team and the Audit New Zealand.

To protect our independence, specific limitations are placed on us in accepting engagements with the Council other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any other engagements must be the subject of a separate written arrangement between the Council and me or Audit New Zealand.

Reporting

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee of the audit report. In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This audit report will contain an opinion that provides the same level of assurance as the audit report on the full financial statements and full performance information.

We will also issue a report to the Council. This report communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the Council. Typically those matters will relate to issues of financial management and accountability. We may also provide other reports to the Stratford District Council from time to time. We will inform the Council of any other reports we have issued.

Please note that the Auditor-General may publicly report matters that are identified in the annual audit, in keeping with section 21 of the Public Audit Act 2001.

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Next steps

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the letter in the space provided and returning a copy to me. The terms will remain effective until a new Audit Engagement Letter is issued.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible. If after contacting me you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours faithfully

Chris Webby
Appointed Auditor
On behalf of the Auditor-General

I acknowledge the terms of this engagement and that I have the required authority on behalf of the Council.

Signature:

Neil Volzke
Mayor on Behalf of the Council

Date:

APPENDIX 1**Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor**

Responsibilities of the Council	Responsibility of the Appointed Auditor
Responsibilities for the financial statements and performance information	
<p>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</p> <p>You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p>	<p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> • present fairly, in all material respects: <ul style="list-style-type: none"> ○ the financial position; and ○ the financial performance and cash flows for the financial year; • comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards Reduced Disclosure Regime. <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> • presents fairly, in all material respects, the performance for the financial year, including: <ul style="list-style-type: none"> ○ the performance achievements as compared with forecasts; and • complies with generally accepted accounting practice in New Zealand <p>In addition to the above we are also responsible for forming an independent opinion whether:</p> <ul style="list-style-type: none"> • the funding impact statement of Stratford District Council, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the annual plan; and • the statement about capital expenditure for each group of activities of Stratford District Council, presents fairly, in all material respects, actual capital expenditure as compared to the budgeted capital expenditure included in the annual plan; and

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Responsibilities of the Council	Responsibility of the Appointed Auditor
	<ul style="list-style-type: none"> • the funding impact statement for each group of activities of Stratford District Council, presents fairly, in all material respects, the amount of funds produced from each source of funding and how the funds were applied as compared to the information included in the Long-term plan. <p>We are also required to report on whether Stratford District Council has:</p> <ul style="list-style-type: none"> • complied with the requirements of Schedule 10 of the Local Government Act 2002 that apply to the annual report; and • made the disclosures about performance against benchmarks as required by the Local Government (Financial Reporting and Prudence) Regulations 2014. <p>We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements.</p>

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Responsibilities of the Council	Responsibility of the Appointed Auditor
	<p>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error. Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence the audit report addressee's overall understanding of the financial statements and performance information.</p> <p>If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for you to correct any material misstatements and avoid the need for them to be referred to in the audit opinion.</p> <p>An audit also involves evaluating:</p> <ul style="list-style-type: none"> • the appropriateness of accounting policies used and whether they have been consistently applied; • the reasonableness of the significant accounting estimates and judgements made by those charged with governance; • the appropriateness of the content and measures in any performance information; • the adequacy of the disclosures in the financial statements and performance information; and • the overall presentation of the financial statements and performance information. <p>We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that:</p> <ul style="list-style-type: none"> • the adoption of the going concern basis of accounting is appropriate; • all material transactions have been recorded and are reflected in the financial statements and performance information;

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Responsibilities of the Council	Responsibility of the Appointed Auditor
	<ul style="list-style-type: none"> • all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and • uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. <p>Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries.</p> <p>We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the financial statements and performance information, or for some other reason beyond our control, as soon as possible after that.</p> <p>The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.</p>
Responsibilities for the accounting records	
<p>You are responsible for maintaining accounting and other records that:</p> <ul style="list-style-type: none"> • correctly record and explain the transactions of Stratford District Council; • enable you to monitor the resources, activities, and entities under your control; • enable the Stratford District Council's financial position to be determined with reasonable accuracy at any time; • enable you to prepare financial statements and performance information that comply with legislation and that allow the financial statements and performance information to be readily and properly audited; and • are in keeping with the requirements of the Commissioner of Inland Revenue. 	<p>We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information.</p> <p>If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.</p>

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Responsibilities of the Council	Responsibility of the Appointed Auditor
Responsibilities for accounting and internal control systems	
<p>You are responsible for establishing and maintaining accounting and internal control systems appropriate to the size of Stratford District Council, supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and performance information reporting.</p>	<p>The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information.</p> <p>We will report to you separately, on any significant weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.</p>
Responsibilities for preventing and detecting fraud and error	
<p>The responsibility for the prevention and detection of fraud and error rests with you, through the implementation and continued operation of adequate internal control systems appropriate to the size of Stratford District Council supported by written policies and procedures.</p> <p>We expect you to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and if it occurs how it will be dealt with. Fraud also includes bribery and corruption.</p> <p>We expect you to consider reporting all instances of actual, suspected, or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect you to immediately inform us of any suspected fraud where you, and/or any individuals within the Stratford District Council with delegated authority have a reasonable basis that suspected fraud has occurred - regardless of the amount involved.</p>	<p>We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will:</p> <ul style="list-style-type: none"> • obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and • report to you any significant weaknesses in internal control that come to our notice. <p>We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected, or alleged fraud.</p> <p>As part of the audit, you will be asked for written confirmation that you have disclosed all known instances of actual, suspected, or alleged fraud to us.</p>

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Responsibilities of the Council	Responsibility of the Appointed Auditor
	<p>If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from you, or management, or by any other means, we will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report the fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so, if it is appropriate for the purposes of protecting the interests of the public.</p>
Responsibilities for compliance with laws and regulations	
<p>You are responsible for ensuring that Stratford District Council has systems, policies, and procedures appropriate to the size of Stratford District Council to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of Stratford District Council are complied with. Such systems, policies, and procedures should be documented.</p>	<p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> • the relevance of the law or regulation to the audit; • our assessment of the risk of non-compliance; and • the impact of non-compliance for the addressee of the audit report. <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws and regulations.</p>

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Responsibilities of the Council	Responsibility of the Appointed Auditor
Responsibilities to establish and maintain appropriate standards of conduct and personal integrity	
<p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a “Code of Conduct” and, where applicable, support the “Code of Conduct” with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted “Codes of Conduct” that apply to the public sector.</p>	<p>We will have regard to whether you maintain high standards of conduct and personal integrity – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of Stratford District Council may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to you and to the Auditor-General all significant departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p> <p>The Auditor-General, on receiving a report from us, may, at his discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p>
Responsibilities for conflicts of interest and related parties	
<p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p>	<p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions. Depending on the circumstances, we may enquire whether you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p>

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Responsibilities of the Council	Responsibility of the Appointed Auditor
Responsibilities for publishing the audited financial statements on a website	
<p>You are responsible for the electronic presentation of the financial statements and performance information on the public entity's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If the audit report is reproduced in any medium, you should present the complete financial statements, including notes, accounting policies, and any other accountability statements.</p>	<p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on your website is beyond the scope of the annual audit.</p>

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Appendix 2: Health and safety of audit staff

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015 we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a safe work environment for our audit staff. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

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APPENDIX 2

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

31 Amesbury Street
PO Box 149, Palmerston North 4440

2 July 2020

Neil Volzke
Mayor
Stratford District Council
PO Box 320
Stratford 4352

Ref: EN/LCA/03-0038
Copy: Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington 60140

Dear Neil

Proposal to conduct the audit of Stratford District Council and group on behalf of the Auditor-General for the 2020 financial year

1 Introduction

The Auditor-General proposes to appoint me to carry out the audit of your organisation for the next year. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the financial year ended 30 June 2020. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial year ended 30 June 2020 and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG Audit Standards and Quality Support fee (previously OAG Overhead charge) provides;
- certification required by the Auditor-General; and

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- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

2 Statutory basis for the audit and how audit fees are set

The audit of your organisation is carried out under Section 15 of the Public Audit Act 2001 (the Act), which states that “the Auditor General must from time to time audit the financial statements, accounts, and other information that a public entity is required to have audited”.

Fees for audits of public entities are set by the Auditor General under section 42 of the Act. The Act requires the Auditor-General to make sure that audit fees are “reasonable” for both the auditors who complete the audits for the Auditor-General, and for each of the entities audited. The Auditor-General wrote to your Council recently letting you know that he has carefully considered the matter of annual audit fees for all Councils who do not currently have a contract in place. He has decided that for the 30 June 2020 audit, audit fees are to be held to a 1.5% increase over the agreed fee for the 30 June 2019 audit. This attempts to balance the very real cost pressures that your Council and his Office currently face. The Auditor-General also noted that he expects that there will be a range of effects of the COVID-19 pandemic that may require additional audit work, and that auditors will need to discuss recovery of costs for that with Councils in due course, once these costs are known.

The Auditor-General also advised that for a number of years there has been a significant and growing under recovery of audit fees across much of the local government sector, for a range of reasons. Because Parliament has indicated that it expects the cost of annual audits under the Act (including an OAG Audit Standards and Quality Support fee) to be funded by public entities, this is clearly not a sustainable position. It is also potentially creating a very real risk to maintaining consistent audit quality over time, which has been raised by audit regulatory bodies here and overseas.

Audit fees will, in the future, need to be increased to reflect the real costs. These increases will vary depended on the reasonableness of the current fee.

To ensure that the level of audit effort required (and the reasons for it) are visible to your Council, this proposal includes an estimate of the total hours and indicative cost required to complete an efficient and quality audit of your Council (this is set out in sections 5 and 6). We expect to incur these hours in 2020, although the constrained fees will clearly not reflect the full cost of them.

3 Entities covered by this proposal

This proposal covers the audit of Stratford District Council (Council) parent and group.

APPENDIX 2**4 Key members of the audit team**

Appointed Auditor	Chris Webby
Engagement Quality Reviewer (EQR)	Debbie Perera
Audit Manager	Ros Rheeder

5 Estimated audit hours

We estimate that the following hours will be required to carry out the 30 June 2020 audit (compared to the budgeted hours set out in your last APL and actual data from the previous financial year):

Audit team member	2019 budget	2019 actual*	2020
Appointed Auditor	45	99	65
EQR Director	8	16	12
Audit Manager	80	173	90
Other CA qualified staff	120	329	180
Non CA qualified staff	280	443	380
Other specialists			
Information Systems	12	19	20
Sector Specialist Support	5		5
Tax	1	1	1
Specialist Audit and Assurance Services	-	53	-
Total audit hours	551	1,133	753

***Note** – actual hours are all hours incurred. These hours have not been adjusted to eliminate any hours that were due to auditor inefficiencies.

The major reasons for actual audit hours for 2019 being higher than budget is due to:

- There was a revaluation of all infrastructure assets which required significant senior time to work through. As a result from our initial review it was identified there was a restatement required as a result of a lack of management review. The revaluation and additional work required was not included in the budgeted hours;
- There was complex accounting around inventory due to the sub division which required additional effort to audit;

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- The central landfill and the associated impairment was not included in the budgeted hours;
- The audit team was required to cleanse data received as this was not in an auditable format;
- Inefficiencies by the audit team which is not budgeted for nor charged on to the Council;
- Our Specialist Audit and Assurance Services completed a review of the Council’s procurement processes which was not included in the budgeted hours. We did not charge the Council for this review; and
- Base hours from the previous audit proposal not being sufficient to efficiently audit.

5.1 Reasons for changes in audit hours

The major reasons for the changes in hours for your organisation’s audit are:

Reasons for changes in audit hours compared to estimated audit hours set out in previous APL:	2020
<p>Changes within the entity, or in its environment – such as changes in the entity’s activity, systems, risk profile, or complexity, which have resulted in a change to the size or complexity of the audit.</p>	
<ul style="list-style-type: none"> • Sensitive expenditure – All councils operate in an environment where ratepayers and other stakeholders expect high levels of ethical behaviour and want more transparency over how this is managed. This means they need robust policies and processes in areas such as fraud, bribery and corruption, and sensitive expenditure. They also need to demonstrate that they manage these areas effectively. <p>The increased sensitivity and risk in these areas, which is also reflected in the OAG briefs to auditors, has flowed through to our audit and the work we do. In particular, we will now be undertaking additional testing of the Chief Executive and Mayor’s expenses every year.</p>	10
<ul style="list-style-type: none"> • Asset valuations – funding challenges, combined with greater community awareness and expectations over the resilience and performance of core assets, have increased the importance of, and risks associated with, council’s asset related practices such as continually improving its asset condition information and developing more advanced management practices. These in turn increase the complexity of council’s asset revaluations and fair value assessments. <p>We have increased the time required for this work because of the significant amount of time required to cover off the risks associated with this.</p> <p>Our hours and fees are based on one revaluation for each class of asset in the 3 year period and are incorporated into our overall hours and spread evenly across the three years.</p>	15

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Reasons for changes in audit hours compared to estimated audit hours set out in previous APL:	2020
<p>Any additional revaluations we are required to audit will be charged separately.</p> <ul style="list-style-type: none"> Rates – Recent court cases have highlighted the risks council faces in relation to its rating processes. Seemingly minor procedural or documentation errors have the potential to undermine council’s major revenue stream. Council’s increased risks have impacted on our approach to auditing Rates, and we now perform more testing on both individual rates and the information held in the RID. Non-financial reporting – in the light of recent events, including natural disasters, the results of the Havelock North water enquiry, and the impacts of climate change, ratepayers and other stakeholders focus on local authorities’ core services has increased. This has increased our assessment of risk in these areas which in turn has increased both the number of measures we identify as material and the amount of testing we do on these. <p>In addition, the mandatory performance measures present a heightened risk to council’s reporting due to the range of interpretation and non-compliance issues that have been identified across the sector in recent years. We have increased the time required for this work because during the 19J audit we identified some mandatory measures were not being recorded in line with the DIA guidance, this will require us to do additional work in the future.</p>	<p>15</p> <p>20</p>
<ul style="list-style-type: none"> The impacts of growth - the Council has been completing a subdivision which requires additional work to be performed by the audit team to cover off the audit risks. 	10
Additional hours required to complete an efficient and quality audit of your Council	132
Total change in audit hours	202

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6 Proposed audit fees

Our proposed fees for the 2020 audit (compared to budgeted and actual data from the previous financial year) is:

Structure of audit fees	2019 budget fees	2019 actual fees charged (*)	2020
	\$	\$	\$
Net audit fee	84,993	84,993	86,268

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Structure of audit fees	2019 budget fees	2019 actual fees charged (*)	2020
	\$	\$	\$
OAG Audit Standards and Quality Support fee	7,897	7,897	8,015
Total audit fee (excluding disbursements)	92,890	92,890	94,283
Estimated disbursements	14,000	12,496	14,000
Total billable audit fees and charges	106,890	105,386	108,283
GST	16,034	15,808	16,242
Total (including GST)	122,924	121,194	124,525

* **Note** – 2019 actual audit fees charged were \$92,890, compared to our 2019 audit costs of \$198,943. These costs have not been adjusted to eliminate any matters arising from auditor inefficiencies.

The estimated cost of an efficient audit on a full recovery basis for your Council in 2020 is in the range of \$104,532 to \$114,532 (total audit fee excluding disbursements), and your audit fees are already close to or in that range. Other than a small adjustment over the next 1 - 2 years for that, we expect that fee increases, other than for cost inflation, will only be necessary for changes or growth in your Council, or in audit requirements.

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG Audit Standards and Quality Support fees. As set out in section 2, these fees have been held at a 1.5% increase over the agreed audit fee for 2019.

We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

7 Assumptions relating to our audit fee

You are responsible for the production of your financial statements and anything else that must be audited. Our proposed audit fees are based on the assumption that:

- you will provide to us, in accordance with the agreed timetable, the complete information required by us to conduct the audit;
- your staff will provide us with an appropriate level of assistance;

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- your organisation’s annual report (including financial statements and statements of service performance) will be subject to appropriate levels of quality review by you before being submitted to us for audit;
- your organisation’s financial statements will include all relevant disclosures;
- we will review up to two sets of draft annual reports, one printer’s proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website);
- there are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us);
- there are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work (other than as specified in tables 5.1 and 6.1);
- there are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above; and
- there are no significant changes to the agreed audit arrangements that change the scope of, timing of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, including as a result of the effects of the COVID-19 pandemic, we will discuss the issues and potential recovery of costs with you and the OAG at the time. In order to minimise additional auditor time on the potential effects of COVID-19 on your financial statements and service performance information, the Council should ensure that it considers those potential effects as early as possible and discusses them with the appointed auditor to ensure “no surprises” to either party.

7.1 Exclusions

The proposed hours set out in section 5.1, and our fees do not include the potential impact of the following, which may affect your entity in 2020, as we are unable to assess their impact at this time:

- The future impact of changes to accounting standards, including:
 - PBE IPSASs 34 to 38;
 - *IFRS 9* – should the Council early adopt; and
 - PBE FRS 48.
- Changes to auditing standards including; NZ AS 1, ISA (NZ) 315 and ISA (NZ) 540.
- The government’s three waters review, including its announcement of a Crown Entity to regulate drinking water.

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- Any future impact on the Council's reporting due to the re-introduction of the four well-beings into the Local Government Act in May 2019.
- The Productivity Commission's review of local government funding and financing.
- The impacts of future growth within the Council's area, other than the sub division included above.
- The impacts of any new initiatives or funding sources related to either the Provincial Growth Fund or the Housing Infrastructure Fund.

8 What the OAG Audit Standards and Quality Support fees cover

Parliament has indicated that it expects the cost of annual audits under the Public Audit Act (including an OAG Audit Standards and Quality Support fees) to be funded by public entities.

The OAG Audit Standards and Quality Support fees partially fund a range of work that supports auditors and entities, including:

- development and maintenance of auditing standards;
- technical support for auditors on specific accounting and auditing issues;
- ongoing auditor training on specific public sector issues;
- preparation of sector briefs to ensure a consistent approach to annual audits;
- development and maintenance of strategic audit plans; and
- carrying out quality assurance reviews of all auditors, and their audits and staff on a regular (generally, three-year) cycle.

Appointed Auditors are required to return the OAG Audit Standards and Quality Support fees portion of the total audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

- the undertakings, methodology, and quality control procedures that we have declared to the OAG continue to apply;
- our professional indemnity insurance policy covers this engagement; and
- the audit will be conducted in accordance with the terms and conditions of engagement set out in the audit engagement agreement and schedules.

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10 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please do not hesitate to contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of your organisation, agree with its contents. This letter will then form the basis for a recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my audit engagement agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely

Chris Webby
Appointed Auditor
Audit New Zealand

I accept the audit fees for the audit of the 2020 financial year as stated above.

Full name: Neil Volzke Position: Mayor

Authorised signature: _____ Date: _____

Entity name: Stratford District Council

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Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to:
Chris Webby
Audit New Zealand
PO Box 149
Palmerston North, 4440

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Audit plan

Stratford District Council

For the year ended 30 June 2020

Audit plan

I am pleased to present our audit plan for the audit of Stratford District Council (the District Council) for the year ended 30 June 2020. The purpose of this audit plan is to discuss:

Audit risks and issues	2
Group audit	10
Our audit process.....	11
Reporting protocols	14
Audit logistics.....	15
Expectations.....	17

The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

Our work improves the performance of, and the public's trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely

Chris Webby
Appointed Auditor
2 July 2020

Audit risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

Audit risk/issue	Our audit response
Impact of COVID-19¹	
<p>On 11 March 2020 the World Health Organisation declared the outbreak of coronavirus (COVID-19) a pandemic. The New Zealand Government has taken steps to deal with the spread of COVID-19 which has included significant restrictions on the movement and interaction of people within New Zealand.</p> <p>This will have various potentially significant effects on individuals, communities, the economy, businesses, the wider public sector and each public sector entity.</p> <p>It is important that the District Council considers the impact of this event on various aspects of its operations and the information included in the annual report.</p> <p>We expect the District Council to complete an assessment of the impact of COVID-19 on its operations and any effect this has on the financial (should assess on a line-by-line basis) and performance information included in the annual report, including any additional disclosures which may need to be included. In addition, we expect there will be some significant variances between budgeted and actual figures/results which will require explanation.</p> <p>This assessment may also include the effect of COVID-19 on matters such as revenue recognition, valuation of assets, and the provision for doubtful debts.</p> <p>In our view, the readers of the annual report could reasonably expect the COVID-19 related disclosures noted below. Please carefully consider the appropriateness of the District Council’s disclosures with respect to these matters:</p> <ul style="list-style-type: none"> • General disclosure about COVID-19 and any resultant impact on the District Council during 	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • Continue discussions with management about the impact of COVID-19 on the District Council and it’s control environment; • Consider the District Council’s impact assessment of COVID-19 on the financial statements and performance information and consider the effect this has on our audit approach; • assess whether the District Council has complied with its policies and the relevant legislation; and • Consider the completeness and accuracy of disclosures contained within the annual report relating to COVID-19.

¹ We will include an emphasis of matter paragraph for all entities with a 30 June 2020 year-end, highlighting the relevant disclosures made by the District Council in the financial statements and performance report. If we identify any issues relating to the measurement of balances disclosed in the financial statement, or there is a material uncertainty, we will take this matter through our normal opinion review process.

Audit risk/issue	Our audit response
<p>the alert levels. If there was no impact on your organisation, it would be helpful for the reasons why the District Council was not impacted to be disclosed.</p> <ul style="list-style-type: none"> • Disclosure about how the District Council's financial and non-financial performance has changed due to COVID-19. • Disclosure about the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of adjustments to assets and liabilities within the next financial year (as required by Public Sector PBE). You need to ensure that the disclosures appropriately recognise the current high degree of uncertainty as a result of COVID-19. • Disclosure about any non-adjusting subsequent events for matters that occurred after 30 June 2020, as applicable. <p>Disclosures about the effects of COVID-19 are also likely to appear in the narrative sections of the annual report. Please ensure that these disclosures are consistent with those made in the financial statements and performance report (where applicable), and are in line with your knowledge of the wider current and forecast economic and other conditions.</p> <p><u>Guidance</u></p> <p>We are publishing Bulletins to provide high-level guidance on the implications of COVID-19 on public sector reporting, including revaluations of property plant and equipment and investment property, financial statements and performance information, refer to https://auditnz.parliament.nz/good-practice/public-sector-reporting</p> <p>We will also advise you when they are available.</p> <p>The Financial Reporting Authority (FMA) have published a document outlining what they have seen in their recent reviews of financial reporting in FMA reporting entities, and setting out its expectations and areas that entities should consider when preparing financial statements, particularly in light of the COVID-19 situation. The document would be equally useful for the District Council when preparing its financial statements, refer to</p>	

Audit risk/issue	Our audit response
https://www.fma.govt.nz/assets/Guidance/2020-Financial-reporting-reviews.pdf	
TET stadium	
<p>The District Council has indicated that the TET stadium building had reverted back to Council as part of the original lease to the Stratford Community Sports Society Inc. it is our understanding that the lease expired at the end of June 2019 with the TET Stadium reverting back to the District Council on 1 July 2019. The District Council has advised the Society of the intention to take ownership of the building and the lease has continued on a month to month basis pending a decision on the future management of the facility.</p> <p>If ownership can be established, the District Council would need to recognise the TET stadium at its fair value as at the date ownership was transferred and recognise an associated vested asset through the statement of comprehensive revenue and expense. To ensure the fair value of the TET stadium is appropriate, we recommend the District Council have the TET stadium revalued as this is material to the audit and could have an opinion impact if not valued correctly.</p> <p>The District Council would need to consider if the month to month lease indicates that ownership had not yet transferred or if the letter issued by Council is a legal document that can alter the terms of the lease (end date) and may need to get a legal opinion in this regard.</p>	<p>We will review documentation which confirms the transfer of ownership from the Society to the District Council.</p> <p>We will also review the valuation of the TET Stadium to ensure this is appropriate and has been correctly accounted for.</p>

Audit risk/issue	Our audit response
Subdivision accounting treatment	
<p>The District Council subdivided land for resale during the 2019 financial year. Some of these properties are expected to be sold in the 2020 financial year. Phase 2 is currently underway.</p> <p>The District Council recognised the costs associated with the subdivision as inventory in the 18/19 financials, in terms of PBE IPSAS 12 – Inventories and the Council infrastructure created as work in progress.</p> <p>For the 19/20 financials, the District Council should calculate the costs associated with properties sold and recognise these as cost of sales (Expenditure - Cost of sales residential development). The remaining costs associated with properties not yet sold, should be recognised as inventory. The Council infrastructure that is completed at year end should be capitalised and incomplete work should be recognised as work in progress.</p> <p>Council should ensure there are accurate records of costs per plot and details of any assumptions made in calculating the amounts.</p>	<p>Management has submitted the assumptions and calculations for costs related to the subdivision to date.</p> <p>We will review these assumptions and determine if these are reasonable and supportable. We will review the calculations and support for costs and sales. We will confirm that inventory, Council’s infrastructure, sales and cost of sales of residential development properties are recognised accurately in the financial statements at 30 June 2020.</p>

Audit risk/issue	Our audit response
Valuation of Property, Plant and Equipment	
<p>The District Council periodically revalues its operational and infrastructural assets. PBE IPSAS 17, Property, Plant and Equipment, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>Infrastructure assets:</p> <p>The District Council revalued its infrastructure assets in the prior year.</p> <p>Management should prepare a formal assessment to ensure that the carrying amount does not differ materially from fair value at 30 June 2020. This should consider any impact from changes in contract rates.</p> <p>Land and buildings:</p> <p>A valuation was performed by TelferYoung at 1 January 2020. The COVID-19 pandemic happened subsequent to this.</p> <p>Due to the judgemental nature of the revaluation there is a risk of bias or error in the assumptions and inputs used. Due to the nature and value of the revaluations, any bias or errors in the inputs used or calculations performed could result in a misstatement in the value of land and buildings, although this is unlikely to be material, given the carrying value of land and buildings is not significant in relation to the District Council's total asset portfolio.</p> <p>The District Council will need to review the pre-COVID-19 valuation to ensure that it still materially represents fair value at the reporting date.</p>	<p>For infrastructure assets:</p> <p>We will review the District Council's assessment of whether there is any significant difference between the carrying amount and fair value of its revalued assets.</p> <p>We will review relevant contract documentation to identify any significant differences in unit rates which might have a material impact on the calculated depreciated replacement cost for infrastructure assets.</p> <p>For the land and buildings revaluation:</p> <p>We will:</p> <ul style="list-style-type: none"> • assess relevant controls that management has put in place for the valuation; • obtain an understanding of the underlying data; • review the accounting entries and disclosure; • evaluate the qualifications, competence and expertise of the external valuer used; and • review the method of valuing the property, plant and equipment and assess if the applicable method used is in line with the financial reporting framework, including the reasonableness of the assumptions used.

Audit risk/issue	Our audit response
Impairment of Property, Plant and Equipment	
<p>PBE IPSAS 21 Impairment of Non-Cash-Generating Assets and PBE IPSAS 26 Impairment of Cash Generating Assets require assets held at cost to be assessed for indicators of impairment on an annual basis. PBE IPSAS 17 Property, Plant and Equipment requires revalued assets to be carried at a revalued amount that does not differ materially from fair value as at reporting date.</p> <p>In addition, the value of work in progress (WIP) on projects that span an extended period of time needs to be assessed for impairment regularly over the period of the project.</p> <p>The relevant standards provide guidance on indicators that an asset may be impaired, and how impairment should be recognised.</p> <p>We expect the District Council to have completed an impairment assessment to determine whether any assets will need to be impaired. This assessment needs to be made at an early stage, to avoid the risk of this becoming a significant issue at a late stage in the audit.</p>	<p>We will review the District Council’s assessment of whether there are any indicators of impairment, and the resulting accounting treatment if applicable.</p>

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Audit risk/issue	Our audit response
New group accounting standards	
<p>Public benefit entities are required to adopt a new suite of IPSAS based group accounting standards for periods beginning on or after 1 January 2019.</p> <p>The standards for adoption are as follows:</p> <ul style="list-style-type: none"> • PBE IPSAS 35 – Consolidated Financial Statements; • PBE IPSAS 36 – Investments in Associates and Joint Ventures; • PBE IPSAS 37 – Joint Arrangements; and • PBE IPSAS 38 – Disclosure of interests in other entities. <p>The key changes arising from these new standards are:</p> <ul style="list-style-type: none"> • varied the definition of control that may result in additional entities which were previously accepted as not controlled now being assessed as controlled; • introduced the concept of an investment entity; • the Joint Arrangement standard has changed the classifications and subsequent treatment of joint arrangements; and • a new standard which is specific to disclosures on an entity's interest in other entities. This has increased the amount of disclosures required in an entity's financial statements. 	<p>We requested that management prepare an impact assessment which considers whether these new standards change how the District Council currently accounts for and discloses controlled entities, associates, joint ventures and joint arrangements.</p> <p>We have received the assessment prepared by management on the Stratford Health Trust and the Stratford Community House Trust and are in the process of reviewing this.</p> <p>We will review the disclosures in the annual report to ensure these meet the requirements of the new standard.</p>
The risk of management override of internal controls	
<p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>	<p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and • evaluating any unusual or one-off transactions, including those with related parties.

Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are

relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. In this regard, we have discussed the following questions with you:

- What role does Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to Council? Has appropriate action been taken on any lessons learned?

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.parliament.nz/reports/fraud-reports.

Group audit



The group comprises:

- Stratford District Council
- Percy Thompson Trust (PTT)

Our auditor's report covers the group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the group. In designing our group audit approach, we considered the structure of the group and identified the entities which are included in the group financial statements. Each entity is referred to as a component. We have assessed the risks of material misstatement and have identified our approach for each component. The table below shows the work planned for each significant component.

Significant component	Work to be performed
PTT	<p>This will be audited by the same Appointed Auditor using the Audit New Zealand audit team.</p> <p>The significant audit risks relevant to this component are:</p> <ul style="list-style-type: none"> • Management override <p>More information on these audit risks can be found in the Audit Risks and Issues section above.</p> <p>The audit work on this component will be a full financial statement and performance report audit.</p>

We will report any significant internal control deficiencies to the Council and management of the group. This will include any deficiencies identified by the group engagement team or brought to our attention by the component auditor. We will communicate deficiencies related to:

- group-wide internal control; or
- internal controls at each component.

We will also communicate any fraud identified by the group engagement team or brought to our attention by the component auditor.

Our audit process



Materiality

In performing our audit, we apply the concept of materiality. In the public sector, materiality refers to something that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

Accounting standards also require the Council and management to consider materiality in preparing the financial statements. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities.

Whether information is material is a matter of judgement. We consider the nature and size of each item judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Materiality will be lower for some items due to their sensitivity.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and performance information. During the audit, we will provide details of any such misstatements we identify to an appropriate level of management.

We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from representatives of the Council that specify the reasons why the corrections will not be made.

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term "opinion" reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

How we consider compliance with laws and regulations

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

Wider public sector considerations

A public sector audit also examines whether:

- Stratford District Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by Stratford District Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by Stratford District Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by Stratford District Council or by one or more of its members, office holders, or employees.

Reporting protocols

Communication with management and the Council



We will meet with management and the Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

Reports to Council



We will provide a draft of all reports to management (and Council) for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to Council.

We will also follow up on your progress in responding to our previous recommendations.

Audit logistics

Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise

Our senior audit team members are:

Chris Webby	Appointed Auditor
Debbie Perera	Engagement Quality Review Director
Roslyn Rheeder	Audit Manager
Nosiviwe Tsotso	Supervisor

The Engagement Quality Review (EQR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQR will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

Timetable



Our proposed timetable is:

Interim audit begins	25 May 2020
Draft report to Council issued	15 July 2020
Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures	21 August 2020
Final audit begins	24 August 2020
Final financial statements available, incorporating all the amendments agreed to between us	7 September 2020
Verbal audit clearance given	TBC
Annual report available, including any Chair and Chief Executive's overview or reports	9 September 2020
Audit opinion issued	TBC
Draft report to Council issued	TBC

There is the possibility that due to COVID-19 there may be disruptions that will require changes to the timetable proposed above. Where this arises we will discuss a revised timetable with you.

Expectations



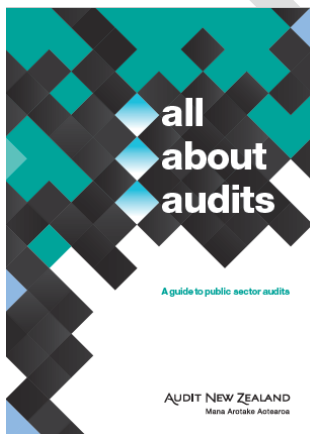
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to help explain the audit process:



Health and safety



The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

DRAFT

APPENDIX 3

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

www.auditnz.parliament.nz

PO Box 149
Palmerston North 4440
Phone: 04 496 3099



INFORMATION REPORT



TO: Audit and Risk Committee
FROM: Director – Corporate Services
DATE: 21 July 2020
SUBJECT: RISK REVIEW

F19/13 – D20/16840

RECOMMENDATION

THAT this report be received.

RECOMMENDED REASON

To provide an update to the Audit and Risk Committee of any changes to the Council Risk Register and advise the Committee of any incidents in relation to the Top Ten Risk Register from the previous quarter.

Moved/Seconded

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1. PURPOSE OF REPORT

This report is part of the Committee’s regular Programme of Works. It includes a review of any changes made to the Council’s Risk Register, and informs the Committee of any incidents in relation to the Top Ten Council risks since the last Audit and Risk Committee meeting, held in May 2020.

2. EXECUTIVE SUMMARY

The Council maintains a Risk Register within the online risk management software program *Vault*. The risks are reviewed at least monthly by the Senior Leadership Team (“SLT”) to ensure the risk scores are appropriate, and control measures are adequate.

Changes to the risk register are discussed and agreed to by SLT before coming into effect. In the past quarter, one new risk was added to the risk register – “Aerodrome – Unsafe Conditions”.

As changes are made to the register with new additions, amalgamation of risks, and changes to the risk ratings, there may also be changes to what is deemed to be a Top Ten Council risk. There have been no changes to the Top Ten Risk Register since the last Committee meeting.

3. LOCAL GOVERNMENT ACT 2002: SECTION 10

How is the subject of this report applicable to the purpose of the Act?

- Is it for the provision of good quality local infrastructure? If so, why?; **OR**
- Is it for the performance of a good quality regulatory function? If so, why?; **OR**
- Is it for the performance of a good quality local public service? **AND**
- Is it in a way that is most cost-effective to businesses and households? If so, why?

Good quality means, infrastructure, services, and performance that are efficient and effective, and appropriate to present and anticipated future circumstances.

Local public service means, a service provided for the community which is for the benefit of the District.

Active management and monitoring of council risks will enable more stable provision of public services for the community, and an improved ability to respond to risk events.

4. BACKGROUND

The Risk Register was first presented to the Audit and Risk Committee at the June 2018 meeting and subsequently adopted by Council. It followed the approval of the Council's *Risk Management Policy* and *Risk Management Framework*, which details how the Council will manage and monitor risk.

The *Risk Management Framework* reads:

“Risk management happens every day and everywhere at the Stratford District Council. It is a key business process and a key leadership competency. Business as usual, initiatives and opportunities all require us to take risks. It is important to understand what those risks are, so that we can make informed decisions in areas of uncertainty.”

The Risk Register also includes control measures to mitigate the likelihood of a risk occurring, and/or the impact of an adverse event.

“The outcomes and benefits expected from applying effective risk management are:

- *Improved achievement of the Stratford District Council's strategic direction, objectives and priorities.*
- *Reduced risks – significant risks are identified and managed and early warning of problems and emerging risks are addressed, with appropriate design and operation of internal controls.*
- *Improved decisions – decisions are made after analysis of risk.*
- *Improved planning and resource allocation – risks are prioritised and included in business planning so that resources are better managed.*
- *Increased accountability and transparency – clarity of key risks and the responsibility and accountability for their management.”*

The Top Ten Risk Register is solely for risks where the combination of severity and probability of occurrence gives a raw risk score rating of “very high”. These risks are monitored more regularly and in more depth than the other risks by SLT.

5. INFORMATION SUMMARY

5.1 New Risks identified and added to the Risk Register

One new risk has been added to the Risk Register since the last Audit and Risk Committee meeting.

Risk 83 – Aerodrome – Unsafe Conditions

IF the Council fails to carry out its legislative responsibilities to ensure aircraft movements are restricted or prohibited in unsafe conditions/areas of the Aerodrome, THEN lives could be put at risk and property damaged.

The raw risk score has been assessed as 4 – High, with a residual risk score of 2 – Moderate after control measures are put in place.

The control measure is “Establish operational procedures specific to this risk, and regularly monitor compliance. Council has Airport Owner and Operators Liability insurance cover of up to \$10m for all related costs Council is legally obligated to pay for property damage or bodily injury including death.”

	Minor	Important	Serious	Major	Catastrophic
Almost Certain	2-Moderate	5-High	7-High	20-Extreme	25-Extreme
Likely	2-Moderate	4-Moderate	6-High	16-Very High	20-Extreme
Possible	1-Low	3-Moderate	4-High	12-Very High	15-Very High
Unlikely	1-Low	2-Moderate	3-Moderate	8-High	10-Very High
Rare	Low	1-Low	1-Low	4-Moderate	5-High

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5.2 Changes to the Top Ten Risks

There have been no changes to the Top Ten Risk register since the last Committee meeting.

5.3 Incidents or Threats in relation to the Top Ten Risks

Risk 12 – Cyber Attack

This was more of a threat rather than an incident. In June 2020, there has been a cyber-campaign targeting Australian networks. The Australian Government has been responding to a sustained targeting of Australian Governments and companies, where the attacker has been primarily attempting to exploit public facing infrastructure, and target vulnerable public services. Their secondary method includes spearfishing techniques such as emailing links to malicious files, and the use of email tracking services.

The majority of Stratford District Council’s key functions are run on a managed server based in Melbourne, run by Civica. Council’s IT Manager spoke with Civica in June and they were aware of the attacks but had not experienced any suspect activity at that stage.

Civica confirmed by direct email that they have taken all necessary steps to address any potential vulnerabilities, in a timely manner, and they confirmed they are confident that all Civica services remain secure.

6 STRATEGIC ALIGNMENT

6.1 Direction

Direction has been taken from the Council's *Risk Management Policy* and *Risk Management Framework*, both of which have been approved by the Audit and Risk Committee.

6.2 Annual Plan and Long Term Plan

Not applicable.

6.3 District Plan

Not applicable.

6.4 Legal Implications

Not applicable.

6.5 Policy Implications

No changes are proposed to the *Risk Management Policy*.

Attachments:

Appendix 1 - Top Ten Risk Register

Appendix 2 - Council Risk Register



Tiffany Radich

DIRECTOR – CORPORATE SERVICES



Approved by

Kate Whareaitu

ACTING CHIEF EXECUTIVE

DATE 14 July 2020

APPENDIX 1

Top Ten Risk Register

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
12	Data and Information	Cyber Attack	IF the systems are compromised and subject to a cyber attack, THEN system downtime, loss of data, ransoms may be demanded, potential privacy breach, reputational damage, and potential loss of funds.	16 Very High	Council have several security measures in place such as enterprise grade firewalls, email filtering, backups, antivirus and device management. If a breach was detected Council would activate the insurance policy and engage an IT security company resource to assist with recovery.	3 Moderate
51	Operational	Natural Disaster or Fire - Response preparedness	IF a Natural Disaster or Fire causes significant damage to infrastructure and buildings THEN community welfare may be severely compromised, putting peoples lives at risk, and staff may be unable to access systems to carry out their day to day duties and functions.	15 Very High	Civil Defence Emergency Management plans are in place. Procedures following an emergency event are widely known by a number of staff due to Civil Defence Foundational training being rolled out to majority of council staff. Business Continuity Plans need to be in place and practiced regularly for all activities - Directors responsible for having a plan in place for each of their departments to ensure core functions can continue to be delivered.	12 Very High
64	Operational	Infectious Disease Outbreak / Pandemic	IF an infectious human disease outbreak / pandemic threatened NZ and reached the district, THEN this could impact staff availability, local services could temporarily close down, and the community access to healthcare is limited potentially resulting in population decline.	15 Very High	Health and Safety Advisor to keep aware of any public health notifications of disease outbreaks. Ensure there is a plan to respond to any notifications. Civil Defence covers infectious human disease pandemics and will take responsibility for local management. Follow Ministry of Health's NZ Influenza Pandemic Action Plan.	8 High
71	Operational	Critical Asset Failure	IF a critical asset (water treatment plants, stormwater, wastewater, reticulation, roading) failed, THEN unexpected financial burden may arise and there could be significant disadvantage and risk to the community.	15 Very High	Conduct 2 yearly Asset Criticality Review. Ensure there are established Civil Defence Emergency Management response procedures in relation to fixing critical assets in an emergency event. Management practices and staff training, retention to ensure appropriate skill level in critical asset maintenance.	4 High
11	Data and Information	Server Failure	IF the server failed THEN systems down, data unavailable, potential data loss	12 Very High	Restore from backup, backups stored off-site. Fail-over for Melbourne data centre replicates to Sydney data centre.	3 Moderate

APPENDIX 1

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
32	Health, Safety, and Wellbeing	Lone Worker	IF a staff member is seriously injured or killed during field inspections/site visits, THEN possible health and safety breaches, death or serious injury.	12 Very High	Quality assurance, Ongoing training/awareness of HSE requirements and responsibilities, Better use of council data/knowledge base on dangerous or insanitary sites before staff member deploys to site, Use of GPS tracking, mobile phone tracking. Compliance officers to wear body cameras when on duty.	3 Moderate
55	Reputational and Conduct	Code of Compliance issued negligently	IF council issues building consent and/or code of compliance negligently or without appropriate quality controls and the structural integrity of the building work fails THEN reputational damage, possible legal costs, and building industry distrust may result.	12 Very High	Quality assurance. Resourcing and ongoing training of competent staff. Low tolerance for poor quality documentation from consent applicants. Reporting of substandard work practices observed. More use of standard online templates for processing applications. Council has public liability insurance.	2 Moderate
58	Reputational and Conduct	Contractor Damage or Breach	IF Council and/or council contractors are found to be liable for public/environmental damage, or any actions that are unsafe or non-compliant with legislation and applicable policies and standards, THEN fines, possible injury, long-term damage, reputational damage could result.	12 Very High	Appropriate procedures and guidelines are in place to monitor contractor actions and our own including health and safety audits, contractor meetings/KPI's. The Council requires all physical works contractors to go through a thorough health and safety pre-qualification process and become approved before commencing any physical work. All relevant staff are kept up to date with pre-approved contractors register. Mini audits and random checks should be built into contracts. Contractor public liability insurance required for all major contracts.	3 Moderate
72	Reputational and Conduct	Elected Members - Decision Making	IF elected members make significant decisions based on inaccurate/insufficient information, "biased" influences, conflicts of interest not disclosed, or lack of understanding of the financial or legislative impacts, THEN there could be funding access difficulties, audit scrutiny, financial penalties, and/or community distrust in elected members. Potential breach of Local Authorities (Member's Interests) Act 1968, and Councillors may be personally financially liable under S. 47 of LGA 2002.	12 Very High	Relies on the accuracy and quality of the advice given by staff to elected members - ensure agenda, reports, and other papers are always reviewed by CEO, and Directors if appropriate. Elected members should receive initial induction training and attend LGNZ, SOLGM conferences where material is relevant to get a better understanding of governance decision making. Council has a Professional Indemnity insurance policy for all elected members and independent committee members.	4 High

APPENDIX 1

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
78	Operational	Government Policy Impacting on Local Government	IF Government Policy significantly changes the services Council delivers or the way they are delivered, THEN this could put financial pressure on the district to fund investment in changes, or it may mean previous investment has become redundant.	12 Very High	Where a policy change may have a significant impact on the Council then we must ensure that the Council makes a submission challenging the change and suggesting alternative options. Council officers and elected members need to keep up to date with policy, and anticipate potential impacts of legislative changes and respond strategically, rather than being in a reactive position or being overly proactive. This could include joint collaboration with business and other councils, accessing alternative funding sources, or obtaining legal or professional advice.	8 High

APPENDIX 2

Stratford District Council Risk Register - Detailed

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
1	Compliance and Legislation	Legislation Changes	IF changes to legislation or case law occur and are not implemented by staff, THEN council may be acting illegally and in breach of legislation.	4 High	Regular review and update Legislative Compliance Register. Staff training and attending relevant industry conferences. Regular policy review to ensure policies and procedures are in line with legislation changes.	2 Moderate
2	Compliance and Legislation	Incorrect Planning Advice	IF Council gives out wrong advice on LIM, or issues Resource Consent when it should not have, THEN it could be subject to a judicial review or similar form of dispute process involving legal costs, possible fines, and reputational damage.	3 Moderate	Quality assurance. Resourcing and ongoing training of competent staff. Low tolerance for poor quality documentation from consent applicants. Good quality legal counsel. Council has professional indemnity, public liability, and statutory liability insurance.	1 Low
3	Compliance and Legislation	Statutory Reporting Commitment	IF Council does not meet statutory commitments (eg for reporting to the national monitoring system) THEN it may be acting illegally and receive attention from Ministry which could result in financial penalty and council functions being removed, or elected members being replaced.	3 Moderate	Quality assurance. Resourcing levels maintained. Schedule of dates and commitments is regularly maintained and updated by Quality Assurance officer. Regular review and update of Legislative Compliance Register.	1 Low
4	Compliance and Legislation	Bylaws and Policies	IF Council fails to keep Policies and Bylaws up to date, THEN the Policies and Bylaws may become unenforceable and irrelevant, and council could be acting illegally, or the policy is not fit for purpose.	8 High	Quality assurance, Resourcing levels maintained, Regular Policy Schedule review by CEO. Regular review of Bylaw timetable maintained in Content Manager.	3 Moderate
5	Compliance and Legislation	Issue Regulatory Licence or Decision	Food/Health, Alcohol, Parking - IF Council issues a licence or decision that is not consistent with legislation, policy or bylaws, THEN Council may be subject to a judicial review or a similar form of dispute process.	3 Moderate	Quality assurance, Ongoing training/awareness of HSE requirements and responsibilities. Compliance officer training. Keep bylaws and policies up to date with legislation.	1 Low

APPENDIX 2

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
6	Compliance and Legislation	Three Waters - Non-Compliance	IF Council does not comply with its obligations under legislation (i.e. Resource Management Act, NZ Drinking Water Standards, Health and Safety at Work Act) THEN administrative fines and penalties may result, in addition to reputational damage if publicised.	3 Moderate	Ensure maintenance contractor and Council staff members are trained and up to date with legislative requirements through regular update of Legislative Compliance Register. Subscribe to regular email updates from local government and relevant industry bodies, council listserv to ensure staff are notified of legislation changes.	2 Moderate
7	Compliance and Legislation	Property and Parks - Non-Compliance	IF Council does not comply with its obligations under legislation (eg. Resource Management Act 1991, Building Act 2004, Health and Safety at Work Act 2015) THEN administrative fines and penalties may result, and reputational damage.	3 Moderate	Ensure maintenance contractor and Council staff members are trained and up to date with all legislative requirements impacting on property and park assets. Ensure maintenance contracts have robust out-clauses that cover a range of situations where non-compliance or unsatisfactory work is identified. Council has secured public liability insurance and statutory liability insurance.	Low
8	Compliance and Legislation	Annual Report Adoption and Publication	IF the Council's Annual Report is not adopted by 31 October and made publically available by 30 November, THEN there will be additional audit scrutiny and reputational damage within local government. Loss of community trust - the community is unable to assess Council performance in a timely manner.	2 Moderate	Set annual report timetable to ensure statutory deadline is met. Good project management by key staff. Keep updated of possible changes to legislation and plan accordingly. Good communication to all staff, and establish rapport with Audit NZ and respond in a timely manner to all queries.	1 Low
9	Compliance and Legislation	LTP/Annual Plan	IF LTP/Annual Plan is not adopted by 30 June THEN council cannot set rates, statutory breach reported to Minister, unable to commence service delivery, additional audit scrutiny	8 High	Set a timetable to ensure statutory deadline is met. Good project management. Good quality data is provided. Keep abreast of possible changes to legislation and plan accordingly. Good communication to all staff and liaison with Audit NZ.	1 Low
10	Data and Information	Systems Down - Natural Disaster	IF there is a natural disaster THEN systems may be down temporarily, reduction in worker productivity, unable to respond to customers, data unavailable, potential permanent loss of data.	8 High	Backups done daily and stored off-site. Most critical data is in the cloud, data centre is overseas so workers can access system remotely from anywhere. Civil Defence will make hardware available for emergency response.	3 Moderate
11	Data and Information	Server Failure	IF the server failed THEN systems down, data unavailable, potential data loss	12 Very High	Restore from backup, backups stored off-site. Fail-over for Melbourne data centre replicates to Sydney data centre.	3 Moderate

APPENDIX 2

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
12	Data and Information	Cyber Attack	IF the systems are compromised and subject to a cyber attack, THEN system downtime, loss of data, ransoms may be demanded, potential privacy breach, reputational damage, and potential loss of funds.	16 Very High	Council have several security measures in place such as enterprise grade firewalls, email filtering, backups, antivirus and device management. If a breach was detected Council would activate the insurance policy and engage an IT security company resource to assist with recovery.	3 Moderate
13	Data and Information	Communication to data centre	IF there is a loss of communication to the Data Centre (due to IT failure, power failure, or other damage to link) THEN systems downtime will cause temporary disruption. Council staff will be unable to access data and complete work and respond to customers satisfactorily.	4 High	Can access private link or an internet link - reroute the traffic. Backup generator if power supply lost.	3 Moderate
14	Data and Information	Uncontrolled access to Physical and Digital Records	IF there is uncontrolled or unauthorised access to archives, THEN records/ files could go missing, privacy breached, possible legislative breaches.	2 Moderate	Access to physical archives is limited to IM Specialist and IT Manager, door is locked at all other times. Digital records must be stored in IT approved repositories, with access restricted where necessary. Electronic access is restricted to staff who have a SDC login and have also been granted the relevant security permissions to access applications relevant to their job role.	1 Low
15	Data and Information	Records Handling	IF hard copy protected records are handled in a way that could cause damage, degradation or misorganisation, THEN this could lead to loss of protected records, non-compliance with legislation and potential financial penalties.	1 Low	Access to archives is limited to trained staff. Ensure the Information Management Specialist is fully trained in all areas of protected records management. Maintain a register of archived records, and a process by which records will be archived. Storage area must be restricted and temperature controlled.	Low
16	Data and Information	Unapproved online platforms used	IF unapproved online platforms are used for Council business, THEN Council sensitive information and individual private details could be hacked and made available publically.	3 Moderate	All Council information should only be stored on platforms that are approved by IT and gone through proper procedures and checks by IT.	1 Low
17	Financial	Roading Annual Work Programme	IF non-availability of labour and plant or weather events affect ability to complete annual programme of work, THEN risk of spend being under budget (over-rating) and unable to access NZTA claims originally budgeted for, and services being unavailable to the public.	3 Moderate	Encourage maintenance contractor to sub-contract out work if they do not have sufficient resources in-house. Ensure there is a clear understanding between Council and Contractor of completion timeframes, as per the Contract. Outsource work to another contractor - this has to be considered carefully due to contract obligations and commitments.	2 Moderate

APPENDIX 2

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
18	Financial	Accessing Funding	IF incorrect assessment is made to determine required maintenance funding, all funding options are not sought, or insufficient funding is made available THEN Council may miss out on funding and Council has to fully fund projects.	3 Moderate	Ensure funding assessments are carried out by sufficiently experienced personnel and strong cases are made for funding. A system should be established to regularly monitor all available funding for council projects.	1 Low
19	Financial	Internal Financial Controls	IF internal financial controls are compromised and ineffective, THEN possible fraud, budget blowout, delayed service	6 High	Good quality controls. Implement annual external and internal audit recommendations. Adhere to Procurement and Delegations Policy. Communications of internal controls to all staff. Recommend internal audit programme every year by independent contractor. Annual leave not to accrue > 2 years.	1 Low
20	Financial	Creditor Payments	IF creditors are not paid correctly or on time THEN goods and services delayed, increased costs, reputational damage and possible fraud.	2 Moderate	Ongoing training of competent staff and appropriate staffing levels. Adhere to Procurement Policy. Good planning and time management Creditor statement reconciliations. Cash and treasury management.	Low
21	Financial	Assessment of Rates	IF rates are assessed incorrectly or inaccurately THEN ratepayers could legally challenge the rates assessment and Council could be forced into a legal battle.	4 High	Resourcing and training of competent staff. Test EOY prior to June. Have Civica rectify errors prior to 30 June. Re-test EOY after errors corrected. Check FIS and Rates Resolution align and legal advice taken.	2 Moderate
22	Financial	Rates Invoices Processing	IF rates invoices are not sent out accurately and on time THEN cashflow delayed, legal obligation not met. Can result in reputational damage with ratepayer community.	3 Moderate	Resourcing and training of competent staff. Clear accountability for rates invoicing and appropriate training in systems given. Timetables for processing and posting to be clarified ahead of due dates. Good communication with NZ Post.	2 Moderate
23	Financial	Debtors Outstanding	IF debts are not collected in a timely manner THEN cash flow delayed, and debt may need to be written off if delayed follow up	3 Moderate	Clear debt collection process, ensuring debt is chased as early as possible. Ensure debt collection procedures for all categories of debt are documented. Work towards getting all ratepayers on direct debit.	1 Low
24	Financial	Direct Debits	IF direct debits are not processed correctly, and on the due date, THEN cash flow delayed, and may result in public distrust of Council's direct debit process resulting in a reduction in ratepayers who choose to pay by direct debit.	2 Moderate	Direct debit processing treated as a daily priority done early as possible in the day. If any IT issues get onto it as soon as possible. Ensure at least 2 staff are trained in processing the direct debits.	1 Low

APPENDIX 2

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
25	Financial	Procurement contracts	IF procurement contracts entered into are not cost-effective and do not comply with Council's Procurement Policies THEN council projects could go over budget and council procurement could be subject to industry, media, legal scrutiny.	6 High	Ensure procurement policy and procurement manual are appropriate, comply with legislation and good practice, and followed by all staff and significant contracts are reviewed by an independent professional.	1 Low
26	Financial	Credit Risk	IF Council is unable to increase borrowing to fund urgent capital or operational expenditure, or is unable to renew borrowing once it matures, or is called to repay a loan if covenants are breached THEN projects will not proceed, council may have to cease operations, possible replacement of councillors.	8 High	Regularly monitor debt covenants and cashflow forecasts reported monthly to Policy and Services Committee, and quarterly to Audit and Risk Committee.	4 Moderate
27	Financial	Significant Population Reduction	IF there is a significant population reduction, resulting in loss of ratepayer base and reduction in property values - THEN this could result in higher rates for others and significant cost reductions may be required.	5 High	Ensure variable costs are clearly identifiable, and therefore able to be isolated and adjusted if ratepayer base reduced. Council actions to align with council mission and vision to make Stratford a great place to live.	4 Moderate
28	Financial	Interest Costs	IF financing costs increase THEN this results in increased costs to council and budget being exceeded or increase to rates.	4 Moderate	Treasury management programme in place to ensure interest rate maturity risk profile is spread evenly over the next 5 plus years. Could investigate longer term swap options. Borrowings and investments must be maintained within treasury policy covenants. Regular reporting to Policy and Services committee meeting.	2 Moderate
62	Financial	New Regulations require Significant Investment	IF new environmental regulations or legislation imposed on councils requires a significant increase in capital expenditure, THEN ability to finance investment could be compromised and rates increases could breach limits.	6 High	Attempt to keep debt and expenditure low and achieve cost efficiencies regularly so that council can weather any necessary investment in order to be compliant with changing legislative environment.	4 High
63	Financial	Theft by Contractors	IF contractors have unrestricted access to council property and/or information, THEN there is an opportunity for theft and consequently loss of Council assets.	4 Moderate	All contractors must go through a pre-qualification process. Visitors to Council buildings must sign in. Access to the building has now been restricted with the use of fobs. Protected records are stored in a safe or locked storage room.	2 Moderate

APPENDIX 2

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
74	Financial	Inadequate financial provision to fund asset replacement	IF there is inadequate financial provision in reserves to fund the replacement of assets, THEN the Council may have to borrow more than expected, or asset replacement may need to be delayed which may affect service level performance.	3 Moderate	Ensure annual depreciation is based on accurate fixed asset values (replacement cost) and accurate useful lives. Assets should not, unless necessary, be replaced before the end of their useful life.	1 Low
79	Financial	Bribery and Corruption	IF elected members or staff act in a way that is, or is perceived to be, influenced by Bribery or Corruption, THEN the Council's reputation could be damaged, there is potential for legal action against Council, increased scrutiny by the Office of the Auditor General. There is also the risk that Council could have lost financially, or in some other way, by entering into an unethical contract.	4 High	Ensure HR Policy, Procurement Policy, Anti-Fraud and Corruption Policy and Elected Members' Code of Conduct cover these areas sufficiently and that guidance is given to all staff and elected members at least annually on conflicts of interest, and Policies are widely distributed within Council and made available to all staff, particularly new staff. The Fraud Policy includes a process for reporting any suspected instances of bribery and corruption - ensure this is widely available and all staff are aware of reporting process.	3 Moderate
81	Financial	Management Override of Internal Controls	IF a Manager uses their unique position to override internal controls, THEN fraud may occur, resulting in theft of Council assets /funds and incorrect/misleading financial statements.	4 High	Audit and Risk Committee oversight. Internal and External audits annually. Fraud Policy awareness training for all staff at least three yearly. Regular review of policies to ensure in line with best practice. SLT to undergo ethics training. Prior to new employment, full reference checking of at least one recent, direct manager (particularly for financial and management roles). Zero tolerance for any bullying type behaviour.	3 Moderate
29	Health, Safety, and Wellbeing	Public Events	IF health and safety accidents or incidents occur during events THEN increased costs can occur to the events, reputation is damaged	4 High	Health and Safety plans are established well in advance to an event being planned. Physical hazards and risks are eliminated Hazard Identification records are kept. Events do not proceed without correct Health and Safety sign off. Good communication to all staff	2 Moderate
31	Health, Safety, and Wellbeing	Abusive Customers	IF abusive customers come into any of the Council's service centres, THEN there is the risk that council staff or the general public could be harmed or exposed to violence.	4 High	Staff have personal alert alarms if in danger, customer service training and policies on how to deal with situations so they do not escalate. Security cameras in place. Fob access required to access staff office area. Mayor's office is secured by glass entry way.	2 Moderate

APPENDIX 2

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
32	Health, Safety, and Wellbeing	Lone Worker	IF a staff member is seriously injured or killed during field inspections/site visits, THEN possible health and safety breaches, death or serious injury.	12 Very High	Quality assurance, Ongoing training/awareness of HSE requirements and responsibilities, Better use of council data /knowledge base on dangerous or insanitary sites before staff member deploys to site, Use of GPS tracking, mobile phone tracking. Compliance officers to wear body cameras when on duty.	3 Moderate
33	Health, Safety, and Wellbeing	Animal Welfare	IF an animal that has been impounded is injured or dies due to maltreatment, or animals are mistreated on the council farm THEN this could result in animal welfare agency scrutiny and possible fines.	3 Moderate	Quality assurance, Ongoing training/awareness of HSE requirements and responsibilities, Vet Care/Assessments. Ensure notification is given to new animals being impounded so that compliance officer ensures the animals are being cared for and regularly fed and have access to water. Monthly farm meetings to bring up any animal welfare issues. Property Manager to regularly visit farm and make visual assessment of cow welfare.	2 Moderate
34	Health, Safety, and Wellbeing	Food / Health Safety	IF Council doesn't adequately respond to a complaint and a member of the public falls ill or dies, THEN Council is at risk of legal proceedings under the Food Act/Health Act.	4 High	Quality assurance standards and process in place and adhered to by staff. Ongoing training/awareness of HSE requirements and responsibilities. Ensure Food safety bylaw is regularly reviewed.	2 Moderate
35	Health, Safety, and Wellbeing	Parking control	In the process of administering the Parking function, IF a member of the public is injured or vehicle is damaged, THEN possible death or serious injury could result.	4 High	Quality assurance, Ongoing training/awareness of HSE requirements and responsibilities. Body cameras to be worn by compliance officer when out on duty.	2 Moderate
36	Health, Safety, and Wellbeing	Council Vehicle accident	IF a staff member has an accident in a council vehicle, THEN this could result in possible death or serious injury and damage to motor vehicle asset.	4 High	All staff must have a full drivers licence, all staff are aware of procedures if there is an accident. Staff driver training to be provided to regular drivers. GPS and mobile phone tracking.	3 Moderate
37	Health, Safety, and Wellbeing	Staff under Stress	IF staff are affected by personal issues or by work pressures and experiencing high levels of stress, THEN work performance may decline and/or fatigue, illness, unsafe work practices may result.	5 High	Managers are responsible for being aware of the wellbeing of their direct reports. There are various options available for relieving the pressure of staff who are overworked including increasing staff or reallocating work. Ensure access to EAP service is widely known and communicated to all staff. Ensure all staff have a backup option available so they can take annual leave for at least a week at a time.	3 Moderate

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Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
38	Health, Safety, and Wellbeing	Exposure to Hazardous Substances	IF staff are affected by exposure to hazardous substances eg chemicals, liquids, fumes and other toxic substances THEN there are possible risks to staff health and wellbeing.	6 High	All hazardous substances are correctly labelled and stored according to best practice safety procedures and guidelines. Training is mandatory for all staff working with hazardous substances. Use appropriate PPE gear at all times in the vicinity of the hazardous substances. Regular health checks for staff. Regular testing of hazardous substances and chemicals LABELLING and STORAGE be carried out RANDOMLY. The Stratford Water Treatment Plant has site licences for the storage of chemicals, these must be kept up to date. Fire extinguishers are on site, all signage is current and covers off on all of the chemicals held on site, labels are all correct and current. We currently have 5 authorised handlers. Ixom also do site audits when their representative is in the immediate area.	3 Moderate
39	Health, Safety, and Wellbeing	Playground Equipment Failure	IF Playground equipment, or other recreational equipment fails THEN a member of the public could be seriously injured or killed.	8 High	Biennial playground inspection report and quarterly compliance checks by contractor to bring any issues to attention of council staff.	3 Moderate
40	Health, Safety, and Wellbeing	Swimming Pool Accident	IF a member of the public has an accident in the water or a medical emergency at the Stratford Pool, THEN this could result in possible death or serious injury.	4 High	Training and qualifications are mandatory for lifeguards, children and elderly are monitored by lifeguard/s at all times. More staff brought on at busier periods.	3 Moderate
41	Health, Safety, and Wellbeing	Workplace Bullying or Harrassment	IF Bullying and harrassment in the workplace occurs THEN it can have an impact on the health and wellbeing of staff subject to the bullying and other staff witnessing the behavior. This may impact on staff productivity and the ability of Council to attract good quality candidates.	4 High	Top down culture against bullying and harassment of any kind, policy is followed through by management, staff are aware of the reporting process. The reporting process to deal with bullying and harassment is fair, transparent, confidential and dealt with in a timely manner.	3 Moderate
61	Health, Safety, and Wellbeing	Asbestos Related Work	IF council buildings are contaminated with asbestos, THEN there is the possibility of asbestos exposure to staff and the public and increased risk of asbestosis and other lung and pleural disorders.	4 Moderate	Asbestos protocols need to be developed in line with the asbestos regulations. Community needs to be made aware of Asbestos disposal guidelines. Staff involved in building compliance or construction work should be appropriately trained in handling of asbestos materials.	2 Moderate

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Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
66	Health, Safety, and Wellbeing	Dog Attack	IF a dog attacks a member of the public and the dog control team have been slow or negligent in responding to complaints, THEN the the council may be liable for costs, and the public safety may be compromised.	4 High	Compliance officer to respond immediately to dog complaints. Ensure all dogs in the district are registered and the dog bylaw is complied with. Dogs are microchipped. Ensure dog pound is secure and access is restricted.	1 Low
67	Health, Safety, and Wellbeing	Muscular discomfort - Ergonomics	IF muscular pain or discomfort or eye strain occurs as a result of the work environment and setting, THEN this will impact on staff health and wellbeing and long term comfort at work.	2 Moderate	Apply ACC Habit At Work guidelines. Workstation assessments should be carried out to reduce the likelihood of onset of long term discomfort and pain conditions.	1 Low
68	Health, Safety, and Wellbeing	Armed Robbery	IF there is an armed robbery at any of council's services centres, THEN there is the potential for death or serious harm.	8 High	Establish emergency procedures, including use of panic buttons. Security cameras in place. Ensure staff are trained to deal with potential threat. Design / limit access to building so that threats are minimised.	4 Moderate
69	Health, Safety, and Wellbeing	Employee Substance Abuse	IF staff are affected by drugs or alcohol while at work, THEN there is an increased risk of an accident or injury, property damage, and reduced work performance.	8 High	Ensure staff are aware of drug and alcohol policy. Initial drug testing done prior to employment to filter out regular users. Utilise EAP.	2 Moderate
70	Health, Safety, and Wellbeing	Dangerous Roads due to weather events	IF there are dangerous road conditions that are not managed and communicated to the public appropriately, THEN there is a higher potential for car accidents and possible road fatalities.	2 Moderate	Ensure standard operating procedures are in place for potential weather events that may cause damage to the roads. This should include timely social media communications, installation of temporary barriers, cordons and signage in affected areas.	1 Low
73	Health, Safety, and Wellbeing	Water supply network is Contaminated	IF the Water supply network becomes contaminated THEN the public health is at risk and Council could be liable for financial penalties and will suffer reputational damage.	8 High	Backflow preventors to be installed for high risk properties (currently no programme to roll out across the district, due to cost and resource). Staff training in the use of chemicals.	8 High
80	Health, Safety, and Wellbeing	Fatigue Management	IF Fatigue affects an employee, as a result of working extraordinary hours, THEN the employee may have limited functionality which could result in personal injury or injury to others. It could also lead to stress and long term mental illness if it is reoccurring and could mean Council is in breach of the Health and Safety Act.	3 Moderate	Ensure employees take regular, quality rest breaks during the working day, in line with the Employment Relations Act (HR Policy requires this). Ensure all staff know their responsibilities in terms of managing fatigue. Ensure shift workers rostered times are manageable. The Vehicle Use Policy has limits on driving a Council vehicle after exceeding max number of work hours. Contractor fatigue management to be reported and monitored through regular contractor meetings.	1 Low

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Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
83	Health, Safety, and Wellbeing	Aerodrome - Unsafe Conditions	IF the Council fails to carry out its legislative responsibilities to ensure aircraft movements are restricted or prohibited in unsafe conditions/areas of the Aerodrome, THEN lives could be put at risk and property damaged.	4 High	Establish operational procedures specific to this risk, and regularly monitor compliance. Council has Airport Owner and Operators Liability insurance cover of up to \$10m for all related costs Council is legally obligated to pay for property damage or bodily injury including death.	2 Moderate
42	Operational	Payroll Processing	IF Staff are not paid correctly or on time THEN staff may become disgruntled and distrustful of their employer, work standards could drop and employment laws could be breached.	3 Moderate	Training of practices and legislation. Staff competent and levels appropriate. Good planning for staff leave in the finance team and time management. External notification of updates and changes. More than one staff member should be fully functional in payroll. Ensure facility available to access cash if Council is short.	1 Low
43	Operational	Roading - other work clashing	IF there is work being carried out by others on/in road reserve, e.g. Broadspectrum, THEN council may not be able to complete its own work programme.	3 Moderate	Co-ordination of planned works with other contractors in the area when planning physical works.	2 Moderate
44	Operational	Road Closures - unplanned	IF there are un-planned road closures due to collapse of culvert/bridges/landslides and so forth e.g. Wingrove Rd culvert collapse THEN access in/out of district could be lost and people could be injured as a result.	4 High	Asset criticality review to identify critical roading assets and increase monitoring activities. Ensure quality workmanship and contractors are aware of their obligations to report and repair any damages to roads. Resources diverted from other planned projects to remediate repairs to enable the road to be re-opened.	3 Moderate
45	Operational	Contractor - Damage to Property	IF maintenance contractor damages council or private property while carrying out contracted work, THEN council could be liable for damages and additional expenditure.	4 High	Stringent Operational procedures: Daily reporting of compliance. Regular liaison with contractor and regulators to monitor performance to ensure compliance. Contractor pre-approval process. Council has material damage insurance policy, excess \$5k.	3 Moderate
46	Operational	Other Contractors in Network Corridor	IF work by others in Network Corridor results in damage to components of the 3 waters infrastructure THEN services to the public may cease or become unreliable or compromised.	3 Moderate	Co-ordination between services before major projects begin. Ensure all works have Corridor Access Requests.	1 Low

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Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
47	Operational	Attracting Qualified Staff	IF Council is unable to attract suitably qualified personnel, THEN services may become under threat and may cease.	4 Moderate	Internal training and succession planning programs. Ensure market wages are offered for all high demand positions. Recruit off shore option should be available for high-demand positions. Make greater use of consultants if necessary and/or shared services with neighbouring Councils. Make Stratford District Council a great place to work - measure staff engagement and respond to any issues expediently.	2 Moderate
48	Operational	Maintenance Contractor fails to deliver	IF maintenance contractor fails to deliver contractual service necessitating termination of contract and re-tendering, THEN assets may become under threat, unreliable, or unable to meet community needs.	4 High	Careful assessment of tender to ensure contract price viable for contractor to deliver level of service. Regular liaison with contractor to monitor performance and ensure compliance. Contractor pre-approval process must not be bypassed.	3 Moderate
49	Operational	Property design /construction information	IF Council does not have adequate information on original design or construction of asset, THEN there is a greater potential for failure of future work and unsafe future construction.	3 Moderate	Carry out regular condition assessment of assets. Reassess use of asset or redesign to suit.	1 Low
50	Operational	Key Person risk	IF a key person in the organisation could not work for a significant period of time THEN this could affect council's ability to perform core functions and duties.	4 High	Ensure Promapp is up to date with all staff day to day processes, if known absence ahead of time ensure an appropriate training plan in place. Make use of local consultants where appropriate. Connect with colleagues from neighbouring three councils to share resource if needed.	2 Moderate
51	Operational	Natural Disaster or Fire - Response preparedness	IF a Natural Disaster or Fire causes significant damage to infrastructure and buildings THEN community welfare may be severely compromised, putting peoples lives at risk, and staff may be unable to access systems to carry out their day to day duties and functions.	15 Very High	Civil Defence Emergency Management plans are in place. Procedures following an emergency event are widely known by a number of staff due to Civil Defence Foundational training being rolled out to majority of council staff. Business Continuity Plans need to be in place and practiced regularly for all activities - Directors responsible for having a plan in place for each of their departments to ensure core functions can continue to be delivered.	12 Very High
64	Operational	Infectious Disease Outbreak / Pandemic	IF an infectious human disease outbreak / pandemic threatened NZ and reached the district, THEN this could impact staff availability, local services could temporarily close down, and the community access to healthcare is limited potentially resulting in population decline.	15 Very High	Health and Safety Advisor to keep aware of any public health notifications of disease outbreaks. Ensure there is a plan to respond to any notifications. Civil Defence covers infectious human disease pandemics and will take responsibility for local management. Follow Ministry of Health's NZ Influenza Pandemic Action Plan.	8 High

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Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
65	Operational	Biosecurity threat risk	IF there is a biosecurity threat to animals, or plant life THEN this could affect the economic wellbeing of the district and the ability of council to financially meet community needs.	4 High	Ensure council takes a proactive approach to working with Biosecurity NZ, MPI, TRC and the community where a threat is identified.	2 Moderate
71	Operational	Critical Asset Failure	IF a critical asset (water treatment plants, stormwater, wastewater, reticulation, roading) failed, THEN unexpected financial burden may arise and there could be significant disadvantage and risk to the community.	15 Very High	Conduct 2 yearly Asset Criticality Review. Ensure there are established Civil Defence Emergency Management response procedures in relation to fixing critical assets in an emergency event. Management practices and staff training, retention to ensure appropriate skill level in critical asset maintenance.	4 High
76	Operational	Heavy/Extreme Rainfall incidents	IF the Stratford District experiences heavy rainfall continually over a period THEN roads may flood, restricting accessibility, landslips and mudslides may restrict road access and cause property damage, productive land areas may flood reducing functions, Stormwater, Wastewater and Water Supply assets may fail from overburdening, and overflows from Wastewater system may result in untreated water entering the Patea River.	8 High	Asset Management Plans and Incident Control Response Plans to document critical asset areas and response plan in the event of heavy rainfall incidents.	3 Moderate
77	Operational	Terrorist Attack	IF a terrorist attack occurred in Stratford, THEN loss of life, property damage, and business discontinuity may result.	4 Moderate	Develop Lockdown procedures for all Council public sites i.e. Library, I-Site, Council Office, TSB Pool. Be alert and aware of potential threats, work closely with Police and establish plan to minimize damage to people and property.	4 Moderate
78	Operational	Government Policy Impacting on Local Government	IF Government Policy significantly changes the services Council delivers or the way they are delivered, THEN this could put financial pressure on the district to fund investment in changes, or it may mean previous investment has become redundant.	12 Very High	Where a policy change may have a significant impact on the Council then we must ensure that the Council makes a submission challenging the change and suggesting alternative options. Council officers and elected members need to keep up to date with policy, and anticipate potential impacts of legislative changes and respond strategically, rather than being in a reactive position or being overly proactive. This could include joint collaboration with business and other councils, accessing alternative funding sources, or obtaining legal or professional advice.	8 High

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Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
82	Operational	Failure of a Significant Contractor	IF a Contractor's financial situation deteriorates and impacts on their ability to deliver on a procurement contract, THEN the project may be left unfinished, Council may lose out on funds already spent, and may have to put contract out for tender again - resulting in project delays and additional cost.	4 High	Due Diligence required for all significant contracts that are required to go out for tender. Refer process in Procurement Manual (D19/33336), and Due Diligence Checklist (D18/35114).	2 Moderate
53	Reputational and Conduct	Release of incorrect or confidential information	IF incorrect or confidential information was given out through social media, media releases, staff actions at the services desks, LGOIMA requests, council meetings, and/or functions THEN risk of damaged reputation, ratepayer distrust and actions from Local Government ministry and/or Privacy Commissioner.	8 High	All Media releases are to be checked off by Dir – Community Services, and signed off by CEO or Mayor. Social Media Policy in place for clear guidance of social media use. Front counter training needs and communication guidelines established - a resource centre (knowledge base) maintained for FAQ's from public. Consider implementing a Privacy Impact Assessment for how council handles personal information.	2 Moderate
54	Reputational and Conduct	Building Consent Authority (BCA) Accreditation	IF Council loses BCA accreditation, THEN council cannot perform its building control function and there is no approval process for construction work and building compliance for the Stratford district.	4 High	Ensure best practice processes and procedures are in place and staff numbers and skill levels in the building consents team are appropriate. IAANZ audit recommendations to be taken on board. QA process implemented.	1 Low
55	Reputational and Conduct	Code of Compliance issued negligently	IF council issues building consent and/or code of compliance negligently or without appropriate quality controls and the structural integrity of the building work fails THEN reputational damage, possible legal costs, and building industry distrust may result.	12 Very High	Quality assurance. Resourcing and ongoing training of competent staff. Low tolerance for poor quality documentation from consent applicants. Reporting of substandard work practices observed. More use of standard online templates for processing applications. Council has public liability insurance.	2 Moderate
56	Reputational and Conduct	Building Consent location	IF Council issues consent and/or code compliance and the location of the building or structure that council signs off on is found to be in the wrong location THEN reputation damage could result and legal action may be taken against Council.	4 Moderate	Quality assurance. Resourcing and ongoing training of competent staff. Low tolerance for poor quality documentation from consent applicants. Reporting of substandard work practices observed. Engage professional surveyor if considered high risk. Council has public liability insurance.	1 Low

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Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
57	Reputational and Conduct	Online Passwords	IF online passwords are shared or used inappropriately, THEN there is the risk that staff can access or hack Council owned systems and release sensitive information.	4 High	Ensure that where a staff member leaves and they have access to logins accessible online that the passwords are changed and access ceases. Limit use of online accounts.	2 Moderate
58	Reputational and Conduct	Contractor Damage or Breach	IF Council and/or council contractors are found to be liable for public/environmental damage, or any actions that are unsafe or non-compliant with legislation and applicable policies and standards, THEN fines, possible injury, long-term damage, reputational damage could result.	12 Very High	Appropriate procedures and guidelines are in place to monitor contractor actions and our own including health and safety audits, contractor meetings/KPI's. The Council requires all physical works contractors to go through a thorough health and safety pre-qualification process and become approved before commencing any physical work. All relevant staff are kept up to date with pre-approved contractors register. Mini audits and random checks should be built into contracts. Contractor public liability insurance required for all major contracts.	3 Moderate
59	Reputational and Conduct	CCO and other Out-sourced Functions	IF Council's non-core activities (farm, aerodrome) or CCO (Percy Thomson Trust) operate in a way that has potential for non-compliance with the law or potential for financial loss THEN there may be legal, financial, environmental and health implications.	4 High	Ensure regular meetings between council staff and external operators are held and there is good reporting and monitoring of key risks and KPI's by council staff. CCO's must report six-monthly to Council. Farm Business plan is prepared annually, separate to the Annual Plan, which contains all other council operations.	3 Moderate
60	Reputational and Conduct	Elected Members Communication	IF elected members disclose incorrect or confidential information to the public or talk about council negatively, THEN this could damage the reputation and public trust of elected members and council staff.	6 High	Ensure elected members have a good awareness and understanding of the SDC Code of Conduct. Induction for new councillors should be thorough and cover communication with the public, in private, and at Council meetings.	3 Moderate
72	Reputational and Conduct	Elected Members - Decision Making	IF elected members make significant decisions based on inaccurate/insufficient information, "biased" influences, conflicts of interest not disclosed, or lack of understanding of the financial or legislative impacts, THEN there could be funding access difficulties, audit scrutiny, financial penalties, and/or community distrust in elected members. Potential breach of Local Authorities (Member's Interests) Act 1968, and Councillors may be personally financially liable under S.47 of LGA 2002.	12 Very High	Relies on the accuracy and quality of the advice given by staff to elected members - ensure agenda, reports, and other papers are always reviewed by CEO, and Directors if appropriate. Elected members should receive initial induction training and attend LGNZ, SOLGM conferences where material is relevant to get a better understanding of governance decision making. Council has a Professional Indemnity insurance policy for all elected members and independent committee members.	4 High

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Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
75	Reputational and Conduct	Council employees abuse members of the public	IF Council employees, during the course of their Council duties abuse members of the public, particularly children, THEN the Council may suffer significant reputational damage and potentially be taken to court.	8 High	All staff in a public facing role, particularly where they must deal with children, must be police vetted before they commence work. Exception is where the role is urgent and requires immediate start - in these situations the employee should not be left alone at any time until a satisfactory police report has been received.	4 Moderate

INFORMATION REPORT



TO: Audit and Risk Committee

FROM: Director – Corporate Services

DATE: 21 July 2020

SUBJECT: INSURANCES FOR 2020/21

F19/13 – D20/18324

RECOMMENDATION

THAT this report and all attachments be received.

THAT the Audit and Risk Committee review the Insurance Framework.

Recommended Reason

To inform the Audit and Risk Committee of the insurance premium and policy changes for the 2020/21 financial year.

Moved/Seconded

1. **PURPOSE OF REPORT**

- 1.1 The Audit and Risk Committee is tasked with overseeing Council’s risk and risk management processes. One of the key risk management tools that Council uses is insurance.
- 1.2 This report provides a summary of Council’s proposed insurances for 2020/21, and the Council’s claim history for the previous three years.
- 1.3 The Stratford District Council Insurance Framework has also been included within this report to provide some background into current and previous insurance decisions. Committee members may wish to recommend amendments to this Framework.

2. **EXECUTIVE SUMMARY**

- 2.1 Council has insurance for a large portion of its operations. The four Taranaki Councils have a combined agreement with Marsh as its insurance broker who coordinates most of council’s insurances. In addition Council has infrastructure insurance directly with Local Authority Protection Programme (LAPP).
- 2.2 This particular report discusses insurance for all risk areas except for underground infrastructure insurance through LAPP which will be reviewed separately by the insurance renewal date of 1 November 2020.
- 2.3 No new policies have been entered into, or removed from Council’s insurance portfolio for 2020/21 however there have been changes to some of the policies, and some significant cost increases for the new year. These additional costs have all been anticipated and budgeted for in the Annual Plan 2020/21.

3. LOCAL GOVERNMENT ACT 2002: SECTION 10

How is the subject of this report applicable to the purpose of the Act?

- Is it for the provision of good quality local infrastructure? If so, why?; **OR**
- Is it for the performance of a good quality regulatory function? If so, why?; **OR**
- Is it for the performance of a good quality local public service?

AND

- Is it in a way that is most cost-effective to businesses and households? If so, why?

Good quality means, infrastructure, services, and performance that are efficient and effective, and appropriate to present and anticipated future circumstances.

Local public service means, a service provided for the community which is for the benefit of the District.

3.1 Insurance is a method of protecting and reinstating infrastructure in the event of a loss.

4. BACKGROUND

4.1 The Audit and Risk Committee has a responsibility to “*approve the Insurance Framework and monitor and review insurances annually*” as per the Audit and Risk Committee Terms of Reference.

4.2 Marsh Insurance (formerly Jardine Lloyd Thomson) are the insurance brokers engaged on behalf of all four Taranaki councils to find the most suitable and cost effective options to cover the most common council risks. Each individual Council must make their own decision about what type of insurance policies they require, what level of cover is appropriate to mitigate risk, and the level of excess that is affordable having regard to the potential loss, all while balancing the effect of these decisions on the cost of premiums. Insurances are renewed in July each year.

4.3 The insurance policies covered by this report, are all sourced by Marsh, and are summarised in **Appendix 1**.

4.4 The Stratford District Council Insurance Framework guides all insurance decisions and was approved by the Audit and Risk Committee in September 2019. The Framework has been included in this report for an opportunity for review by the Committee. Council officers are not proposing any changes in this report, but are proposing to bring any amendments to the next Committee meeting for approval.

4.5 The insurance claim history for the past three years has also been included in this report to give Committee members an overall picture of the actual risks that have resulted in insurance consequences.

5. INFORMATION SUMMARY

5.1 The cost of insurances (excluding underground infrastructure LAPP insurance) is proposed to increase from \$113,534 in 2018/19, to \$142,172. The significant increases are largely with the Material Damage – Commercial property policy

(up by \$18,419), and the Public Liability, Environment and Professional Liability cover (up by \$8,731).

- 5.2 The increases in premiums for property are largely driven by the increase in replacement costs, or addition of new properties. In 2020, the Council undertook an insurance valuation, carried out by independent valuer Telfer Young, to ensure Council had an appropriate level of cover for each property. Some assets, including the TSB Swimming Pool, were adjusted to be insured for indemnity value and demolition costs only, as per the Insurance Framework's property classification criteria. This had a downward effect on the premiums, which would have been much higher if full reinstatement cost had been used.
- 5.3 The premium increase for Public Liability, Environment and Professional Liability, represent the increased risk to local government insurers and claims made as a result of increased Councils legislative liability and litigation proceedings.
- 5.4 Other changes to insurance policies include:
- Motor vehicle insurance is now covered by NZI rather than Vero, due to lowered cost of premiums and similar service. Deletion of the burning cost extension clause.
 - Personal Accident insurance for elected members and senior staff has been increased to age 75 years from 70 years.
 - A Social Engineering Fraud cover was added to the Cyber Crime Policy – this largely relates to electronic invoices deliberately hacked and altered to receive funds fraudulently from Council.
- 5.5 No new insurance policies are proposed. Nor is there any proposal to drop any insurance policies.
- 5.6 Total insurance claims for the year ended 30 June 2020 amounted to \$1,782.83. The claims related to motor vehicle windscreen damage and water damage to the Percy Thomson Gallery. Refer to **Appendix 3**.

6 STRATEGIC ALIGNMENT

6.1 Direction

Protecting Council's assets and having appropriate cover for significant council risks is consistent with Council's strategic direction.

6.2 Annual Plan and Long Term Plan

Insurance costs are budgeted for in the Long Term and Annual Plans.

6.3 District Plan

Insurances are not a requirement of the District Plan.

6.4 Legal Implications

There are no legal implications.

6.5 Policy Implications

Insurances are one way of ensuring effective risk management as per the Risk Management Policy.

Attachments:

Appendix 1 - Insurance Premiums Comparison – Stratford District Council

Appendix 2 - Marsh Taranaki Council Group Insurance Renewal Report 2020

Appendix 3 - Stratford District Council insurance claim history – 3 years

Appendix 4 - Stratford District Council - Insurance Framework



Tiffany Radich

DIRECTOR – CORPORATE SERVICES



Approved by

Kate Whareaitu

DEPUTY CHIEF EXECUTIVE

DATE 14 July 2020

APPENDIX 1**Insurance Renewals (GST excl)**

Description	2017/18 Premiums	2018/19 Premiums	2019/20 Premiums	2020/21 Premiums	Insurer	Excess	Comments
Material Damage - Commercial	\$ 61,513	\$ 70,576	\$ 67,355	\$ 85,774	QBE	\$ 5,000	Incl fire and emergency levies, property value \$46,585,394. Natural disaster excess 5%
Material Damage - Residential	\$ 4,805	\$ 6,882	\$ 7,094	\$ 7,895	QBE	\$ 5,000	Incl fire and emergency levies, property value \$2,798,000
Business Interruption	\$ 556	\$ 602	\$ 747	\$ 1,055	QBE	\$ -	Must be in connection with damage to property insured by Material Damage Policy
Motor Vehicle	\$ 2,314	\$ 3,059	\$ 3,686	\$ 3,371	Vero	\$ 500	Based on total fleet value of \$328,025 - 10 vehicles
Personal Accident	\$ 500	\$ 817	\$ 929	\$ 929	AIG	\$ -	Includes CE, 4 directors and 8 middle managers - \$100k per person - total or permanent disablement
Crime	\$ 2,360	\$ 2,360	\$ 194	\$ -	AIG	\$ 25,000	No longer any cover - insurers are not keen to price. Cover extended to 31 July 2019
Public Liability, Environment and Professional Indemnity	\$ 14,047	\$ 15,101	\$ 18,876	\$ 27,607	QBE	\$ 5,000	Deductibles start at \$5k for occurrences arising from Personal Injury or Property Damage, to \$50k for weather-tightness. \$10k for professional indemnity
Employers Liability	\$ 240	\$ 252	\$ 265	\$ 265	Vero	\$ 2,500	Where cover is not provided by ACC, excludes fines or penalties. Group limit \$1m
Statutory Liability	\$ 1,051	\$ 1,024	\$ 1,146	\$ 1,493	Vero	\$ 25,000	Up to \$5m group limit. Excludes Commerce Act, IRD, NZ Police claims. CURRENTLY UNDER REVIEW
Hall Hirers Liability	\$ 450	\$ 493	\$ 508	\$ 508	Vero	\$ 500	For liability arising from property damage or personal injury to third party hall hirers.
Airport Owners and Operators Liability	\$ 400	\$ 600	\$ 720	\$ 850	AIG	\$ 2,500	Liability for loss or damage to property, for bodily injury.
Travel (domestic and international)	\$ 23	\$ 23	\$ 23	\$ 130	AIG	\$ -	All employees and elected members including spouse and children. \$250 excess for electronics.
Collections (Fine Arts) Insurance	\$ 2,122	\$ 582	\$ 11	\$ 12	Uniqa	\$ -	Covers any damage to artworks in the care of Percy Thomson Trust. Excess \$25k for earthquake.
Cyber Risk	N/A	\$ 4,479	\$ 4,685	\$ 5,090	NZI	\$ 10,000	\$500k sum insured - includes costs to restore, hacking, privacy breaches, malware/viruses, industrial espionage, cyber extortion, various infringements
Local Authority Protection Programme - Member Contribution	\$ 22,789	\$ 22,334	\$ 25,683	TBC	LAPP	\$ 60,000	Covers 40% of underground assets (value \$58m) - govt covers the remaining 60%, after deductible. Loss must exceed \$150k to make a claim. Renewal on 31 October 2020.
JLT Broking Fee	\$ 6,045	\$ 6,045	\$ 6,045	\$ 7,733			Same as previous year
JLT Placement and Servicing Fee	\$ 1,250	\$ 1,250	\$ 1,250	\$ -			Incorporated in broking fee
JLT MBIE Administration Fee	\$ 1,000	\$ -	\$ -	\$ -			One-off exercise
JLT - Catastrophe Risk Modelling	\$ 3,575	\$ -	\$ -	\$ -			One-off exercise
	\$ 125,040	\$ 136,479	\$ 139,217	\$ 142,712			

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APPENDIX 2



INSURANCE RENEWAL REPORT 2020 TARANAKI COUNCILS

June 2020



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INTRODUCTION

Marsh confirm that the insurance programme for the Taranaki Councils (The Group) is due for renewal at 4.00pm on Wednesday 1 July 2020. This date applies for all policies other than Public Liability / Professional Indemnity and Environmental Impairment Liability and Airport Owners & Operators Liability, which expire 30 June.

This report summarises The Group's current insurance programme, provides a Premium Summary for the year from renewal date 2020 and highlights changes and improvements negotiated by Marsh with insurers.

There are important procedures to note for the ongoing operation of these policies, such as individual Council Duty of Disclosure. These and other important matters are set out in this report.

Marsh approach to renewal including aspects which have influenced this renewal

Material Damage – Property Insurance

As discussed during our insurance review meeting in March, Property Insurance premium increases are acknowledged for the 2020 – 2021 insurance period, with rate increases from 2019 – 2020 limited to 5%, excluding Fire & Emergency Levy rates and Earthquake Commission Levies which where applicable are unchanged.

Liability – Public Liability / Professional Indemnity Insurance & Environmental Impairment Liability

Marsh's Insurance Review Report for 2020 and subsequent communication has presented the challenging landscape for Local Government Liability insurance and as individual council Premium Comparison Tables demonstrate, a premium increase of between 38% and 42% pre individual council is confirmed for 2020 – 2021.

Further details are referred to on pages 47 - 49 of this Insurance Renewal Report, including recognition of a change to Environmental Impairment Liability coverage, to be written as a separate policy for 2020 – 2021 for which a premium charge will apply if this coverage is to be continued beyond 30 June 2020.

INSURANCE PRINCIPLES

INTRODUCTION

Most insurance's are annual contracts that must be renewed on expiry. This means that a number of protocols must be observed to facilitate continued insurance protection. We strongly recommend that you read the following requirements and principles to assist in the review and renewal of your Insurance Programme.

THE NATURE OF INSURANCE

A contract of insurance contains special elements as follows:

UTMOST OF GOOD FAITH (uberrima fides) applies to all contracts of insurance (rather than caveat emptor, let the buyer beware, that is associated with most other contracts). This means that the applicant for insurance must disclose to the Insurer or prospective Insurer, all relevant information.

INDEMNITY is the underlying principle that determines that, following insured loss or damage the Insured shall be put back in the same position, no better nor no worse, as he was in immediately before the happening of the damage.

BREACH OF POLICY CONDITIONS - Failure in your duty of disclosure, or breach of any Policy condition or warranty, could result in an otherwise legitimate claim being declined, a reduction in a claim settlement or your Policies could even be declared null and void.

DUTY OF DISCLOSURE & FULL DISCLOSURE OF MATERIAL FACTS - the Insured's Duty of Disclosure.

The duty of disclosure is an important legal requirement which applies to insurance. When you apply for insurance you have a legal duty of disclosure. This means you must tell your Insurer or any prospective Insurer all information you know (or could reasonably be expected to know) which would influence the judgement of a prudent underwriter in deciding:

- whether or not to accept your application, and
- if it is accepted, on what terms, and at what cost.

You also have this duty each time your insurance renews, and whenever you make any change to it.

Examples of information you may need to disclose include:

- any change in circumstances or activities which could increase the risk of an insurance claim;
- any criminal offence or traffic offence;
- any cancellation, refusal to renew insurance, or imposing of special terms by another insurance company;
- any insurance claims you have made in the past.

These examples are intended as a guide to help you understand your duty of disclosure. If you are not sure whether you need to disclose particular detail it is important to discuss this with your account manager.

If you fail to meet your duty of disclosure, the consequences can be serious. Policies may become null and void and unenforceable.

SUBROGATION is a right of the Insurer who, in the event of a loss, may take up the legal rights of the Insured and pursue recoveries from third parties at fault. Waiver by an Insured of its right to subrogate (recover) from another party may affect the Insured's ability to claim on its insurance policies.

Waiver of subrogation and/or the requirement to hold harmless/indemnify other parties are frequently encountered in agreements or contracts. Such requirements must be referred to your Account Manager.

DUE DILIGENCE is expected of the Insured. They must act with care, and as if uninsured at all times

AVERAGE - Some policies may be 'subject to average'. Such a provision will have effect only if the property is under-insured at the time of loss, e.g. property is worth \$100,000 but Council insure it for \$50,000. Council suffer a loss of \$25,000. If the policy is 'subject to average', the maximum Council may recover will be 50%, i.e. \$12,500.

CLAIMS MADE AND NOTIFIED – Certain categories of policy are provided on a 'claims made and notified' basis. This means any claim or circumstance known to the insured must be notified to Insurers as soon as possible and within the current insurance year. Failure to do so is likely to lead to declination of that claim.

UNREPORTED CLAIMS – To obtain renewal terms or quotations for your insurance programme for the new period of insurance, the insurers must be advised of any claims or incidences that could lead to a claim. This is an important part of your Duty of Disclosure.

CHANGES IN YOUR OPERATION OR 'RISK' - Again this is a crucial part of your Duty of Disclosure. The insurer must be advised of any changes in your operation, new acquisitions, new activities or anything that may increase the risk insured. If there is any element of doubt it is always a good policy to declare it, this will avoid awkward situations when a claim is lodged.

PREMIUM COMPARISON - NPDC

The following table provides premiums based on New Plymouth District Council's agreed insurance programme. Premiums may be subject to change once insurance values have been updated and other matters confirmed.

New Plymouth District Council

Policy	Sum Insured	2019 Premiums	2020 Premiums
Material Damage (Commercial) (\$498,324,165 - 2019/20)	\$558,344,963	\$573,188	\$663,254 (Note 1)
Community Assets (\$39,752,722 - 2019/20)	\$38,870,149	Included above	Included above
Material Damage - Fire & Emergency Levies & Community Assets		\$244,748	\$247,665
Material Damage (Residential) (\$24,829,600 – 2019/20)	\$25,279,600	\$22,697	\$24,351
Material Damage (Residential) – EQC and Fire & Emergency Levies		\$59,543	\$60,327
Business Interruption <i>*Annual Gross Revenue* \$6,948,040 - 2019/20</i> <i>*Additional Costs of Working + Claim Preparation Costs -Shared Limit between The Group*</i>	<i>\$4,808,700 Annual Gross Revenue / Loss of Rents + \$10,100,000 ACOW & Claim Prep</i>	\$26,153	\$21,867 (Note 2)
Motor Vehicle (\$3,464,759 - 2019/20) FEL = Fire and Emergency Levy	Market Value – based on a total fleet value of \$4,072,674	\$44,074 includes FEL of \$1,750	Vero - \$51,756 NZI - \$41,253 includes FEL of \$1,877 (Note 3)
Motor Vehicle Burning Cost – end of period adjustment	To Be Confirmed for 2019/20	\$8,447 credit for 2018/19	
Airport Owner and Operators	\$100,000,000	\$15,040	\$17,500 (Note 4)

Overseas Travel – 75 International Days at \$6.10 per day and 600 Domestic Days at \$1.70 per day	150 International Days and 600 Domestic Days for 2019/20	\$1,688	\$1,478
Travel – end of period adjustment, 182 International Travel Days at \$4.65 per day, 569 Domestic Days at \$1.65 per day	Amount to pay for 2019/20	\$425 charge	\$98 charge International charge \$149 Domestic credit \$51
Hall Hirers Liability	\$1,000,000	\$3,779	VL – \$3,779 QBE - \$4,690 (Note 5)
Forestry	\$5,090,980	\$7,393	IF – \$7,688 SAGE – \$5,020 Primacy – not confirmed (Note 6)
Employers Liability	\$1,000,000	\$2,916	VL – \$2,916 QBE - \$2,745 (Note 5)
Statutory Liability	\$5,000,000	\$10,882	VL – \$14,168 QBE - \$31,596 (Note 5)
Fine Arts/Collections Insurance	\$28,000,000 First Loss cover	\$29,470	\$32,295 (Note 7) \$33,070
Cyber Risk Insurance	\$1,000,000	\$ 15,200	Delta - \$14,450 NZI – \$12,500 (Note 8)
Public Liability / Professional Indemnity and Environmental Impairment Liability	\$300,000,000	\$110,924	\$156,449 (Note 9)
Total excluding GST & end of period adjustments where applicable and Marsh's Fee		\$1,167,695	

NB 1 Premiums shown are net of GST unless indicated within the Premium Comparison Table and do not include Papa Rererangi I Puketapu Ltd (PRIP) unless stated

NB 2 NPDC premium as outlined is subject to change, should PRIP elect to make alternative insurance arrangements

NB 3 Terms provided are based upon claims advised to insurers at the date of quoting. Insurers may review terms if there is any significant deterioration in the claims outturn

Note 1 Marsh has confirmed an option for NPDC to adopt a Natural Disaster, Material Damage (Commercial Assets) coverage 'capacity (maximum) limit' of \$100m for which Natural Disaster premium would revise from \$388,930 of the total premium of \$663,254 (excluding Fire and Emergency Levies) to \$350,037 and a total premium of \$624,361 (excluding Fire and Emergency Service Levies).

Note 2 If Additional Costs of Working (ACOW) is increased to \$20m (all council decision) NPDC BI premium revises to \$31,040 (ACOW accounts for \$18,437 of premium quoted)
current ACOW \$10m limit premium for NPDC is \$9,265

Note 3 Options from Vero and NZI are presented within the Premium Comparison Table; 'Burning Cost' coverage only. Please refer to the separate email communication for further details

Note 4 Coverage quoted continues to recognise the additional premium to delete Exclusion 5 Contract Works extension (converting to Liability 'run off') and will be invoiced to Papa Rererangi I Puketapu Limited. The deletion of Exclusion 5 is \$10,000 of the quoted premium for 2020 - 2021

Note 5 Hall Hirers Liability, Employers Liability and Statutory Liability as outlined is subject to one insurer providing coverage. All councils must agree to continue to utilise Vero Liability or move to QBE

Note 6 Marsh has sought insurance options from SAGE and Primacy in addition to Insurance Facilitators for the 2020 – 2021 insurance period. Further details are outlined in the Forestry section of this Report and the separate email communication

Note 7 Fine Arts & Collections Insurance – continuing the Long Term Agreement (LTA) with the current insurer for a further 3 years (from 1 July 2020), provides a premium discount of 5% which is not recognised within the quoted premium
all Councils other than TRC must agree to continue / not continue with the LTA

Note 8 Limited options from Delta and NZI are presented within the Premium Comparison Table. Please refer to the separate email communication for further details

Note 9 Environmental Impairment Liability coverage if continued by NPDC for the 2020 – 2021 insurance period will attract an additional premium of \$6,625. There has been no previous charge for this coverage

PREMIUM COMPARISON - STDC

The following table provides premiums based on South Taranaki District Council's agreed insurance programme. Premiums may be subject to change once insurance values have been updated and other matters confirmed.

South Taranaki District Council

Policy	Sum Insured	2019 Premiums	2020 Premiums
Material Damage (Commercial) (\$228,123,853 - 2019/20)	\$254,195,811	\$328,895	\$384,052 (Note 1)
Material Damage - Fire Service Levies		\$115,422	\$144,776
Material Damage (Residential) (\$13,999,730 - 2019/20)	\$14,445,180	\$12,332	\$13,446
Material Damage (Residential) – EQC and Fire & Emergency Levies		\$32,886	\$32,480
Business Interruption <i>*Annual Gross Revenue* \$1,911,689 - 2019/20</i> <i>*Additional Costs of Working + Claim Preparation Costs - Shared Limit between The Group*</i>	<i>\$2,354,795 Annual Gross Revenue + \$10,100,000 ACOW & Claim Prep</i>	\$6,911	\$8,421 (Note 2)
Motor Vehicle (\$844,347 - 2019/20)	Market Value – based on a total fleet value of \$878,720	\$10,614 includes FEL of \$397	Vero - \$11,038 NZI - \$8,772 includes FEL of \$406 (Note 3)
Motor Vehicle Burning Cost– end of period adjustment	To Be Confirmed for 2019/20	\$2,703 credit for 2018/19	
Crime	\$500,000	\$8,984	\$9,200 (Note 4)
Overseas Travel 5 International Travel Days at \$6.10 per day, 150 Domestic Days at \$1.70 per day – 2019/20	10 International Travel Days, 150 Domestic Days	\$294	\$286

Travel – end of period adjustment, 0 International Travel days at \$4.65 per day, 261 Domestic Travel days at \$1.65 per day	Amount to pay for 2019/20	\$224	\$137 charge International credit \$46 Domestic charge \$183
Personal Accident (230 persons – 2019/20)	Annual Salary up to \$250,000 (221 persons)	\$2,517	\$2,418 (Note 5)
Hall Hirers Liability	\$1,000,000	\$1,072	VL – \$1,072 QBE - \$1,330 (Note 6)
Employers Liability	\$1,000,000	\$1,219	VL – \$1,219 QBE - \$1,150 (Note 6)
Statutory Liability	\$5,000,000	\$5,272	VL – \$6,866 QBE - \$14,950 (Note 6)
Fine Arts / Collections Insurance	\$28,000,000 First Loss cover	\$599	\$607 (Note 7) \$622
Cyber Risk Insurance	\$2,000,000	\$18,150	Delta - \$17,250 NZI – \$12,410 Chubb - \$12,500 (Note 8)
Public Liability / Professional Indemnity & Environmental Impairment Liability	\$300,000,000	\$46,490	\$64,520 (Note 9)
Total excluding GST & end of period adjustments where applicable and Marsh's Fee		\$591,260	

NB 1 Premiums shown are net of GST unless indicated within the Premium Comparison Table

NB 2 Terms provided are based upon claims advised to insurers at the date of quoting. Insurers may review terms if there is any significant deterioration in the claims out turn

Note 1 Marsh has confirmed options for STDC to revise the current Material Damage (Commercial) deductible for all perils other than Natural Disaster from \$5,000 to \$20,000 and \$100,000; Reservoirs remain as \$100,000.

\$20,000 deductible	-	\$363,439 (\$196,195 all perils premium)
\$100,000 deductible	-	\$281,114 (\$113,870 all perils premium)

figures recorded above do not include Fire and Emergency Service Levies - \$144,775

STDC may choose to adopt a Natural Disaster coverage 'capacity (maximum) limit' of \$100m for which Natural Disaster premium would revise from \$167,244 of the total premium of \$384,052 (excluding Fire and Emergency Levies) to \$150,520 and a total premium of \$367,328 (excluding Fire and Emergency Service Levies)

Please note a change to the deductible will potentially change the cost of Business Interruption premium. This is not shown within this Report, yet Marsh will recognise costs if and as required and based on any confirmed change in deductible.

Note 2 If Additional Costs of Working (ACOW) is increased to \$20m (all council decision) STDC BI premium revises to \$10,649 (ACOW accounts for \$4,478 of premium quoted)

currently ACOW \$10m limit premium for STDC is \$2,250

Note 3 Options from Vero and NZI are presented within the Premium Comparison Table; 'Burning Cost' coverage only. Please refer to the separate email communication for further details

Note 4 Optional Extensions if added to Crime coverage – Contractual Penalties \$600, Extortion \$850

Note 5 Amending coverage to recognise '24 hours Worldwide' rather than while on council business including direct travel to and from work will increase the quoted premium to \$4,030

Note 6 Hall Hirers Liability, Employers Liability and Statutory Liability as outlined is subject to one insurer providing coverage. All councils must agree to continue to utilise Vero Liability or move to QBE

Note 7 Fine Arts & Collections Insurance – continuing the Long Term Agreement (LTA) for a further 3 years (from 1 July 2020), provides a premium discount of 5% which is not recognised within the quoted premium

all Councils other than TRC must agree to continue / not continue with the LTA

Note 8 Limited options from Delta, NZI and Chubb are presented within the Premium Comparison Table. Please refer to the separate email communication for further details

Note 9 Environmental Impairment Liability coverage if continued by STDC for the 2020 – 2021 insurance period will attract an additional premium of \$3,477. There has been no previous charge for this coverage

PREMIUM COMPARISON - SDC

The following table provides premiums based on Stratford District Council's agreed insurance programme. Premiums may be subject to change once insurance values have been updated and other matters confirmed.

Stratford District Council

Policy	Sum Insured	2019 Premiums	2020 Premiums
Material Damage (Commercial) (\$37,813,167 - 2019/20)	\$46,585,394	\$55,461	\$64,811 (Note 1)
Community Sports	\$5,920,000	\$8,773	\$9,212
Material Damage - Fire & Emergency Levies		\$11,893	\$20,963
Community Sports – Fire & Emergency Levies		\$6,275	\$6,275
Material Damage (Residential) (\$2,367,300 - 2019/20)	\$2,798,000	\$2,198	\$2,757
Material Damage (Residential) – EQC and Fire & Emergency Levies		\$4,896	\$5,138
Business Interruption <i>*Annual Gross Revenue* \$46,800 - 2019/20</i> <i>*Additional Costs of Working + Claim Preparation Costs -Shared Limit between The Group*</i>	<i>\$150,000 Annual Gross Revenue + \$10,100,000 ACOW & Claim Prep</i>	\$747	\$1.055 (Note 2)
Motor Vehicle (\$298,307 - 2019/20)	Market Value – based on a total fleet value of \$328,025	\$3,610 includes FEL of \$76	\$3,371 Includes FEL of \$84.50
Motor Vehicle Burning Cost– end of period adjustment	To Be Confirmed for 2019/20	\$676 credit for 2018/19	
Airport Owner and Operators	\$10,000,000	\$720	\$850

Overseas Travel 0 <i>International Travel Days at \$6.10 per day, 50 Domestic Days at \$1.70 per day</i>	5 International Travel Days, 10 Domestic Days	\$47	\$85
Travel – end of period adjustment, 0 International Travel days at \$4.65 per day, 56 Domestic Travel days at \$1.65 per day	Amount to pay for 2019/20	\$23 credit	\$45 charge International credit \$47 Domestic charge \$92
Personal Accident	Capital Benefit \$100,000 per person (13 Staff and 11 Elected Members)	\$929	\$929 (Note 4)
Hall Hirers Insurance	\$1,000,000	\$508	VL – \$508
Employers Liability	\$1,000,000	\$265	VL – \$265
Statutory Liability	\$5,000,000	\$1,146	VL – \$1,493 (now under review)
Fine Arts / Collections Insurance	\$28,000,000 First Loss cover	\$11	\$12 (Note 6)
Cyber Insurance	\$500,000	\$4,685	\$5,090 (Note 7)
Public Liability / Professional Indemnity and Environmental Impairment Liability	\$300,000,000	\$18,876	\$27,607 (Note 8)
Total excluding GST and end of period adjustments where applicable and Marsh's Fee		\$121,040	\$150,421

NB 1 The figures shown are net of GST unless indicated within the Premium Comparison Table

NB 2 Terms provided are based upon claims advised to insurers at the date of quoting. Insurers may review terms if there is any significant deterioration in the claims outturn.

Note 1 Marsh has confirmed options for SDC to revise the current Material Damage (Commercial) deductible for all perils other than Natural Disaster from \$5,000 to \$20,000 and \$100,000
 \$20,000 deductible - \$67,231 (\$36,431 all perils premium)
 \$100,000 deductible - \$51,043 (\$20,242 all perils premium)
 figures recorded above do not include Fire and Emergency Service Levies - \$21,096

Please note a change to the deductible will change the cost of Business Interruption premium. This is not shown within this Report, yet Marsh will recognise costs if and as required and based on any confirmed change in deductible.

Note 2 Business Interruption coverage for Gross Annual Revenue is calculated as follows (SDC decision alone);

\$46,800	-	\$123 (current)	\$48,000	-	\$126
\$150,000	-	\$393	\$200,000	-	\$524
\$250,000	-	\$655			

If Additional Costs of Working (ACOW) is increased to \$20m (all council decision) SDC BI premium revises to \$1,440. ACOW accounts for \$1,317 of premium quoted, which does not recognise any change in Gross Avenue Revenue
 current ACOW \$10m limit premium is \$662

Note 3 Options from Vero and NZI are presented within the Premium Comparison Table; 'Burning Cost' coverage only. Please refer to the separate email communication for further details

Note 4 Amending coverage to recognise all insured persons for Total and Permanent Disability up to age 75 years will have no impact on the quoted premium. Amending the Capital Benefit from \$100,000 per person to \$50,000 will reduce the quoted premium to \$465

Note 5 Hall Hirers Liability, Employers Liability and Statutory Liability as outlined is subject to one insurer providing coverage. All councils must agree to continue to utilise Vero Liability or move to QBE

Note 6 Fine Arts & Collections Insurance – continuing the Long Term Agreement (LTA) for a further 3 years (from 1 July 2020), provides a premium discount of 5% which is not recognised within the quoted premium
 all Councils other than TRC must agree to continue / not continue with the LTA

Note 7 Please refer to the separate email communication for further information specific to Cyber Risk

Note 8 Environmental Impairment Liability coverage if continued by SDC for the 2020 – 2021 insurance period will attract an additional premium of \$1,412. There has been no previous charge for this coverage

PREMIUM COMPARISON - TRC

The following table provides premiums based on Taranaki Regional Council's agreed insurance programme. Premiums may be subject to change once insurance values have been updated and other matters confirmed.

Taranaki Regional Council

Policy	Sum Insured	2019 Premiums	2020 Premiums
Material Damage (\$40,722,281 – 2019/20)	\$40,722,281	\$59,214	\$62,151 (Note 1)
Material Damage – Fire & Emergency Levies		\$24,571	\$24,624
Material Damage (Residential) (\$2,994,720 - 2019/20)	\$2,994,720	\$3,392	\$3,561
Material Damage (Residential) – Levies		\$1,218	\$1,218
Business Interruption * \$23,400 Rents Receivable and Additional Costs of Working + Claim Preparation Costs -Shared Limit between The Group*	\$23,400 Rents Receivable + \$10,100,000 ACOW & Claim Prep	\$562	\$591 (Note 2)
Motor Vehicle (\$1,690,100 - 2019/20)	Market Value – based on a total fleet value of \$2,459,100	\$21,363 include FEL of \$913	Vero - \$30,744 NZI – \$24,402 Includes FEL of \$989 (Note 3)
Motor Vehicle Burning Cost– end of period adjustment	To Be Confirmed for 2019/20	\$5,069 credit for 2018/19	
Crime	\$500,000	\$7,496	\$7,750 (Note 4)
Overseas Travel 20 International Travel Days at \$6.10 per day, 200 Domestic Days at \$1.70 per day	30 International Travel Days, 300 Domestic Days	\$635	\$462
Travel – end of period adjustment, 36 International Travel days at \$4.65 per day, 200 Domestic Travel days at \$1.65 per day	Amount to pay for 2019/20	\$9 credit	\$167 credit International charge \$28 Domestic credit \$195

Personal Accident	Capital Benefit Elected Members (11) \$50,000 per person Executives (5) \$100,000 per person (16 persons total)	\$650	\$600
Commercial Hull	\$50,300	\$690	\$690
Hall Hirers Insurance	\$1,000,000	\$281	VL – \$282 QBE - \$350 (Note 5)
Employers Liability	\$1,000,000	\$795	VL – \$795 QBE - \$750 (Note 5)
Statutory Liability	\$5,000,000	\$3,438	VL – \$4,478 QBE – \$9,750 (Note 5)
Cyber Insurance	\$1,000,000	\$6,795	\$6,795 (Note 6)
Public Liability / Professional Indemnity and Environmental Impairment Liability	\$300,000,000	\$24,355	\$33,803 (Note 7)
Total excluding GST and end of period adjustments where applicable and Marsh's Fee		\$155,455	

NB 1 The figures shown are net of GST unless indicated within the Premium Comparison Table

NB 2 Terms provided are based upon claims advised to insurers at the date of quoting. Insurers may review terms if there is any significant deterioration in the claims outturn

Note 1 Marsh has confirmed options for TRC to revise the current Material Damage (Commercial) deductible for all perils other than Natural Disaster from \$5,000 to \$20,000 and \$100,000

\$20,000 deductible - \$58,623 (\$31,705 all perils premium)
\$100,000 deductible - \$44,534 (\$17,617 all perils premium)

figures recorded above do not include Fire and Emergency Service Levies - \$24,624

Please note a change to the deductible will change the cost of Business Interruption premium. This is not shown within this Report, yet Marsh will recognise costs if and as required and based on any confirmed change in deductible

Note 2 If Additional Costs of Working (ACOW) is increased to \$20m (all council decision) TRC BI premium revises to ; \$1,054 (\$1,115 total BI premium)

current ACOW \$10m limit premium is \$529

Note 3 Options from Vero and NZI are presented within the Premium Comparison Table; 'Burning Cost' coverage only.

Please refer to the separate email communication for further details

Note 4 Optional Extensions if added to Crime coverage – Contractual Penalties \$500, Extortion \$750

Note 5 Hall Hirers Liability, Employers Liability and Statutory Liability as outlined is subject to one insurer providing coverage. All councils must agree to continue to utilise Vero Liability or move to QBE

Note 6 Limited options from NZI and Chubb are presented within the Premium Comparison Table. Please refer to the separate email communication for further details

Note 7 Environmental Impairment Liability coverage if continued by TRC for the 2020 – 2021 insurance period will attract an additional premium of \$1,820. There has been no previous charge for this coverage

PREMIUM COMPARISON - TST

The following table provides premiums based on the Taranaki Stadium Trust's agreed insurance programme. Premiums may be subject to change once insurance values have been updated and other matters confirmed.

Taranaki Stadium Trust

Policy	Sum Insured	2019 Premiums	2020 Premiums
Material Damage (\$34,570,910 – 2019/20)	\$34,570,910	\$36,591	\$38,405 (Note 1)
Material Damage – Fire & Emergency Levies		\$27,097	\$27,072
Business Interruption * *Additional Costs of Working + Claim Preparation Costs - Shared Limit between The Group*	\$10,100,000	\$504	\$529 (Note 2)
Statutory Liability	\$5,000,000	\$229	VL – \$299 QBE - \$650 (Note 3)
Total excluding GST and end of period adjustments where applicable and Marsh's Fee		\$64,121	

NB 1 The figures shown are net of GST unless indicated within the Premium Comparison Table

NB 2 Terms provided are based upon claims advised to insurers at the date of quoting. Insurers may review terms if there is any significant deterioration in the claims out turn

Note 1 Insurers acknowledge coverage remains as Indemnity Value + Demolition for the East Stand and West Stand within the Yarrow Stadium complex.

Note 2 If Additional Costs of Working (ACOW) is increased to \$20m (all council decision) TST premium for this section of BI coverage including claim preparation costs premium revises to \$1,054

Note 3 Statutory Liability aligns with Hall Hirers Liability and Employers Liability and is subject to one insurer providing coverage. NPDC, STDC, SDC and TRC must agree to renew these policies with Vero Liability or move to QBE

INSURANCE PROGRAMME

Material Damage – Commercial and Residential (MD)

Insured

New Plymouth District Council (Papa Rererangi I Puketapu Limited), Stratford District Council, South Taranaki District Council, Taranaki Regional Council, Taranaki Stadium Trust and Stratford Community Sports Society

Insurers

QBE Insurance (Australia) Limited	47.5%
NZI a division of IAG New Zealand Limited	17.5%
AIG Insurance NZ Limited	15%
Berkshire Hathaway Speciality Insurance Company Limited	15%
AXA XL Insurance Company SE	5%
AXA has reduced from 7.5% and NZI increased from 15%	

Cover

Covers physical loss or damage to property belonging to the Insured or for which the Insured is legally responsible or has assumed responsibility prior to the occurrence of any damage.

Property Insured

Any property that is to be insured must be listed in the "Statement of Property Insured". The definitions of property are:

Buildings

- a) Buildings as listed in the Statement of Property Insured and/or the following property attached to and/or adjoining thereto or within 25 metres of the circumference of the Building but not extending beyond 200 metres of the circumference of the Building;

landlords fixtures and fittings, plant, fixtures, fittings, pipes, cables, fixed signs, lettering, tanks, poles, power poles, power lines and their supports, fences, walls, gates, landscaping, gardens, ornamental trees and shrubs, roads, paths and yards, scoreboards, floodlighting and other property common to Local Government and;

- b) Water treatment and waste water treatment structures and plants including oxidation ponds, reservoirs, retention tanks, water supply in-takes, sewerage outfalls and/or pumping stations.

Contents

- a) contents of buildings, plant or machinery, tools of trade, equipment, glass, tenants improvements; and
b) all other tangible property not more specifically described for buildings, stock and specified items which are separately described and listed in the Statement of Property Insured.

Stock meaning stock and materials in trade.

Excluded Property is property separately described and listed in the Statement of Property Insured which would otherwise be subject to Exclusion 1(f) (other than mining property below ground, land, roads, tunnels, footpaths or storm-water or drainage systems which continue to be excluded).

Machine or Machinery

any contrivance for the conversion and direction of motion or energy, or for the performance of any electronic process, and includes any protective device in connection with that contrivance.

Basis of Settlement

Reinstatement value or indemnity value as noted in the Statement of Property Insured.

Sub Limits of Indemnity

Property in the course of installation, construction etc		
- expected contract value/contract price not exceeding	\$	2,000,000
Automatic Increase		5%
Buildings Unspecified, limit any one loss	\$	250,000
Capital Additions (additional to total sum insured), limit at any one time	\$	2,000,000
Collapse / Overheating of non domestic boilers	\$	25,000
Demolition & Removal of Debris (additional if not included in the sum insured)	\$	100,000
Destruction of Undamaged Property (intentional damage preventing injury)	\$	50,000
Gradual Damage, limit any one loss	\$	10,000
Hazardous Substance Emergency, limit any one loss	\$	100,000
Landslip	\$	2,000,000
Mechanical Breakdown -combined limit Material Damage/Business Interruption	\$	25,000
Money Section A	\$	250,000
Section B	\$	10,000
'P' Laboratories, limit any one event	\$	20,000
Property in or on Water, limit any one loss	\$	500,000
Protection Costs, limit any one loss	\$	500,000
Refrigerated Goods, limit any one loss	\$	25,000
Stolen keys, limit any one loss	\$	250,000
Subsidence	\$	2,000,000
Transit (combined limit Material Damage/Business Interruption	\$	500,000
Works of Art (i) works not otherwise specified	\$	250,000
(ii) diminution of value limit	\$	500,000
Works of Art - Maori Artefacts & Taonga - additional cultural costs	\$	10,000

Policy Deductibles

In respect of:

New Plymouth District Council (Commercial Property as Declared)	\$	100,000
Papa Rererangi I Puketapu Limited (PRIP)	\$	100,000
South Taranaki District Council (Reservoirs)	\$	100,000
Taranaki Stadium Trust (Yarrow Stadium)	\$	100,000
Taranaki Stadium Trust (Residential Assets)	\$	5,000
Landslip or subsidence (combined MD/BI)	\$	50,000
All other Insured losses	\$	5,000

Natural Disaster (*earthquake tsunami, volcanic activity, hydrothermal, activity geothermal activity, or subterranean fire and fire in consequence of any of these*):

<u>Property in</u>	<u>Excess Amount</u>	<u>Minimum</u>
Northland and Auckland	2.5% of site sum insured	\$2,500
Northland and Auckland Pre-1935	5% of site sum insured	\$5,000
Rest of New Zealand	5% of site sum insured	\$5,000
Rest of NZ Pre-1935	10% of site sum insured	\$10,000
Earthquake prone buildings and contents located within such structures	10% of the site sum insured	\$10,000

Applies to the combined MD/BI loss

Important Policy Terms

Natural Disaster limitation

The sum insured is the maximum claimable for Natural Disaster

Seismic Strengthening

The policy does not cover costs incurred in connection with the strengthening of property to a level greater than it was at the time of damage

Material Damage & Business Interruption Natural Disaster Limitation

- Aggregate limit applies.

- Reinstatement of sum insured does not apply

Endorsements

Taranaki Stadium Trust (Yarrow Stadium), coverage for the named 'East Stand' and 'West Stand' are recognised as insured for Indemnity Value plus Demolition and Removal of Debris

Insurers' Sanction Clauses apply

Comments

As discussed during our Insurance Review Meeting in March, Marsh has confirmed a premium improvement for changing STDC, SDC and TRC's voluntary deductible (Material Damage – Commercial Assets) for all perils aside from Natural Disaster to \$20,000 and \$100,000 respectively

For NPDC and STDC an option is presented for Material Damage – Commercial Assets to adopt a Natural Disaster 'capacity (maximum) limit' of \$100m

The Premium Comparison Tables section of this report for NPDC, STDC, SDC and TRC provides further detail

Business Interruption (BI)

Insured

New Plymouth District Council (Papa Rererangi I Puketapu Limited), Stratford District Council, South Taranaki District Council, Taranaki Regional Council, Taranaki Stadium Trust and Stratford Community Sports Society.

Insurers

QBE Insurance (Australia) Limited	47.5%
NZI a division of IAG New Zealand Limited	17.5%
AIG Insurance NZ Limited	15%
Berkshire Hathaway Speciality Insurance Company Limited	15%
AXA XL Insurance Company SE	5%

AXA has reduced from 7.5% and NZI increased from 15%

Cover

Loss consequent upon interruption to the business as a result of damage to property insured by the Material Damage policy, resulting in losses or increased costs as below.

Item/Sum Insured

Annual Revenue

New Plymouth District Council	\$	4,808,700
South Taranaki District Council	\$	2,354,795
Stratford District Council	\$	46,800
Taranaki Regional Council	\$	23,400

Additional Expenses / Costs of Working (shared limit) \$ 10,000,000

Claim Preparation Costs \$ 100,000

Indemnity Period

Loss of Revenue	24 months
Additional Costs	36 months

Deductibles

No deductible applies, except for those combined with Material Damage and those time deductibles shown in the Memoranda & Extensions below.

Memoranda & Extensions

Refer to the policy document for a complete list. Some Policy extensions and memoranda are outlined as follows:

Acts of Civil Authorities - Covers losses following acts of destruction ordered by a Civil Authority to prevent or restrict loss or damage to Insured Property. Limit 10% of the BI Sum Insured and any one loss – Maximum \$1m. Time deductible 24 hours except Natural Disaster 14 days.

Compulsory Closure – Covers losses arising from the ordered closure of any property due to murder or suicide; vermin pests or defects in drains; injury traceable to injurious matter in food or drink. Limit 10% of the BI Sum Insured and any one loss – Maximum \$1m. Time deductible 24 hours except Natural Disaster 14 days.

Dependency – Provides cover for losses arising from damage to:

- (i) Property within 10 kilometres of the Insured property which prevents/hinders access;
- (ii) Electricity supply, gas works or storage facilities, water works treatment or supply;
- (iii) Sewage works or treatment plants;
- (iv) Telecommunications lines/cable connected to property insured;
- (v) Port or Airport buildings or contents, railway warehouses;

(vi) Direct suppliers or customers premises;

Limit 10% of the BI Sum Insured and any one loss – Maximum \$1m. Time deductible 24 hours (except (v) 7 days) except Natural Disaster 14 days.

Entanglement - Losses resulting from entanglement or entrapment of animals or person in machinery, plant or other insured property. Limit 10% of the BI Sum Insured and any one loss – Maximum \$1m. Time deductible 24 hours except Natural Disaster 14 days.

Fumes Gases and Toxic Chemicals - Losses resulting from accidental discharge of fumes and gases. Limit 10% of the BI Sum Insured and any one loss – Maximum \$1m. Time deductible 24 hours except Natural Disaster 14 days.

Sub Limits

Mechanical Breakdown

Combined limit any one loss for Material Damage and Business Interruption \$25,000

Transit

Combined limit any one loss for Material Damage and Business Interruption \$500,000

Important Policy Terms

Deferral of Indemnity Period

Insurers can accept subject to written notice within three months of the date of the Damage that Council has elected to defer the commencement of the Indemnity Period

Natural Disaster limitation

The sum insured is the maximum claimable for Natural Disaster.

Material Damage & Business Interruption Natural Disaster Limitation

- Aggregate limit applies.

- Reinstatement of sum insured does not apply.

Major Exclusions & Endorsements

Refer Material Damage section.

Comments

Please note the increase in Material Damage premium is also recognised in Business Interruption costs for 2020 – 2021, given the intrinsic link between Material Damage and Business Interruption protection

An option exists for the Taranaki Council Group to increase the Additional Expenses / Costs of Working (ACOW) from \$10m to \$20m. Premium Comparison Tables section of this report provides further information

For SDC an option to insure Gross Avenue Revenue for \$46,800, \$48,000, \$150,000, \$200,000 and \$250,000 is presented on page 12 of this Report

Motor Vehicle (MV)

Insured

New Plymouth District Council, Stratford District Council, South Taranaki District Council and Taranaki Regional Council

Insurer

Vero Insurance (New Zealand) Limited *current insurer*

NZI a division of IAG New Zealand Limited

Cover

Indemnifies the insured against loss or damage arising from an insured peril to any insured motor vehicle occurring during the period of insurance. Also indemnifies the Insured for third party liability arising out of or in connection with use of any insured vehicle.

Basis of Settlement

Market value (replacement for vehicles less than 12 months old)

Limits of Indemnity *Vero and NZI unless stated*

Own Damage - Market value at time of loss.

Third Party Liability (Section 2)	\$10,000,000 except
- Airside Liability * Vero *	\$2,000,000
- Airside Liability * NZI *	\$1,000,000
except	
NPDC (6 vehicles)	\$10,000,000
- Carriage of Hazardous Goods * Vero *	\$5,000,000

Special Limits *Vero and NZI unless stated*

Additions and Deletions	\$	300,000
Claim Preparation Costs	\$	10,000
Cleaning up Costs	\$	100,000
Death by Accident	\$	10,000
Disability Modifications Vero	\$	10,000
Disability Modifications NZI	\$	5,000
Exemplary Damages (Section 2) any one claim \$500,000 / in aggregate	\$	1,000,000
Financial Charge	\$	5,000
Fire Service Charges	\$	50,000
Funeral Expenses	\$	10,000
Goods in Transit (fire collision and overturning)	\$	5,000
Hoists	\$	20,000
Keys and Locks (\$10,000 – limit any one claim) Vero	\$	50,000
Keys and Locks (\$10,000 – limit any one claim) NZI	\$	20,000
Removal of Debris and Load Recovery	\$	50,000
Rental Vehicles	\$	150,000
Rental Vehicle - Consequential Losses	\$	100,000
Repair Authorisation	\$	1,500
Return Home – Journey Completion	\$	10,000
Theft Costs, maximum hire cost	\$	5,000
Uninsured Third Party Protection	\$	5,000
Weight/Vibration Damage (Section 2)	\$	500,000

Deductible

Own damage (Section 1) all claims, other than as listed below		
- New Plymouth and South Taranaki District Councils	\$	2,000
- Taranaki Regional Council	\$	1,000
- Stratford District Council	\$	500
Keys and Locks	\$	250
Vibration and Weight damage (Section 2)	\$	2,000
Exemplary Damages (Section 2) 10% minimum	\$	5,000

Refer to the policy for full excess detail on sub limit extensions.

Special Clauses

Burning Cost – end of insurance period, premium adjustment clause 100/65 +/- 20% **Vero** 100/70 +/- 20% **NZI**. In 2019, Vero supported the same loss ratio as NZI has confirmed

Machinery Plant and Equipment condition (Vero) in respect to any insured vehicle

1 – all persons operating such vehicles shall be fully trained and legally qualified to operate the vehicle

2 – all persons operating such vehicles must not use the vehicle beyond the manufacturer's operating specification or recommendation

3 – all cranes including lifting machinery attached to a vehicle must comply with the Health & Safety legislation and regulations (Pressure Equipment, Cranes and Passenger Ropeways)

Airside Liability and conditions (Vero and NZI) coverage is restricted to liability arising for incidents, which occur within designated vehicle areas only

Major Exclusions

For full details reference must be made to the policy wording. Main exclusions include:

- Racing, pacemaking, reliability trials, speed tests or testing in preparation for any of them;
- Carrying fare paying passengers (not applicable to vehicles licensed for carrying passengers);
- Drivers under the influence of alcohol or drugs;
- Unlicensed drivers (teaching a learner to drive is permitted providing the law is complied with);
- Use of vehicles in an unsafe condition where the condition causes or contributes to an accident;
- Use of vehicles loaded in excess of manufacturer's specifications or legal limits;
- Consequential losses/loss of use;
- Mechanical, electrical or electronic breakdown;
- Punctures, cuts or burst tyres or damage to tyres by application of brakes;
- Liability for death or bodily injury to employees or damage to your own property or to other property in your care custody or control (not applicable to disabled vehicles under tow);
- Liability for loss or damage to property being conveyed by or loaded into or loaded from an insured vehicle (not applicable to passengers' baggage and clothing).

Comments

Vero Insurance (New Zealand) Limited 'Vero' and NZI Insurance as a division of IAG New Zealand Limited 'NZI' have quoted insurance options for the 2020 – 2021 insurance period.

Total Fleet Value (estimated market value) declared is \$7,738,519 made up from;

- NPDC	\$4,072,674 (\$3,464,759 for 2019/20)
- STDC	\$878,720 (\$844,347 for 2019/20)
- SDC	\$328,025 (\$298,307 for 2019/20)
- TRC	\$2,459,100 (\$1,690,100 for 2019/20)

The Group has reported motor vehicle claims with an estimated value of \$69,017 for the 2019 - 2020 insurance period as at 5pm June 4 2020, which means a Burning Cost payment estimated at \$15,200 exclusive of GST is plausible. Calculations recognise the deposit premium of \$76,200 exclusive of NPDC's Airside Liability extension, Fire & Emergency Levies and GST charged at the inception of the current insurance period and as outlined below (see Burning Cost Adjustment).

Options to provide alternatives are acknowledged as;

Burning Cost Adjustment (currently insured option)

Premium payable adjusted at the end of the insurance period on the basis of losses incurred during the period of insurance. Calculated based on the net of actual and estimated recoveries plus reasonable estimates of outstanding claim amounts yet to be paid –

Deposit premium – at the beginning of each insurance period a deposit premium will be calculated on the values of vehicles specified in the insurance schedule (list supplied to Vero).

Adjustment premium – at the end of the insurance period the deposit premium will be adjusted by dividing the losses incurred by 65% (**Vero**) and 70% (**NZI**). If the adjusted premium is more than the deposit premium paid, a requirement to pay the difference up to a maximum of 20% of the deposit premium. If the adjusted premium is less than the deposit premium the insurer will refund the difference up to maximum of 20% of the deposit premium.

Flat Premium

No change to premium charged – premium paid at the start of the insurance period is not adjusted at the end of the period.

Personal Accident (PA)

Insured

South Taranaki District Council, Stratford District Council and Taranaki Regional Council

Insurer

AIG Insurance New Zealand Limited

Covers

Death by accident and schedule benefits for nominated persons.

Insured Persons, Benefits & Coverage

South Taranaki District Council:

All Employees of Council (221 persons)

Capital Benefit 1x Annual salary, maximum \$250,000 per person

While on the business of STDC, including direct travel to and from work

Includes all staff up to 75 years of age for Total and Permanent Disability

Stratford District Council:

Chief Executive, 4 Directors (Senior Management) and 8 Middle Management positions and 11 Elected Members

Capital Benefit \$100,000 per person

24 hours Worldwide

Includes all insured persons up to 70 years of age for Total and Permanent Disability

Taranaki Regional Council

(i) Elected Members (11 persons)

Capital benefit \$50,000 per person.

(ii) Executive Positions (5 persons)

Capital Benefit \$100,000 per person

24 hours Worldwide

Includes insured persons up to 70 years of age for Total and Permanent Disability

Aggregate limit any one period of insurance	\$	2,000,000
Non-scheduled flights	\$	500,000

Age Limits

Minimum age 17 years, Maximum 80 years, except for Capital Benefit 2 (Permanent Total Permanent Disablement) which is currently 70 years for SDC, TRC, and 75 years for STDC

Deductible

Nil

Endorsement

Age Limitation Endorsement

Loss of Independence Existence Endorsement

Major Exclusions

For full details reference must be made to the policy wording.

War, civil war, etc or terrorism.

Aerial activity other than as a passenger in an aircraft licensed to carry passengers.

Intentional self-inflicted injury, suicide or any illegal or criminal act.

AIDS or HIV

Professional sports

Motor racing or racing preparation

Comments

- AIG has confirmed there is no additional premium for SDC and TRC to protect insured persons for Permanent Total Disability to age 75 years (please see the Premium Summary section of this Report)
- In addition to coverage for Death by Accident and Permanent Total Disablement, coverage extends to recognise a number of other events including Permanent Paraplegia or Quadriplegia, total loss of limbs, sight and hearing. The severity of the event is the catalyst for determining the proportion of the Capital Benefit payable by AIG. For further details please refer to the applicable Policy Wording
- A reminder for STDC, SDC and TRC that there is **no coverage** afforded to persons from 80 years of age

Crime Insurance (CI)

Insured

South Taranaki District Council and Taranaki Regional Council

Insurer

AIG Insurance New Zealand Ltd

Covering

Indemnifies the Insured for direct financial loss resulting from fraudulent or dishonest acts committed by employees (acting alone or in collusion with others) or third parties, and other costs as provided for in the policy.

NB; Employee means any natural person who works under a contract of service with the insured, or who is undertaking work experience; whom the insured has the right to govern and direct in performance of such services; whom the insured compensates by salary, wages and/or commissions; and others as provided for in the policy.

Limit of Indemnity **the limit stated below applies individually to STDC and TRC**

Insuring Clause 1. Dishonesty by Employees in respect of any one Loss and in the aggregate, costs inclusive	\$500,000
Insurance Clause 2. Dishonesty by Third Parties	Included in the Limit above

Sub Limits

Care, Custody and Control	
Costs of Fraud Investigator	
Defence Costs	
Disposal of Subsidiary	
Employee Plans	
Interest Receivable or Payable	10% of the Limit of Indemnity
Outsourcing	
Physical Loss or Destruction of or Damage to Money or Securities	
Pre-loss Consulting Firm (available if premium spend is \$10,000 or more)	
Software Reconstitution Costs – 10% of the Limit of Indemnity up to	\$ 250,000

Territorial Limit and Legal Jurisdiction

New Zealand only

Excess

\$25,000 each and every Loss

Endorsements

QBE Sanctions Exclusion (CRI)

Major Exclusions

- Consequential Loss
- Credit Risks
- Extortion ***exclusion can be deleted by adding the optional extension for Extortion***
- Intellectual Property and Confidential Information
- Inventory Computation Losses
- Loss Sustained after Knowledge

- Non-Violent Crime
- Reckless Conduct
- Terrorism
- Voluntary Exchange or Purchase

For full details reference must be made to the policy wording. Main exclusions include:

Comments

STDC and TRC may choose to add coverage for the Optional Extensions of **Contractual Penalties** and **Extortion**, which are referred to below. Please refer to individual premium summaries for the additional cost to add one or both extensions to coverage

Contractual Penalties *claims for penalties for which Council is liable under written contract resulting directly from Loss covered by this Policy, provided QBE's liability for such loss shall be limited to 10% of the Limit of Indemnity*

Extortion *claims for Loss caused by Money or Securities being paid or surrendered by an Employee from Council premises as the direct result of Extortion, if before such payment or surrender occurs the person receiving the Extortion has made reasonable efforts to inform Council of the Extortion and Council has reported the Extortion to the Police*

Employers Liability (EL)

Insured

New Plymouth District Council, Stratford District Council, South Taranaki District Council, Taranaki Regional Council, Papa Rererangi Puketapu Limited and Percy Thomson Trust

Insurers

Vero Liability Insurance Limited *current insurer*
QBE Insurance (Australia) Limited

Cover

Indemnifies the Insured for legal liability to pay damages as a result of an employee sustaining personal injury in the course of their employment, and to pay the costs and expenses in the investigation, defence or settlement of claims where such injury is not covered by ACC legislation.

Special note: This policy coverage is provided on a '**claims made and notified**' basis. Any claim or known circumstance which may give rise to a claim must be notified to Insurers as soon as possible and within the current insurance year. Failure to do so is likely to lead to declinature of that claim.

Limit of Liability (shared limit)

Each claim and in the aggregate any one period of insurance (inclusive of costs and expenses) \$1,000,000

Deductible

\$2,500 any one claim / Legal Costs and Expenses inclusive

Retroactive Date

1 July 2010

Territorial Limit and Legal Jurisdiction

New Zealand only

Endorsements

Defence Costs Endorsement – *QBE shall pay additional Defence Costs, up to the Limit of Liability*
Insurer Sanctions Exclusion - *Vero Liability and QBE*

Major Exclusions

For full details reference must be made to the policy wording. Main exclusions include:

- In respect of claims for which cover is provided by ACC.
- In respect of judgement of any court other than a New Zealand court.
- Any fine or penalty
- Terrorism
- Asbestos
- Claims brought under the Health and Safety at Work Act 2015

Extensions *Vero Liability*

- Goods & Services Tax
- Newly Created or Acquired Subsidiary Company
- Subsidiary Company Change of Ownership

Comments

- Current insurer Vero Liability has confirmed there are no changes to coverage and premium is also unchanged from 2019 – 2020. As stated separately by Marsh, Employers Liability coverage would need to be migrated to QBE if Councils elected to insure Statutory Liability risk with QBE from 1 July 2020
- As a comparative - Vero Liability's total 'Insured' EL premium is \$5,300, QBE Liability total premium is \$5,000

Statutory Liability (Stat)

Insured

New Plymouth District Council, Stratford District Council, South Taranaki District Council, Taranaki Regional Council, the Taranaki Stadium Trust, Papa Rererangi I Puketapu Limited, Percy Thomson Trust and the Taranaki Emergency Management Office

Insurers

Vero Liability Insurance Limited **current insurer**
QBE Insurance (Australia) Limited

Cover

This policy indemnifies the insured against defence costs and penalties as a result of an alleged breach of any Act of Parliament other than those excluded.

Special note: This policy coverage is provided on a '**claims made and notified**' basis. Any claim or known circumstance which may give rise to a claim must be notified to Insurers as soon as possible and within the current insurance year. Failure to do so is likely to lead to declinature of that claim.

Limits of Indemnity (shared limit)

Each claim and in the aggregate any one period of insurance (inclusive of costs and expenses) \$5,000,000

NB: Insurers cannot provide cover for Fines imposed under Health and Safety legislation, however, Defence Costs and reparation awards are insured subject to the policy terms and conditions.

Deductible *both insurers unless stated*

\$25,000 each claim inclusive of costs and expenses, except nil for individuals **other than**

\$75,000 each claim in respect of the Resource Management Act 1991 (or any amendment to or re-enactment of that Act, or Regulations or other sub-ordinate legislation made under the Act)
Vero Liability

Retroactive Date

1 July 2010

Territorial Limit and Legal Jurisdiction

New Zealand only

Endorsements

Defence Costs Endorsement – *QBE shall pay additional Defence Costs, up to \$1m*
Insurer Sanctions Exclusion - *Vero Liability and QBE*

Major Exclusions

For full details reference must be made to the policy wording. Main exclusions include:

- Claims brought under the Commerce Act 1986, and excludes claims against individuals brought by the Commerce Commission under sections 81,84 or 87 of the Commerce Act 1986
- Any claim for action brought by New Zealand Police (except Sale of Liquor Act)
- Any claim for action brought by Inland Revenue.
- Any occurrence arising from an officer's deliberate or reckless failure to comply with any lawful abatement notice or enforcement order made under the relevant legislation
- Dishonest, fraudulent or malicious acts or malicious omission
- Anti-Money Laundering and Countering Financing of Terrorism Act Exclusion
- Non-Statutory Prosecutions under the Health & Safety at Work Act or the Health & Safety in Employment Act 1992 ***QBE only***

Comments

- Current insurer Vero Liability has confirmed there are no additional changes to coverage other than as outlined on the previous page for claims lodged in respect to the Resource Management Act
- Stat premium quoted by Vero Liability has increased from \$22,920 to \$29,850 (an increase of 23% approximately), yet as a comparison QBE Liability's Statutory Liability premium is \$65,000

Hall Hirers – General Liability (Hall)

Insured

New Plymouth District Council, Stratford District Council, South Taranaki District Council, Taranaki Regional Council.

Insurers

Vero Liability Insurance Limited **current insurer**
QBE Insurance (Australia) Limited

Insured

Community and Sporting Groups, Individuals and Commercial organisations **not already insured** as hirers of the parties' community facilities.

Covering

Indemnity for sums the Insured becomes legally liable to pay for property damage or personal injury arising out of the activities carried on by or on behalf of the Insured whilst hiring or using Council community facilities

Limit of Liability

\$1,000,000 any one occurrence and in the aggregate for Products Hazard, increased to \$5,000,000 for the following properties:

- TSB Showplace
- Bowl of Brookland
- TSB Stadium
- Yarrow Stadium
- The Hub Hawera

Policy Sub-limits

- | | | |
|---|----|-----------|
| • Punitive & Exemplary Damages – any one occurrence | \$ | 1,000,000 |
| • Punitive & Exemplary Damages – in the aggregate for the insurance period | \$ | 2,000,000 |
| • Property in the Insured Care, Custody and Control (\$250K 2019 - 2020) | \$ | 500,000 |

Excess

- | | | |
|---|----|-------|
| Each and every occurrence | \$ | 500 |
| Property in the Insured's Care, Custody and Control | \$ | 1,000 |

Territorial Limit and Legal Jurisdiction

New Zealand only

Endorsements *both insurers unless stated*

QBE Hall Hirers Liability Extension – *in respect of properties owned or operated by Council, the definition of insured is extended to include: hirers of the property as agreed council and QBE Insurance, when such hirers use and hire the properties owned or operated by council. Provided that:*

- *Hirers of property are not otherwise insured under any other policy and*
- *QBE is notified of the hire and the hirer has agreed to pay any additional premiums required*

Insurer Sanctions Exclusion - *Vero Liability and QBE*

Major Exclusions

Professional Negligence

Ownership, maintenance, operation, use of aircraft or motor vehicles

Pollution if damage is not sudden and accidental

Terrorism

Comments

- Current insurer Vero Liability has confirmed there are no changes to coverage and premium is also unchanged from 2019 – 2020. As stated separately by Marsh, Hall Hirers (General Liability) coverage would need to be migrated to QBE if Councils elected to insure Statutory Liability risk with QBE from 1 July 2020
- As a comparative - Vero Liability's total 'Insured' Hall premium is \$5,640, QBE Liability total premium is \$7,000

Travel Insurance – International and Domestic (Travel)

Insured

New Plymouth District Council (Papa Rererangi I Puketapu Limited), Stratford District Council, Stratford District Council and Taranaki Regional Council

Insurer

AIG Insurance New Zealand Limited

Insured Persons

All Employees, Elected Members and other Persons authorised by the Insured for cover under this Policy, including accompanying Spouse/Partner and Dependant Child(ren)

Restrictions apply when the purpose of the overseas trip is for Private Travel only.

Territorial Limits

Domestic travel within New Zealand (not regular travel of 50kms or more from the insured traveller's normal residence and/or work place) and Worldwide travel

Deductible(s)

Portable Electronic Equipment	\$	250
All other		Nil

An excess may apply to individual weekly benefits – based on number of days (please refer to the policy for more details)

Covering

The policy insures loss arising from various travel related events including:

Section 1 Medical and Related Expenses

In Hospital cash Benefit: \$200 per 24 hour period	\$	Unlimited
Country of Residence Medical Expenses		5,000
		Unlimited

Section 2 Deposit and Expenses, including

Loss of Deposits	} In the	\$	100,000
Cancellation/Curtailment/Interruption Expenses			
Legal Expenses		\$	50,000
Hijack Benefit: \$1,000 per 24 hour period		\$	15,000

Section 3 Property, including

Business & Personal Property	\$	25,000
Portable and Electronic Equipment	\$	10,000
Mislaid Luggage	\$	5,000
Travel Documents or Money	\$	5,000

Section 4 Personal Injury, including

Capital Benefits:		
- Directors, Officers & Employees and Spouses (Benefits 1-19)	\$	250,000
- Dependent Children or others under 18 years (death \$20,000, other Benefits)	\$	250,000
Broken Bones	\$	5,000
Surgical Benefits for Injury or Sickness	\$	5,000
Weekly Injury Benefits (limit 104 weeks / elimination period 14 days) per week	\$	2,000
Death by Natural Causes (Age Limit under 65)	\$	50,000

Section 5 Alternative Employee / Resumption of Travel

\$ 20,000

Section 6 Political Risk & Disaster Evacuation

\$ 20,000

Section 7 Missed Transport Connection

\$ 10,000

Section 8 Rental Vehicle Expenses

Rental vehicle excess	\$	5,000
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Section 9 Kidnap and Ransom and Extortion	\$	250,000
Section 10 Personal Liability	\$	5,000,000
Section 11 Identity Guard (various limits) maximum	\$	5,000
Section 12 Search & Rescue	\$	20,000

Aggregate Limits:

Per Event Aggregate Limit Sections 2 - 8 (doubled for conferences less than 7 days)	\$	2,000,000
Annual Aggregate Limit Sections 2 – 8 (unscheduled airlines)	\$	1,000,000
Annual Aggregate Limit Section 9	\$	500,000
Per Event Aggregate Limit Section 10	\$	5,000,000
Annual Aggregate Limit Section 11	\$	50,000
Annual Aggregate Limit Section 12	\$	100,000

Important Policy InformationKey disclosure requirements which require negotiation with insurers to recognise coverage

- for non-New Zealand citizens/permanent residents, or insureds not permanently residing in New Zealand
- when manual labour or hazardous leisure pursuits are to be undertaken
- non-scheduled flights or travel to remote locations with limited infrastructure travel to locations designated by MFAT at www.safetravel.govt.nz as 'extreme risk'
- any concentration exposure – when the client has multiple lives working and travelling together

Pre-Existing Medical Conditions

In summary, pre-existing medical conditions are covered for the Insured Person - subject to the Insured Person being fit to travel, not travelling for the purpose of receiving medical treatment and not having a terminal illness. Note this does not apply to death by natural causes cover, where pre-existing conditions are excluded.

Policy Age Limits

General – no cover for persons aged 80 years or over, except:

Section 4 (Personal Injury) - persons over the age of 75 years have limited cover.

Section 4 (Death by Natural Causes) – persons must be aged under 65.

Care of property

The Insured Person must take all reasonable care of property and in particular:

- always travel with valuables and electronic equipment as hand baggage; and
- keep valuables and electronic equipment locked away when unattended (in hotel room and out of sight if in vehicle)

Pure Leisure Travel – eligibility

Entitlement for 'pure leisure' travel (being travel of a nature that does not include a business component) covers the executive suite – including all company directors (includes executive and non-executive directors), CEO – and their accompanying spouse and / or dependent children.

Leisure travel in addition to business travel is insured for all persons covered by AIG's policy

Comments

- Marsh has negotiated with current insurer AIG to amend existing coverage to 'Domestic Travel' coverage only, in lieu of the plausible removal of International Travel between 1 July 2020 and 1 July 2021 given the restrictions which are expected to remain applicable due to COVID-19
- While AIG unlike other insurers has not confirmed there is any additional coverage exclusion which will apply due to COVID-19, Marsh strongly recommend that if any insured person is to undertake international travel it should be anticipated that costs incurred due to the Coronavirus Disease 19 will be excepted from coverage for the majority of international territories. As the situation with COVID-19 is constantly evolving and international travel is expected to become more plausible between 1 July 2020 and 1 July 2021, Marsh recommend that if an international trip is proposed and coverage for COVID-19 expenses is sought during the period of travel, this should be discussed with Marsh and in turn commentary sought from AIG
- Based on the expected number of insured travel days reducing for the 2020 – 2021 insurance period, renewal premium has been calculated using 100 (minimum) International Travel Days and 1,000 Domestic Travel Days. Insuring for 100 International Travel Days and 1,000 Domestic Travel Days - the adjustable daily rate for International Travel will revert to \$6.10 per person per travel day (formerly \$4.65 per day and 200 days 2019/20) and for Domestic Travel to \$1.70 per person per travel day (formerly \$1.65 per day and 1,050 days 2019/20)

Major Extensions / Clauses

Date Recognition Exclusion and Date Recognition Limited Coverage Clause

AVN52G Extended Coverage Endorsement (Aviation Liabilities) deleting all paragraphs except (b) of the war, Hi-jacking and Other perils Exclusion Clause. Max \$50,000,000 NZD each accident but not exceeding policy limit each airport and in the aggregate each airport

AVN60A Personal Injury Extension Clause – US\$25,000,000 or the policy limit, whichever is the lesser

Jurisdiction and Arbitration Clause - NZ

Cancellation Clause amended to 45 days and 10 days for non-payment

Coverage extends to include air show / air meet liability

LIIBA Data Event Exclusion Clause **new for 2020**

Contract Works Extension *if included by either NPDC (currently included) or SDC (not included)*

It is noted and agreed that the coverage is extended to waive Exclusion 5 of the Policy Wording to include the Insured's (and/or their contractors and/or sub-contractors) liability arising out of Contract Works, but subject to the following conditions :

- (i) Contracts with a Contract Value up to \$1,000,000 shall be automatically covered up to individual policy limits).
- (ii) Contracts with a Contract Value that exceed \$1,000,000 shall be covered subject to Contractors and/or Sub-contractors carrying their own public liability insurance with a minimum limit of \$5,000,000 any one accident (with coverage hereon to respond in excess of this amount up to individual policy limits).

The Insured(s) hereunder to be added as Joint Insureds to such Contractors and/or Sub-contractors liability insurance policies.

- (iii) On contracts with a Contract Value that exceeds \$1,000,000, on which the Contractor and/or Sub-contractors do not have public liability insurance, this policy will extend to include such 'primary' liability at terms to be agreed by Underwriters in advance.

Comments

- A premium uplift of between 16% and 18% is recognised for the Airport Owners & Operators Liability coverage for 2020 - 2021, including the premium to remove the Contract Works exclusion (**NPDC**). Coverage ensures the following;

Deletion of Exclusion 5 '*...coverage for Bodily Injury or Property Damage arising out of construction or demolition of or alterations to buildings*' to ensure liabilities incurred in connection with the construction of the New Plymouth Airport Terminal Building, including demolition of the main terminal building

The pre-requisites of this extension are set out in the Contract Works Extension referred to above this Comments section

- Acknowledging the premium increase and in the Premium Comparison Table for NPDC, Marsh recognise NPDC and PRIP may choose to discontinue the Contract Works Extension (Deletion of Exclusive 5) thereby reducing the quoted premium to \$7,040. Marsh's recommendation is to maintain this extension in 'run off' as any liability occurrences connected to the Contract Works project after 30 June 2020 would almost certainly not be insured
- Marsh recognise that Airport Owners and Operators Liability (AOOL) coverage has been quoted subject to the minimum deductible increasing from \$2,500 NZD to \$5,000 NZD while the sole change to coverage is the addition of the Lloyds Insurance Brokers Data Event Cancellation Clause which is now being applied as a standard coverage clause under AOOL policies

Collections (Fine Arts) Insurance (Fine Arts)

Insured

New Plymouth District Council, Stratford District Council and South Taranaki District Council

Insurer

Uniqa Osterreich Versicherungen AG

Interest

New Plymouth District Council

Fine Art of whatsoever nature belonging to the insured or property entrusted to the insured for exhibition and for any other purpose whatsoever, including Councils legal liability as a Bailee of all loan property for which the insured has been instructed not to insure.

Stratford District Council

Fine Art of whatsoever nature belonging to the insured or property entrusted to the Percy Thomson Gallery for exhibition and for any other purpose whatsoever, including Councils legal liability as a Bailee of all loan property for which the insured has been instructed not to insure.

South Taranaki District Council

Fine Art of whatsoever nature belonging to the insured or property entrusted to the Aotea Utanganui Museum for exhibition and for any other purposes whatsoever, including Councils legal liability as a Bailee of all loan property for which the insured has been instructed not to insure.

Coverage

The property is covered against all risk of physical loss or damage, except as defined in the policy document at locations and whilst in transit, Worldwide.

Sums Insured *all limited stated below are recorded in NZD*

• Limit any one loss and in the aggregate whilst at any of the following sites (in the aggregate for fire from any cause)	\$	28,000,000
- Puke Ariki Museum		
- Govett Brewster Gallery / Len Lye Centre		
- New Plymouth District Council Store		
- Percy Thomson Gallery		
- Aotea Utanganui Museum		
• Whilst in transit – each and every loss	\$	5,000,000
• Whilst at any unnamed locations – each and every loss	\$	5,000,000
• Temporary incoming loans/exhibitions – each and every loss	\$	5,000,000
• Each and every loss and in the annual aggregate	\$	64,500,000

Basis of Valuation

- (i) Property of the Insured – the Insured's valuation
- (ii) Property of others – the value agreed between the Insured and the owner

Deductible

Each and every loss, except for the following	\$	Nil
Earthquake each event	\$	25,000

Policy Exclusions

For full details reference should be made to the Policy wording

Comments

- NPDC current collection values and sums insured are maintained at \$70,215,106 for 2020 - 2021

- Govett Brewster Fine Art Collection	\$28,144,025
- Govett Brewster (Long Term Loans)	\$3,085,925
- Len Lye Collection	\$12,459,900
- Museum (Puke Ariki) Collection	<u>\$26,525,256</u>
Total	<u>\$70,215,106</u>

- SDC (Percy Thomson Gallery) collection values and sums insured remain at \$25,000, yet with recognition that between February and April 2020 the Gallery will take possession and responsibility for the 'Remembering Rodin' exhibition which is acknowledged as holding a value of \$1.4million NZ dollars
- STDC collection values and sums insured remain as \$1,320,000
- Acknowledging the Long Term Agreement (LTA) with Uniqa which expires on 1 July 2020, NPDC SDC and STDC – given the premium discount which applies is encouraged to consider extending the current Agreement for a further three years or renewing for one further year in lieu of the unresolved claim for 'Event Cancellation' protection for Additional Expenditure resulting from the Government Decision to restrict activity from March 26 2020 to April 28 2020

Uniqa has confirmed the following changes to coverage will apply from 1 July 2020;

- The 5% No Claims Bonus premium discount will no longer apply and will affect the forthcoming insurance period not the current period – given the No Claims Bonus, premium return if applicable is credited back to NPDC, SDC and STDC at the conclusion of the insurance period for which it applies
- NPDC, SDC and STDC can choose to delete coverage for the Event Cancellation Coverage extension which will reduce the quoted premium by \$1,250 NZD (the reduction to be proportionally shared between councils)
- A further LTA reduces the total annual premium payable for Fine Arts insurance by 5% or between \$1,583 NZD and \$1,645 NZD between NPDC, SDC and STDC, pending if Event Cancellation Coverage is maintained
- An updated Cyber Exclusion Clause (reference JC2019-006) will apply and a LMA contagious disease exclusion is to apply along with a newly proposed Legal Liability 'Limit of Liability' of \$25,000 NZD **as at June 23, 2020 Marsh New Zealand has been supplied details of both Clauses (to be discussed with NPDC, STDC and SDC) and we are continuing to respond to colleagues based in the United Kingdom relative to the proposed Legal Liability 'Limit'. Therefore we cannot comment on its implications at this time including if this Limit will be confirmed**
- Services Agreement – relating to the supply of Risk Financing and Insurance Intermediary services
In regard to Fine Arts insurance Marsh JLT Specialty United Kingdom receive a separate Broking Placement fee which equates to \$5,000 NZD (previously \$4,543 NZD).

Marsh will arrange a separate invoice for the referred \$5,000 NZD in line with the terms of the current Services Agreement.

Forestry / Standing Timber (Forestry)

Insured

New Plymouth District Council.

Insurer

Insurance Facilitators (IF) (HDI Global Speciality – SE, insurer for Insurance Facilitators) **current insurer**

SAGE Partners Limited (SAGE)

Cover & Sums Insured *both insurers unless stated*

Defined Events (fire, lightning strike, vehicle impact, malicious damage) IF	\$	5,090,980
Defined Events (fire, lightning strike, malicious damage) SAGE		
Removal of Debris and Replanting (aggregate limit) IF	\$	656,586
Re-establishment and Infrastructure costs SAGE	\$	500,000
Removal of Debris SAGE	\$	50,000
Claim Preparation Costs	\$	10,000
Volcanic Eruption	\$	250,000
Fire-fighting Costs IF		Not Taken
Fire-fighting Charges SAGE automatically included	\$	250,000
Earthquake & Landslip IF		Not Taken
Earthquake SAGE automatically included	\$	250,000
Landslip SAGE automatically included	\$	250,000
Hail Strike IF		Not Taken
Hail Strike SAGE automatically included	\$	50,000
Windstorm		Not Taken
Infrastructure Costs (SAGE included in Re-establishment costs – see above)		
Flood SAGE		Not Taken
Snow and Ice SAGE		Not Taken
Pest and Disease SAGE		Not Taken
Aggregate Limit of Liability IF		No Limit Stated
Aggregate Limit of Liability SAGE		\$6,000,000

Deductible formerly Excess

1.5% of each and every Forest Location with Area Damaged Total Sum Insured (minimum of \$5,000) revised from \$38,200 in 2019 per event **Insurance Facilitators**

\$30,000 each and every event **SAGE**

Major Exclusions

For full detail reference must be made to the Policy wording:

- Loss of branch or boughs only
- Vermin, birds, insects, larvae
- Disease, virus(es), bacteria of fungus howsoever caused
- Dead trees at the time of a Defined Event and/or Additional Cover option
- The application of herbicides or insecticides
- Snow or any accumulation of ice
- Damage caused by an insured event that initiates asymmetric and/or short term decrease in biomass growth in live tree stems
- Seepage and pollution including:
 - a. Any loss, damage, cost or expense; or
 - b. Any increase in insured loss, damage, cost, fine, penalty or expense imposed by any court or government body

- Flood or inundation
- Business interruption or consequential losses beyond loss of the trees
- Wilful, dishonest, fraudulent or criminal act by the insured
- Damage to third party property and/or public liability
- War, terrorism, etc
- Insurer's Sanctions Clause

Comments

Please refer to the separate communication (per email)

Marine Hull (Marine)

Insured

Taranaki Regional Council

Insurer

Vero Marine Insurance

Covering

Loss or damage to the insured vessels and third party liability arising from their use.

Interests Insured / Sum Insured

Extreme 540 Sportfisher, Hull Fixtures & Fittings	\$49,500
Trailer	\$ 800
Total	\$50,300

Third Party Limit

Any one occurrence \$5,000,000

Excess

Each and every loss:

Insured Vessel	\$2,500
Trailer	\$ 500
Third Party Liability	\$2,500

Sailing Limits

As permitted under the vessels Safe Ship Management (SSM) Certificate or Safe Operating Plan (SOP) within the NZ Exclusive Economic Zone

Clauses / Warranties / Exclusions

For full details reference must be made to the policy wording.

- Institute Yacht Clauses 1/11/85 - clause 3.2 deleted.
- Petrol Motor Warranty
- Regulation Compliance Warranty
- Trailer Extension Clause
- Theft Warranties

Comments

- Vero Marine has quoted terms subject to the insured Marine Vessel being located at TRC premises at 47 Cloten Road, Stratford and with consideration that the Vessel is used regularly, potentially 50 plus times per year on average

Cyber Risk (Cyber)

Insured

New Plymouth District Council
 South Taranaki District Council
 Stratford District Council
 Taranaki Regional Council

Insurer

Delta Insurance New Zealand Limited (**NPDC & STDC**)
 NZI as a business division of IAG New Zealand Limited (**SDC & TRC**)
 Chubb Insurance New Zealand Limited (**alternative insurer for STDC & TRC**)

Cover

Loss as a result of cyber risks insured including business interruption (NPDC & STDC only) for which this insurance is extended to include

Limit of Liability

Any one claim and in the aggregate (costs and expenses inclusive) (NPDC)	\$ 1,000,000
Any one claim and in the aggregate (costs and expenses inclusive) (STDC)	\$ 2,000,000
Any one claim and in the aggregate (SDC)	\$ 500,000
Any one claim and in the aggregate (TRC)	\$ 1,000,000

Deductible

Each and every claim, costs inclusive (NPDC)	\$100,000
Each and every claim, costs inclusive (STDC)	\$ 50,000
Each and every claim, costs inclusive (SDC)	\$ 10,000
Each and every claim, costs inclusive (TRC)	\$ 25,000

Unless shown within the Insuring Clauses below and on the next page

Business Interruption (12 hours waiting period or \$100,000 NPDC, \$50,000 STDC - whichever is greater) * **coverage not applicable for SDC and TRC***

Territory Limits & Legal Jurisdiction – see Endorsements for SDC and TRC on the next page, reference to ‘USA/Canada Endorsement’

Territory – Worldwide

Legal Jurisdiction – varies per insurer as outlined in separate email communication

Retroactive Date

26 August 2016 (NPDC)
 15 September 2017 (STDC)
 1 July 2018 (SDC and TRC)

Insuring Clauses - Sub Limits (Full limit of indemnity, unless otherwise stated below)

NPDC and STDC only – insurer Delta

Business Interruption (NPDC and STDC only)

First Party Crime: Hacker Theft Cover	\$250,000
- NPDC excess \$25,000	
- STDC excess \$50,000	
Regulator Liability	\$500,000
- NPDC excess \$50,000	
- STDC excess \$50,000	
Investigation Liability	\$500,000
- NPDC excess \$50,000	
- STDC excess \$50,000	
PCI DSS Cover	25% of Aggregate Limit of Liability
Consumer Redress Fund Cover	\$250,000
- NPDC excess \$25,000	
- STDC excess \$50,000	

Emergency Costs		\$250,000
- NPDC excess	\$25,000	
- STDC excess	\$50,000	
Loss Mitigation Costs		\$100,000
- NPDC excess	\$10,000	
- STDC excess	\$10,000	
Network Improvement		\$100,000
- NPDC excess	\$10,000	
- STDC excess	\$10,000	
Personal Reputation Cover		\$100,000
- NPDC excess	\$10,000	
- STDC excess	\$10,000	
Defence Costs	In addition up to the Limit of Liability	

SDC and TRC only – insurer NZI

Computer Crime <i>increased from \$100,000 in 2019</i>	\$150,000
Payment card industry fines and penalties	25% of the Limit of Indemnity

STDC \$2m and TRC \$1m Limits of Liability – new insurer option, Chubb Insurance**First Party Insuring Agreements**

Incident Response, Data and System Recovery, Cyber Extortion

Third Party Insuring Agreements

Privacy and Network Security Liability, Media Liability

Insuring Agreement Extensions - \$25,000 per extension stated, Policy Excess stated below

Emergency Incident Response (Nil excess), Betterment Costs (20% coinsurance excess), Cyber Crime (\$5,000 excess), Reward Expenses (Nil excess), Telecommunications Fraud (\$5,000 excess), Special Defence Costs (\$25,000 excess)

Sub-limits - \$500K per extension stated

Consumer Redress Fraud, Regulatory Fines

Endorsements – current insurers

For **NPDC for Papa Rererangi I Puketapu Limited** coverage excludes loss directly or indirectly arising out of the ownership, possession, control, service and repair, maintenance, operation, loading, unloading, use or inability to use, any aircraft or associated baggage handling, flight management, air traffic control or booking systems

For **NPDC, STDC** 'Amended Extra Expense Definition' specific to Business Interruption

The necessary expense incurred which would not have been incurred in the absence of the Network Attack and was incurred to avoid or minimise an interruption caused by a Network Attack

For **SDC, TRC** 'USA/Canada Endorsement'

Applies to any claim made or action instituted within the Jurisdictional Limits of the USA or Canada:

-Coverage does not include liability for punitive and exemplary damages imposed by law

-The Excess which applies to this Endorsement is USD \$25,000 inclusive of costs

For **TRC** Unencrypted Portable Media Exclusion. This can almost certainly be removed should TRC confirm all personally identifiable and confidential information that is removed from Council premises in any electronic format is encrypted. This includes USB, flash memory, disk hard drive, tape or other means)

For **NPDC** (if coverage incepted with **NZI**) Unencrypted Portable Media Exclusion as outlined above will apply

Sanctions Clause – all insurers

Comments

Please refer to the separate communication (per email)

Public Liability / Professional Indemnity / Environmental Impairment Liability (PL / PI) expires 30 June 2020

Insured

New Plymouth District Council, South Taranaki District Council, Stratford District Council, Taranaki Regional Council

Insurers

QBE Insurance (Europe) Limited and other insurers based in the London Insurance Market

Scope of Cover

Public Liability

Protection for legal liability in connection with the business of Council and arising from occurrences resulting in Personal Injury or Property Damage occurring within the Territorial Limits

Professional Indemnity

Protection for legal liability in respect of any breach of professional duty arising from a negligent act, error or omission, including Defence Costs and Expenses associated with the business of Council

Environmental Impairment Liability

Protection for environmental impairment liability arising from occurrence in connection with the business of Council

Sums Insured **unless otherwise stated all limits are referred to in New Zealand Dollars, Limits stated below apply to each Council individually**

Public Liability & Professional Indemnity

\$300,000,000 **AUD** any one claim and in the aggregate any one Period of Insurance

Environmental Impairment Liability

\$1,000,000 any one claim and in the aggregate any one Period of Insurance

Sub Limits (Public Liability)

Employees' Property	\$1,000,000
Care, Custody or Control	\$1,000,000
Harbour Masters Liability (TRC only)	\$20,000,000
Wreck Removal (TRC only)	\$5,000,000
Service & Repair Liability	\$1,000,000
Exemplary / Punitive Damages	\$1,000,000
Unmanned Aerial Vehicles (Drones)	\$1,000,000

Sub Limits (Professional Indemnity)

Weather-tightness Claims (STDC and SDC only)	\$500,000
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Retroactive Date

30 June 1985 Public Liability and Professional Indemnity

30 June 2017 Environmental Impairment Liability

30 June 2019 Environmental Impairment Liability – Insured Work and Transported Cargo

Deductibles **all deductibles are referred to in New Zealand Dollars**

Public Liability – each and every claim	\$ 5,000
Professional Indemnity – each and every claim other than	\$ 10,000
Loss of Documents	\$ 500
Weather-tightness (STDC and SDC)	\$ 50,000
Environmental Impairment Liability – each and every claim	\$ 25,000
Environmental Impairment Liability – each and every claim involving	
Sewage and Wastewater treatment plants and facilities	\$ 100,000

Comments

All Taranaki Councils' Public Liability / Professional Indemnity Insurance demonstrates a premium increase of between 38% and 42% for 2020 – 2021. This significant increase reflects Marsh's Local Government client liability loss ratios have unfortunately continued to perform poorly. For the current 44 Marsh Local Government clients the five-year average loss ratio is 201% and the 10-year average is 214%. Now that Local Government has produced a number of multi-million dollar losses we can track a rudimentary return period for these claims and it seems that a multi-million dollar liability claim occurs every three or four years now.

What is also apparent from those claims is that most Councils are exposed to the potential to incur any one of them. Relative territorial/unitary authority size might determine the frequency of attritional losses, but any Council can produce a large claim because they are all discharging the same regulatory responsibilities. Regional Councils may not produce the frequency of attritional losses, but they remain exposed to large losses due to their (albeit different) regulatory responsibilities and the types of assets they own that if they fail, that failure may cause widespread damage. This comes into sharp focus following natural disasters, which seem to be increasing in frequency.

We have heard anecdotally that the liability claims for non-Marsh Councils is just as bad, if not worse. Therefore, it would appear that the liability challenges Local Government faces are consistent throughout the country.

This confirms the view that that litigation environment for Local Government has deteriorated. Driving this are:

- Inconsistency between the High Court, the Court of Appeal and the Supreme Court
- Councils being the last defendant standing in a joint and several environment
- The public's perception that Council will be held liable
- Compressed claims maturation rates
- Central Government imposing further responsibilities on Local Government with no ability for Councils to charge for risk
- The frequency of natural disasters revealing historical Council negligence resulting in a frequency of claims issue. They also give rise to widespread property damage for which communities seek to hold the councils responsible for
- The recent *Ross* decision holding that class actions ought to be on an opt out basis, Councils are currently joined into four class actions either as defendants or third parties
- Litigation funders removing the costs impediment for plaintiffs to bring their claims, particularly in respect of class actions

The London insurance market has its own challenges with regulatory oversight requiring insurers to have business plans to deal with lines of business that might put their solvency at risk. The London insurance market has recently lost some casualty capacity with MS Amlin having announced that it is withdrawing all of its casualty capacity. The local insurance market has its own issues with Local Government liability, and if media reports are correct local insurers have incurred some significant losses in recent years, most likely for most or all of the reasons bullet pointed above.

For these reasons the 2020 liability renewal round is challenging and the market has concluded that New Zealand Local Government's poor liability performance is sustained.

Of the locally based insurers approached, none expressed interest in participating in a Public Liability and Professional indemnity placement for Local Government including councils. The insurers approached were:

AIG, Berkshire Hathaway, Chubb, NZI, QBE (New Zealand and Australia), Vero Liability and Zurich

For 2020 – 2021 coverage will reflect the following changes:

- The Environmental Impairment Liability (EIL) while coverage is unchanged from 2019, will be acknowledged as a separate policy for which premium is payable unlike in previous years. Please refer to individual council's Premium Comparison Table, complementing information for further details on the additional premium payable to maintain EIL coverage

All Councils are also asked to be aware of the following considerations:

- Public Liability / Professional Indemnity and for **TRC** relative to Harbour Masters / Wreck Removal insurance policies are subject to English law for insurance disputes, with claims determined by New Zealand law. The Professional Indemnity section of the policies have a retroactive date of 30 June 1985
The Environmental Impairment Liability insurance policies are subject to New Zealand law for insurance disputes

MARSH REMUNERATION

As per the Marsh / Taranaki Council Group Services Agreement, our Insurance Broking Fee is:

2020 – 2021	\$61,851 + GST
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The conditions of Marsh's Broking Fee are as set out in the All-of-Government Risk Financing and Insurance Intermediary Services Order; signed 8th of May 2017.

Please note as per the revised Services Order, the quoted Broking Fee now includes Public Liability and Professional Indemnity (\$12,561 + GST split between all councils) yet does not include the Broking placement fee specific to Marsh JLT Specialty UK for placement of Fine Arts and Exhibitions coverage; \$5,000 (no GST applicable).

INSURERS FINANCIAL STRENGTH RATING

We are required to provide you the financial strength ratings of prospective insurers.

That rating is given by either Standard & Poor's (Australia) Pty Ltd or A M Best Company Inc under the following rating guides:

Standard & Poor's (Australia) Pty Ltd		A M Best Company Inc	
AAA	Extremely Strong	A++ and A+	Superior
AA	Very Strong	A and A-	Excellent
A	Strong	B++ and B+	Good
BBB	Good	B and B-	Fair
BB	Marginal	C++ and C+	Marginal
B	Weak	C and C-	Weak
CCC	Very Weak	D	Poor
CC	Extremely Weak	E	Under Regulatory Supervision
R	Regulatory Action	F	In Liquidation

The Financial Strength rating for Insurers involved in your insurance programme or where quotations have been provided are set out below:

QBE Insurance (Australia) Ltd A+ Standard & Poor's
An overseas policyholder preference applies to QBE Insurance (Australia) Limited ("QBE"). This means that in the event that QBE is wound up, Australian law requires that its assets in Australia are applied to satisfy its Australian liabilities, before those assets can be applied to satisfy overseas liabilities, which would include claims by policyholders in New Zealand. However, QBE is required to hold capital which meets minimum regulatory capital requirements.

NZI a division of IAG New Zealand Ltd	AA-	Standard & Poor's
AIG Insurance New Zealand Ltd	A	Standard & Poor's
Berkshire Hathaway Specialty Insurance Company	AA+	Standard & Poor's
AXA XL	A	Standard & Poor's
Vero Insurance (New Zealand) Ltd <i>includes Vero Liability and Vero Marine</i>	A+	Standard & Poor's
AIG Asia Pacific Insurance Pte Ltd	A+	Standard & Poor's
Insurance Facilitators (HDI Global Specialty SE)	A+	Standard & Poor's
Uniqa Osterreich Versicherungen AG	A	Standard & Poor's
SAGE Partners utilise Lloyds cover holders with a Minimum Financial Claims Paying Ability of	A	Standard & Poor's
Delta Insurance NZ Limited (Lloyd's of London)	AA-	Standard & Poor's
Chubb Insurance New Zealand Limited	AA-	Standard & Poor's
QBE Insurance (Europe) Ltd	A+	Standard & Poor's

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PROPRIETARY NATURE OF PROPOSAL

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APPENDIX 3

Stratford District Council – Insurance Claims History

1 July 2019 – 1 July 2020

Vehicles

- Glass damage to HCS241, costs paid \$135.95 including GST
- Glass damage to GHB333, costs paid \$198.05 including GST
- Glass damage to NHN720, costs paid \$115.25 including GST
- Glass damage to KKQ517, costs paid \$603.75 including GST

Property

- July 2019, Water damage to Percy Thomson Gallery, costs paid by insurers \$729.83(Assessment Fees only)

1 July 2018 – 1 July 2019

Vehicles

- Glass damage to KKU517, costs paid \$63.50 including GST
- Glass damage to HJN105, costs paid \$1,141.28 including GST
- Glass damage to JER995, costs paid \$99.15 including GST

Property

Nil claims made

1 July 2017 – 1 July 2018

Vehicles

- July 2017, vehicle HJN105 – impact with third party vehicle, costs paid to Stratford Panelbeaters \$1,757.27 including GST
- March 2018, vehicle JER995 – impact with fence, costs paid to Stratford Panelbeaters \$2,133.03 including GST

Property

- February 2018, Suggested Storm Damage to the Water Treatment Plant in Cardiff Road, costs paid \$9,649.27 including insurer payments of \$7,790.84 to SDC
- February 2018, Storm Damage to SDC property, costs paid \$15,843.85 including insurer payments of \$4,653.87 to the Taranaki Synthetic Turf Trust and \$10,097.61 to SDC
- May 2018, Electrical Storm Damage to Water Treatment Plant, costs paid \$8,049.35 including insurer payments of \$6,435.68 to SDC

Stratford District Council Insurance Framework

D19/25367

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1.0 Purpose

- 1.1 The purpose of the Insurance Framework is:
- To acknowledge the relevance of insurance and how it fits into Stratford District Council's ("the Council") risk management function,
 - Ensure that, following a risk event, the Council is effectively positioned to return in a timely manner to its pre-event state, and
 - To consider Council priorities and the financial impact to ratepayers of risk mitigation through insurance.
- 1.2 This framework provides a structure for future decision making about how insurance can be used to provide for impacts that have a financial effect on the Council and that the community may be unable or unwilling to absorb. It identifies alternative options to fund restoration of Council's core functions after damaging events. The framework, therefore, considers the Council's ability to, and appetite for, absorbing a level of risk that matches the capacity to absorb financial losses from a damaging event.
- 1.3 This framework also outlines how broking services are to be procured and periodically reviewed for effectiveness.
- 1.4 The Insurance Framework is to be reviewed every three years to ensure that it remains fit for purpose in the context of changes in the insurance market, Council assets and activities, and the environment. The insurance programme that flows from the framework is reviewed each year, and is adjustable to meet the needs of Council, as identified at the time of renewal.

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2.0 Principles

- 2.1 Council aims to minimise the cost of insurance while ensuring adequate cover is in place for mitigating risks to the achievement of the organisation's objectives as set out in the Long Term Plan. Insurance cover must provide value for money to ratepayers.
- 2.2 Decisions relating to cover and deductibles will be informed by sound knowledge of Council assets and their resilience. The potential financial loss due to a risk event must be well understood.
- 2.3 Insurance decisions should be guided by expert advice provided by insurance specialists who have a sound understanding of insurance products, the insurance market and local government insurance needs.

3.0 Introduction

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- 3.1 As guardians of community assets, with a Gross Current Replacement Cost of \$346 million, the Council is responsible for ensuring that it is adequately protected from a range of threats, so that critical assets can be repaired or replaced as soon as possible after an event, and service delivery is disrupted as little as possible.
- 3.2 The local government environment is such that there are a number of statutory responsibilities the Council must comply with or risk facing financial repercussions (fines and legal penalties, financial compensation etc), and loss of trust with the community and regulators.
- 3.3 The following methods provide comprehensive protection currently:
- a) Property Insurance - for above ground assets (excluding Roading), through the Material Damage policy that covers commercial and residential property and contents.
 - b) Local Authority Protection Programme (“LAPP”) - LAPP provides 40% cover for losses of mostly underground structures in the water, wastewater, stormwater and flood protection networks, as a result of a natural disaster. The remaining 60% is expected to be funded by government assistance.
 - c) Contingency Reserve – as at 30 June 2019 the Contingency Reserve balance was \$505,000. This reserve was created to assist in the event of an emergency, particularly a natural disaster.
 - d) Public Liability / Professional Indemnity (which also includes elected members) / Environmental Impairment Liability Insurances and Employers Liability, Statutory Liability - protects for legal liability in connection with the business of the Council.
 - e) Other Insurance Policies - Business Interruption, Motor Vehicle, Personal Accident and Sickness, Hall Hirers – General Liability, Travel, Airport Owners and Operators Liability, Collections (Fine Arts) Insurance, and Cyber Risk.
- 3.4 While there is confidence in the adequacy of existing arrangements, Councils operate in a dynamic environment so there is a need to periodically review these arrangements to ensure that they are fit for purpose.
- 3.5 This framework outlines the elements to consider through such reviews, making it clear what the Council’s approach is to:
- a) Retaining risk through self-insurance or not insuring some assets, and
 - b) Sharing the remaining risk where it is not considered financially prudent to accept full risk, through the purchase of insurance.
- 3.6 Self-insurance is where the Council decides to bear the financial impact of a risk event occurring. To some extent this can be catered for by investing in an emergency reserve fund, or risk prevention mechanisms for example flood protection, investing in infrastructure resilience, staff training in areas such as fraud awareness and cyber security. Establishing credit lines with banks is also viewed as a self-insurance tool.

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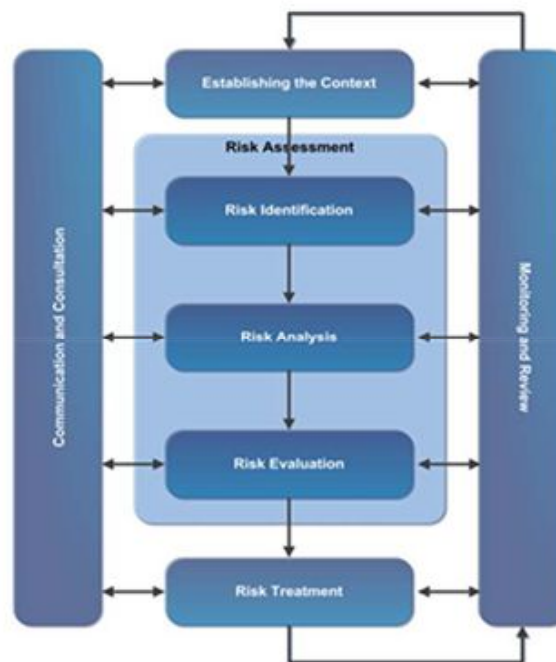
4.0 General Risk Management

- 4.1 The Council’s Risk Management Framework sets the scene for identifying risks that may affect the Council, analysing and evaluating the risks, and controlling the impact of those risks through various means, one of those being insurance.
- 4.2 Insurance primarily provides a means of protection against financial losses from unexpected events. The main function of insurance therefore is providing financial security. It is important to recognise that insurance is essentially a mechanism by which risk is transferred to another party (the insurance company) for a premium.

Risk Appetite

- 4.3 The insurance programme should reflect the Council’s risk appetite in that *“We need to understand, take and manage our risks appropriately”* and *“we will continue to take a prudent and selective approach to risk taking and will continue to build a culture which supports our district through change.”*¹

Overview – Risk Management Process AS/NZS ISO 31000:2009



- 4.4 The Council currently transfers a significant portion of its natural disaster risk to the insurance market. Nevertheless, not all fixed assets are included because it has not been cost effective to do so (e.g. roading network assets). Therefore, this can be seen

¹ Stratford District Council Risk Appetite Statement, 2018

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as a 'balanced' risk appetite. The Council has largely taken a risk averse approach, however, has made a calculated decision to not insure particular assets and risks.

- 4.5 In taking a balanced risk approach, the Council must have:
- A detailed knowledge of its asset base, especially existing levels of cover in relation to assets of critical importance to continued service delivery and a Probable Maximum Loss;
 - An understanding of how much financial loss the Council is prepared to accept by not insuring all assets; and
 - Confidence in the adequacy of alternative sources of funding available to the Council should uninsured assets be exposed to a damaging event.
- 4.6 The Stobo Insurance Market Review (LGNZ, December 2013) recommended that the local government sector invest more into risk management and asset resilience and move away from an over-reliance on insurance and government assistance.

Uninsured Risks

- 4.7 The following risks have not been insured. The current approach may be reviewed at any time where a different option may provide a more cost-effective solution.
- 4.8 Roads, Footpaths, Bridges – Damage caused by weather events or any other accidental damage is not covered by any insurance policy. The cost of insurance is prohibitive and scarcely available, and the cost of reinstatement may in part or in whole be covered by the National Land Transport Fund or another form of government assistance.
- 4.9 Contract Works / Construction Insurance – Depending on what construction works are occurring at a particular time, in the past these have not been covered by insurance as it is considered that the Contractor's public liability insurance would be sufficient to cover risk of damage part-way through construction. However, Contract Works insurance covers assets against accidental physical loss or damage e.g. fire, storm, flood, burglary/malicious damage, impact by vehicle – these are things that the Contractor's insurer would not generally be liable for.
- 4.10 It is recommended that Contract Works insurance be considered for the construction, installation or erection of, or alteration to, a Council asset with a total project value of more than \$2,000,000 (as anything less is likely to be covered under Council's material damage policy).
- 4.11 Crime / Fraud Insurance – This type of insurance generally provides financial compensation for all direct costs in dealing with a crime perpetrated against the Council, in particular fraud or theft. From 1 August 2019, the Council has withdrawn from its Crime Cover policy which provided cover for financial loss from fraud and theft by employees or third parties and other associated costs, as the increase in premiums meant value for money from having the insurance was significantly reduced. The lowest quote from an insurer was over three times the premium from the previous

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year, with the incumbent's offer being over five times higher than the previous year premium. The decision was made by the Council to self-insure, and ramp up internal fraud risk prevention controls and increase staff training.

- 4.12 Personal Accident and Sickness – this policy is in place but it only applies to elected members, the senior leadership team including CEO, and 8 middle managers (and only those individuals 70 years or under). It covers the individuals for total or permanent disability or loss of life, where an occurrence will trigger a payment of \$100,000 to the Council. The purpose of this policy is to ensure the costs of a by-election or recruitment and temporary contractor costs would be sufficiently covered.
- 4.13 Assets Uninsured – Currently the assets not insured include: Roads, Footpaths and Bridges, Farm bridges and races, Halls and Domains, Netball Courts, Playgrounds, Bus shelter, Kopuatama Cemetery, Municipal Building. Further detail on uninsured assets is discussed later in this Framework document.

The Deductible/Premium Balance

- 4.14 The Council has a range of deductibles (excesses) that are dependent on the profile of the risk being mitigated in terms of likelihood and magnitude. Refer to the table below which shows current deductibles for each insurance policy.

<i>Description</i>	<i>2019/20 Premiums</i>	<i>Deductible (Excess)</i>
Material Damage - Commercial	\$ 67,355	\$ 5,000
Material Damage - Residential	\$ 7,094	\$ 5,000
Business Interruption	\$ 747	\$ -
Motor Vehicle	\$ 3,686	\$ 500
Personal Accident and Sickness	\$ 929	\$ -
Crime	\$ 194	\$ 25,000
Public Liability, Environment and Professional Indemnity	\$ 18,876	\$ 5,000
Employers Liability	\$ 265	\$ 2,500
Statutory Liability	\$ 1,146	\$ 25,000
Hall Hirers Liability	\$ 508	\$ 500
Airport Owners and Operators Liability	\$ 720	\$ 2,500
Travel - International	\$ 47	\$ -
Collections (Fine Arts) Insurance	\$ 11	\$ -
Cyber Risk	\$ 4,685	\$ 10,000
LAPP - Member Contribution	\$ 25,683	\$ 60,000

Notes:

1. The excess for Material Damage policy is 5% (or 10% if built pre-1935) of the sum insured if the damage occurred as a result of a natural disaster.
2. Business Interruption insurance is generally reliant on a Material Damage policy claim to activate.

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3. Motor vehicle insurance is based on a total fleet value of \$298,307 (9 vehicles).
4. Public liability, environment and professional indemnity insurance deductibles start at \$5k for occurrences arising from Personal Injury or Property Damage, to \$50k for weather-tightness, \$10k for professional indemnity.
5. For Travel insurance, the excess for electronic devices is \$250.
6. The Crime policy is only effective for the month of July and then comes to an end.

4.15 Savings in insurance premiums could be achieved by increasing the deductible for the Material Damage policy however the downside is that it will limit the ability to make insurance claims. The current Public Liability, Professional Indemnity and Environmental Impairment Liability programme will almost certainly not provide a premium improvement of significance if Council were to request a higher deductible or reduced the sum insured to less than the current level.

4.16 It may be beneficial reducing the deductible for Statutory Liability insurance and investigate the effect on premiums, and potential increase in compensated claims that could arise. Reducing Motor Vehicle insurance deductibles is not a plausible option, potentially aside from adding glass coverage (free window glass protection and a nil excess). The policy deductible of \$500 for the majority of 'loss or damage' claims to Council vehicles is the minimum deductible available with commercial vehicle insurance.

4.17 Property covered under the Material Damage policy may also be liable for fire and emergency levies. This is calculated at 0.106% of the asset's indemnity value. Savings in premiums can be achieved by ensuring that assets that are not exposed to risk from fire have this levy removed.

4.18 In the lead up to the annual renewal of the insurance programme, Council Managers will provide information on whether their areas have suffered any 'below deductible' losses (when the loss is less than the applicable deductible so no claim is made) during the previous 12 months. This information will be combined with that on actual claims made to inform the decision about the deductible amount.

Environmental Scan

4.19 The current environment must be reviewed regularly as internal and external changes to the environment in which the Council operates may influence insurance cover, limits, and deductibles. A discussion on the Risk Framework and Register is initiated by the Senior Leadership Team on a regular basis as part of a standing agenda item for weekly meetings.

4.20 Internal changes might include changes to the structure of the organisation or in the services delivered, or investments made where insurers might assess the Council as being higher or lower risk in a particular area.

4.21 External changes might include legislative amendments that place more responsibilities on local government, or policy changes. This also includes changes in the insurance market brought on by the appearance or disappearance of providers,

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and the reaction of the market to natural disasters e.g. removal of cover or increased premiums at renewal. An insurer withdrawal from the market, due to a lower ability to make a profit in that particular market, creates a risk of having limited long term reliable alternatives, and limited competition often leads to higher premium prices.

- 4.22 Recently there has been a trend towards adverse judgments where it appears Councils are a convenient defendant to allocate liability. In relation to public liability insurance, as a response to recent cases involving local government (*Double J Smallwoods v Gisborne District Council*, *Plaza Investments v Queenstown Lakes District Council*, *Southland Stadium Trust v Invercargill City Council*, *Altmarloch JV v Marlborough District Council*), insurers have become more risk averse in recent years which has led to an increase in insurance premiums.

5.0 Asset Protection

Asset Management Practices

- 5.1 One of the purposes of local government is to meet the current and future needs of communities for good-quality local infrastructure in a way that is most cost-effective for households and businesses. Asset management practice is a matter of strategic financial and risk management importance for the community.
- 5.2 As part of improving its asset management practice, the Council is gradually improving the quality of its asset information. As a result, we will be well placed to complete the modelling needed to calculate the Probable Maximum Loss of fixed assets and will be a requirement to qualify for any central government assistance in the event of a natural disaster. Additionally, higher quality information will lead to a better understanding of how resilient our assets might be during a significant natural event.

What Assets to Insure

- 5.3 It is important that all Council controlled assets are considered in the annual review process. All new assets purchased or developed must be added to the insurance schedule once control of an asset has been assumed by the Council.
- 5.4 In reviewing the Council's insurance programme the current and future use of specific assets is considered, so that a consistent response to loss can be applied.

Essential Assets

- 5.5 Assets identified as essential to the ongoing delivery of services to our community will be replaced. Replacement value insurance is appropriate and gross replacement cost should be reviewed each year for appropriateness. Demolition costs, inflation adjustments should also be taken into account.

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- 5.6 Generally, the majority of Council assets would come under this category as it is not considered financially prudent to invest in non-essential assets. Therefore, unless specifically noted, all Council assets will come under this category.

Desirable Assets

- 5.7 Assets that may be replaced with something less i.e. those identified as desirable but not essential in the ongoing delivery of services to our community as per the Community Outcomes in the Long Term Plan. Functional replacement value (less than actual replacement), indemnity value (current value as is), or no insurance are options. Demolition costs should also be taken into account.
- 5.8 Assets that have fallen under this category in previous years include the Pensioner Flats, the Scout and Guide Hall, Playground structures, the Bus Shelter, and the Centennial Restrooms.

Held for Sale or Future Use Assets

- 5.9 Assets held for future projects only e.g. land acquired for roading or property acquired for community purposes where demolition of buildings is likely. Insurance should be assessed on a case-by-case basis. The council must keep insurers up to date with any changes to the asset value, control, ownership risks etc.

Surplus Assets

- 5.10 Assets that will not be replaced after their useful life and are surplus to Council and community needs. The options are demolition costs only, or no insurance.
- 5.11 Assets that have fallen under this category in previous years include Domains and Halls, Aerodrome club house and hangars, and some low value structures.

Not cost-effective to insure

- 5.12 The Council has made a decision to not insure particular assets due to the cost being prohibitive. The appropriateness of this strategy should be reviewed for each asset annually. Examples of such assets include Roads, Footpaths and Bridges, Farm Bridge and Races, Aerodrome Runway, Park Tracks, Netball Courts and Shelters, and the Skate Park.
- 5.13 As a general rule, all Council property assets above ground will be considered for insurance through the Council's Material Damage Policy, and must be on either the commercial property schedule, or the residential property schedule. All Council assets below ground will be considered for insurance through LAPP. All assets held in Council's asset management system (which includes all three water assets) will be marked as either "above" or "below" to identify the protection mechanism (insurance

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or LAPP) in place, which will then form the basis for asset schedules for the appropriate providers. This avoids double up of assets being insured under more than one policy.

- 5.14 Assets valued at below \$5,000 are not insured in the Material Damage insurance policy, and assets under \$20,000 are insured at the discretion of Council officers.

Asset Valuations

- 5.15 The importance of taking considerable care in determining the value at which an asset should be insured at cannot be underestimated. For example, significant losses arose following the Christchurch earthquakes when it was found that the Christchurch City Council had undervalued many of its crucial Council assets by millions of dollars.
- 5.16 On the other hand, if we insure an asset for a value higher than the total reinstatement cost, we will be incurring extra premium cost for no additional value. Additionally, for the same reason, when an asset is sold or disposed of, it is important that insurers are advised to remove the asset from the property schedule.
- 5.17 The Council's fixed assets are formally valued for accounting purposes every three years. The most recent valuation was for the Water, Wastewater, Stormwater and Rooding assets, as at 1 July 2018. The 2018 Three Waters valuation figures were used for insurance purposes for LAPP from 1 July 2019.
- 5.18 The Commercial and Residential property was last valued at 1 July 2016, with the next valuation to be as at 1 July 2019. The 2016 values, amended for reasonableness, were used for the Material Damage property insurance from 1 July 2019.
- 5.19 Inflation adjustment for the years in between valuations will be based on 1.5%.
- 5.20 The Council does not currently obtain separate insurance valuations. A valuation specifically for insurance purposes may help more accurately determine what the replacement cost will be if there is a total loss to an asset and should include the reinstatement cost, indemnity value, demolition and clean-up costs, and provision for cost escalation to arrive at a total sum-insured figure for each asset. At the next tender for procurement for the land and building valuations, an insurance valuation quote will also be sought in order for the Council to assess the additional cost.

Membership of LAPP

- 5.21 The LAPP is a "cash accumulation mutual pool" set up in 1993, and administered by Civic Financial Services Ltd. It is not compulsory for local authorities to join, but many see LAPP as the only way to gain some form of 'insurance' on underground infrastructure assets. Members make an annual contribution to the fund in return for cover for 40% of the cost of restoring their infrastructure as a result of a natural disaster. Contributions are set at a level that covers the expected risk, administration costs, and re-insurance premiums. In some years the annual contribution includes a

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significant component for building the LAPP. This allows the LAPP to do more self-insurance. Members pay an annual contribution based on factors such as the risk or exposure of the member to a damaging event in its region, the asset value of the member, and the state of repair, maintenance, and condition of the member's infrastructure.

- 5.22 The Council has been a longstanding member of the LAPP mutual fund, which provided cover when commercial alternatives were either unavailable or not cost effective. The advantages of LAPP include that it is a non-profit and has low overheads, and management of the scheme's assets is controlled by local government. Net equity of the LAPP fund was \$16,281,595 as at 30 June 2019².
- 5.23 The downside is that claims payments are at the discretion of the Trustee and there is no insurance policy and therefore no legal basis to dispute claims. However, there are changes proposed to the existing offering which will include a new product called Agreed Cover. This will offer members certainty as to which assets are covered and how much they are covered for, and a choice as to how much overall cover is purchased.
- 5.24 Risk exposure is heightened following the events of other member authorities, which was particularly the case following Christchurch and Kaikoura earthquakes. After a major event the fund requires re-capitalisation and also leaves members exposed while the fund is being re-built.
- 5.25 The other 60% of the cost of restoring infrastructure is to be covered by government assistance, the terms of which are specified in *Section 33 of the Guide to the National Civil Defence Emergency Management Plan 2015* ("the Guide") and discussed further, later in this report.
- 5.26 Increasingly there are commercial alternatives that may be cost effective and therefore worthwhile investigating. Whether LAPP will be capable of meeting the Council's future requirements compared with commercial alternatives is unknown.
- 5.27 Self-insurance for 40% of the replacement value of Council's underground infrastructure assets (\$22.1 million) is not a feasible option. With the current 2019/20 annual contribution to LAPP being \$26k, it does not demonstrate financial prudence to instead set aside \$22.1 million of funds (cash deposits and lines of credit), or be exposed to that level of loss, in the likelihood of a natural disaster.

Natural Disaster

- 5.28 It is widely expected that global warming is likely to bring more storm, flood and wildfire events. Furthermore, New Zealand is now in a period of heightened seismicity risk. Additionally, Stratford is exposed to an active volcano which is overdue for a

² LAPP Annual Report 2019

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moderate to large eruption³. Land use and increased urbanisation also increases the likelihood of flooding, as it decreases the amount of land that water can drain into and increases the number of impervious surfaces water flows over, e.g. paving, road surfaces, hard landscaping.

- 5.29 A natural disaster is mostly relevant for insurance purposes when an extreme hazard impacts significant asset exposure. Due to the rare nature of these types of events it is difficult for insurers to estimate the quantity of a potential outcome and therefore the cost of insurance. This is often exacerbated by a lack of critical asset condition data.
- 5.30 The current plan for financing disaster relief and recovery relies on a mix of self-insurance (contingency reserves), borrowings, and risk transfer arrangements such as insurance.
- 5.31 Minimising risk of exposure is key to minimising the financial impact of a disaster. For example, all Council buildings have been assessed for earthquake risk.
- 5.32 The need for fiscal buffers is higher when, in the event of an emergency, the extent of the Council's ability to borrow quickly at affordable rates is lower. The speed with which borrowing can be mobilized depends on the availability of funding, as well as the Council's track record in debt management. Having access to a sufficient level of cash facilities will enable restoration work to be effected immediately. The Council currently has access to a \$1,000,000 cash facility with TSB, and a \$3,000,000 monthly rolling, short term investment fund.

Natural Catastrophe Risk Modelling

- 5.33 Catastrophe modelling is the process of using computer-assisted calculations to estimate the losses that could be sustained due to a catastrophic 'act of god' event.
- 5.34 In January 2018, the Taranaki group commissioned JLT to conduct an analysis of the Taranaki Council Group's collective exposure to natural hazard risk which would give each Council a better understanding of critical asset exposure and magnitude of potential natural disaster events in terms of financial impact. It was expected that this information would give each Council better guidance on setting aggregate insurance limits and deductibles. To date, the data has not been used in any meaningful way to assist Council in making better insurance decisions.

Climate Change

- 5.35 Experts generally agree that climate change is affecting New Zealand's weather patterns. An increase in extreme rainfall is likely as the temperature increases through the 21st century, potentially increasing both the severity and frequency of flooding.

³ Mt Taranaki began forming about 130,000 years ago and moderate to large eruptions have occurred on average every 500 years with smaller eruptions occurring about 90 years apart. The last major eruption of Taranaki occurred around 1854.

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- 5.36 The government has initiated the Climate Change Response (Zero Carbon) Amendment Bill which will affect how local government responds to climate change. The Bill establishes a framework by which New Zealand will transition to a low emissions economy and adapt to a changing climate.
- 5.37 The Council is yet to consider how it responds specifically to Climate Change in terms of identifying and prioritising climate change risks, and documenting the approach that will be taken to address the risks affecting the Stratford district.

The Contingency Reserve

- 5.38 The Council maintains a Contingency Reserve that may be called on immediately following a natural disaster. The reserve seeks to smooth the impact on rates when the Council incurs significantly increased operating costs in recovering from a disaster. It may also be used as a temporary means to fund recovery costs temporarily while waiting for an insurance payout.
- 5.39 The reserve has previously grown by way of rates contribution, but most recently, and in the next ten years no funds have been allocated to the reserve. The last time funds were deposited into this reserve was in the year ended 30 June 2012, leaving a balance of \$505,000.
- 5.40 Any operating surplus that is not specifically tagged to an activity funded by targeted rates could be transferred at the end of the financial year to the Contingency Reserve.
- 5.41 The opportunity costs of creating fiscal buffers can be significant, especially when Stratford District rates are already comparably high. Building buffers implies forgoing other expenditures geared toward community development and spend on growth of the district and asset resilience.
- 5.42 The reserve should have restrictive rules regarding how the fund can be used. An official declaration of a disaster or public announcement by Council should be required before the contingency reserve can be used for disaster response.
- 5.43 Details of all movements to the reserve shall be reported to elected members annually.

Central Government Assistance

- 5.44 Government financial support is not mandatory and is determined by the Minister of Civil Defence or the Cabinet of the day. The Minister/Cabinet will consider financial support whether or not there is, or has been, a state of emergency in force. The objectives and principles for government financial support are set out in 33.3 of the Guide, which references Parts 160 and 161 of the National Civil Defence Emergency Management Plan. The key points are as follows:

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- 5.45 *Part 160; confirms that the objectives of government financial support are to provide the **minimum level** of assistance to restore to the community the capacity for self-help; and to restore the affected community to a position in which normal social and economic activity can be resumed as quickly as possible.* This implies that if, in central government opinion, council assets lost or destroyed are not essential assets then financial support may not be available.
- 5.46 *Part 161; confirms that government considers local risks to be a local responsibility; and that financial support is not an obligation to restore the community to a better state (than before the emergency) or to restore to previous levels if these are not sustainable long term.* This requires the Council to ensure it has good quality data on its assets, their condition, and the level of service provided by the asset. Currently, we hold this data in our asset management systems including RAMM for roading, and Assetfinda for the three waters assets.
- 5.47 The key principles for central government assistance are: a) Local authorities are expected to bear the primary financial responsibility; b) Government assistance is for solutions which are the most appropriate long term; Risk management and associated costs should be carried by the local authority and others who benefit and who can best manage or mitigate the risk; d) Councils have a responsibility to the extent possible to insure against and attempt to minimise or mitigate risk in advance of any event. Government assistance is contingent on this.
- 5.48 Essential infrastructure recovery and repairs may be claimed as other eligible response costs. These include water, storm water, electrical, sewerage and gas facilities and other structures, such as retaining walls and tunnels upon which essential services depend. These assets must be local authority assets, which are not the property of trading utilities. It may also include repair or recovery of river management systems (including drainage schemes which are part of integrated river systems) where there is major community disruption or continuing risk to life, and repair or recovery of other community assets were damaged as a consequence of the failure of flood protection schemes.
- 5.49 The Minister of Civil Defence, together with either the Prime Minister or Minister of Finance, may authorise a lump sum contribution to a disaster relief fund of up to \$100,000 GST inclusive.
- 5.50 New Zealand Transport Agency may provide financial support towards the costs of road and bridge repair after a weather event or other natural disaster.
- 5.51 Government will fully reimburse local authorities for costs incurred in caring for displaced people. Costs which will not be eligible include:
- Local authority overheads, and
 - Indirect costs such as local authority staff time, Emergency Operations Centre (EOC) activation costs,
 - Office space and the use of vehicles.

APPENDIX 4

5.52 It is recommended that government and insurer claims forms packs are available at Emergency Operation Centres. At least two people in the Council should be familiar with the forms.

Roading

5.53 Roads, footpaths and bridges (excluding foot bridges) are not currently insured.

5.54 The National Land Transport Fund (“NLTF”) was established under Section 10 of the Land Transport Management Act 2003 in response to a defined, major, short-duration natural event that has reduced or will reduce customer levels of transport service and results in unforeseen, significant expenditure. Activities that qualify for NLTF funding as emergency works will be those where an immediate response is required for public safety or to provide vital access, and reinstatement of customer levels of transport service.

5.55 Events that qualify for NLTF funding as emergency works will:

- be of unusually large magnitude or severity for the particular area in which they occur (as a guide they would be expected to have an annual return period greater than 1 in 10 years) ,
- originate from natural, short duration triggering events, including very high intensity rainfall, severe wind, severe drought in government declared drought areas or seismic events,
- have reduced, or will reduce within a 12 month period, levels of transport service significantly below those that existed prior to the event,
- involve a total cost of \$100,000 or more per event.

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6.0 Procurement of Insurance Broking services

6.1 The Council implements the insurance programme annually with the assistance of an insurance broker. The broker serves as an intermediary between the Council and the insurance market. The procurement of insurance can be complex as in some cases, an insurance policy may be covered by several different insurers. For example, the Material Damage Policy is covered by five different insurers with varying percentages which change on an annual basis depending on the market.

6.2 The use of a broker is preferred, as although Council officers may be responsible for the renewal of council insurance policies, we do not generally have sufficient expertise in the insurance industry to enable direct procurement of insurance services.

6.3 The selection criteria for the broking service provider must include:

APPENDIX 4

- a proven record of placing insurance with local and global insurers for the full range of insurance cover potentially required e.g. natural disaster insurance;
- a thorough understanding of the risks facing this Council specifically, as well as the local government sector generally;
- a proven record of delivering timely claims management services and responses to ad hoc requests for advice; and
- a commitment to monitoring significant movements in providers and market conditions, and advising the Council of threats to existing cover (e.g. a downgrading of an insurer's credit rating) and opportunities that can be taken during the insurance year or at renewal.

7.0 Monitoring and review

- 7.1 The Insurance Framework is to be reviewed every three years to ensure that it remains fit for purpose. After each three-yearly review, the revised framework, in draft form, will be submitted to the Audit and Risk Committee for approval.
- 7.2 The Director – Corporate Services is responsible for the implementation of this framework and approval of the annual insurance renewal programme. This commences in April each year and is finalised by June. JLT provides the Council with a full renewal report for the regional group by June for the following insurance year commencing 1 July. The LAPP trustees have recently amended the trust deed to change the insurance year start date from 1 July to 1 November. This has no material effect on the Council.
- 7.3 An annual report will be provided to the Audit and Risk Committee that details the arrangements made in accordance with this framework and any environmental changes that could impact on those arrangements.

8.0 Summary

- 8.1 The purpose of the Insurance Framework is to provide a structure for determining the balance between risk retention and risk sharing. Every three years the framework will be reviewed, considering:
- Changes to the Council's operating environment and risk appetite (as informed by changes to its asset base, the amount of loss that can be accepted before insurance is needed, and confidence in other sources of funding);
 - What assets are being insured and on what basis, to enable an informed decision about the deductible/premium balance;
 - How underground infrastructure assets will be protected; and
 - The purpose, size, and rules around the use of the Contingency Reserve as a partial alternative to insurance.

APPENDIX 4

- 8.2 The annual renewal insurance programme will flow from this framework.
- 8.3 Proactive insurance management will enable the Council to adequately address the objectives of this Framework.

DECISION REPORT



TO: Audit and Risk Committee

F19/3/04 – D20/18468

FROM: Chief Executive

DATE: 21 July 2020

SUBJECT: CLIMATE CHANGE

RECOMMENDATIONS

1. THAT the report be received.
2. THAT Elected Members recommend the adoption of Options 1a or b depending on their preference, or pass an alternative recommendation that best reflects their desired direction.
3. THAT Elected Members recommend the adoption of Options 2a or b depending on their preference, or pass an alternative recommendation that best reflects their desired direction.

Recommended Reason

This report was produced on request of elected members and as such elected members should be in a position to express their preference. As outlined in the report, if elected members choose to recommend the implementation of new or strengthening of existing policy it is important that they acknowledge the likely business-wide financial and non-financial implications this is likely to have.

Moved/Seconded

1. **PURPOSE OF REPORT**

To provide a forum to discuss the wider impacts of climate change on this organisation and its activities and to enable elected members to identify their desired approach to this matter going forward.

2. **EXECUTIVE SUMMARY**

2.1 This report gives elected members the option to take a stronger approach with regards to climate change. The two key aspects addressed are:

- climate change impacts on council facilities and services, and
- the contribution (positive or negative) that council facilities and services make to climate change.

Elected members are given the option to recommend further work to gather relevant information, or affect council decision making as a result of this report. The options are outlined in the body of the report.

3. **LOCAL GOVERNMENT ACT 2002 - SECTION 10**

How is this proposal applicable to the purpose of the Act?

- Is it to enable democratic local decision-making and action by, and on behalf of, communities, and
- Is it to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future.

This report gives Council options around reporting and decision making with regards to social, economic, environmental, and cultural well-being of communities in the present and for the future.

4. **BACKGROUND**

4.1 The subject of climate change in the council environment is multi-faceted and remarkably broad. It stretches from council contribution to and actions aimed to minimise its own and the community’s contribution to climate change and related environmental degradation to preparation and modification of council services and associated assets to withstand the documented and forecast environmental changes.

A further aspect is the consideration of climate change in the regulatory space. While most of the regulatory changes are anticipated to be driven through changes to national standards (e.g. NZS4404 Land Development and Subdivision Infrastructure), it is advisable to consider likely land use changes and provide for an element of agility to respond to those when preparing planning documents, such as District Plans.

It is part of the purpose of this report to stimulate discussion amongst elected members and identify direction and appetite for any further work in this space – over and above what would naturally arise as business as usual in the context of asset creation, ownership and renewal as well as reviews of statutory documents and policies.

4.2 **Stocktake:**

For its own activities, Council has historically taken environmental factors into consideration at a project or activity level, such as considering all-of-life costs (reducing environmental impact of our business) for facilities, plant or vehicle purchases, or when introducing services such as kerbside recycling (providing a service for the purpose of minimising the community’s environmental impact). This is supported by existing clauses in Council’s procurement policy that allow for the consideration of environmental aspects at time of procurement. The application of these clauses has generally been left to staff.

Appendix A contains an initial stocktake of current and historic actions and services council has taken to address environmental impacts, including climate change.

In the regulatory space, considerations are governed by legislation, standards and planning documents and change generally addressed at the relevant review cycles.

4.3 Way forward:

In line with the broad nature of the subject, Council has a wide range of options how to address environmental considerations.

To make the scoping of this subject easier, it is suggested to clearly separate discussions between

- environmental impacts (including climate change) on council facilities and services, and
- Council activities and services that contribute or mitigate to environmental degradation (including climate change).

This recommended approach is reflected in the options prepared for this report:

- Options 1a and 1b addressing Environmental Impacts on Assets and Services, and
- Options 2a and 2b addressing Environmental Impacts by Assets and Services.

No specific option has been prepared for the regulatory part of the business. If elected members were to choose to implement an overarching climate change policy, regulatory activities could be covered by this. Planning detail will be best addressed through the review of the District Plan and associated instruments and processes.

Environmental Impacts on Assets and Services

With regards to the first bullet point, any environmental issues impacting on council assets and or services have historically been brought to council's attention in the context of future works. Either as a result of the environmental impacts, or as an opportunity to future proof assets or services in the context of other required works. The status quo approach would be to continue to address these matters at the asset or activity level (still via Annual and Long Term Plans).

Alternatively, Council could task officers to investigate and report back on the likely short, medium and long term impacts of Climate Change and associated environmental factors on the delivery of council services. From there council could choose to proactively address any risks identified. This would have to be a living document, updated when new information comes to light and represented to council as part of annual or long term plan preparations, or drawn on when work on affected assets is required. **Appendix B** to this report contains guidance provided by Simpson Grierson for councils considering what they refer to as a Climate Change Policy – which aligns with and at times exceeds what has been presented as a possible response in the “Environmental Impacts on Assets and Services” section of this report.

There is not considered to be any significant operational benefit in deviating from status quo. The key difference would be visibility for elected members of

costs arising from environmental change across all activities. This would come at the cost of additional reporting by staff and external experts (consultants).

Environmental Impacts by Assets and Services

With regards to the second bullet point, historically, decisions such as environmental performance have been made at a project, service or activity level, rather than being guided by an overarching policy. This provided an element of flexibility to weigh up costs, level of service and other factors and at times enabled the adoption of a “cheap-and-cheerful” solution that would not be acceptable under an overarching policy.

The introduction of stronger environmental performance requirements would increase consistency, however it would also in many situations add significantly to the up-front cost of projects and services. Some of this additional cost would be recovered (and possibly exceeded, resulting in long-term savings) through reduced all-of-life costs while some elements would not as the cost would be a direct result of improved environmental performance with no direct financial benefit.

In the regulatory environment it is recommended to take potential climate change impacts into consideration when reviewing plans and policies and aim to establish processes that enable responsiveness to change rather than triggering undesirable outcomes due to the application of out-of-sync rules or premature reviews of these documents.

It is council’s prerogative to retain the status quo, or to put a stronger emphasis on environmental measures. Such a decision needs to be made in cognisance of the fact that it has the potential to increase costs and potentially jeopardise the affordability of projects and or services.

5. **CONSULTATIVE PROCESS**

5.1 **Public Consultation - Section 82**

No need for community consultation has been identified.

5.2 **Māori Consultation - Section 81**

No need for separate Māori consultation has been identified.

6. **RISK ANALYSIS**

Please refer to the Consequence and Impact Guidelines at the front of the reports in this agenda.

- Is there a:
 - financial risk;
 - human resources risk;
 - political risks; or
 - other potential risk?
- If there is a risk, consider the probability/likelihood of it occurring.
- Is there a legal opinion needed?

There are no notable risks associated with the content of this report.

7. **DECISION MAKING PROCESS - SECTION 79**

7.1 **Direction**

	Explain
Is there a strong link to Council's strategic direction, Long Term Plan/District Plan?	The content of this report impacts council decision making and the implementation of such decisions going forward.
What relationship does it have to the social, economic, environmental, and cultural well-being of communities in the present and for the future.	The content of this report directly addresses environmental well-being and has impacts across all well-beings as a result.

7.2 **Data**

- Do we have complete data, and relevant statistics, on the proposal(s)?
- Do we have reasonably reliable data on the proposals?
- What assumptions have had to be built in?

There is sufficient data available for the high level nature of this report. Data on climate change and other environmental change is ever growing as scientific understanding improves. This level of detail is not required for the decisions on offer in this report, but is likely to influence future decisions and reporting.

Provided as an attachment to this report is guidance provided by Simpson Grierson on preparing Climate Change policies for councils. This was guided by an Australian Climate Change consultancy.

Council has recently participated in a regional greenhouse gas inventory study. The information contained in this report focuses on the district overall, rather than on council as such. The information contained in the associated report will help inform discussion going forward, is however not considered overly helpful in the context of the decisions provided in this report.

Statistics New Zealand are preparing a New Zealand wide report on CO² emissions. This is due by the end of July.

7.3 **Significance**

	Yes/No	Explain
Is the proposal significant according to the Significance Policy in the Long Term Plan?	NO	
Is it:	NO	
• considered a strategic asset; or	NO	
• above the financial thresholds in the Significance Policy; or	NO	
• impacting on a CCO stakeholding; or	NO	
• a change in level of service; or	NO	
• creating a high level of controversy; or	NO	
• possible that it could have a high impact on the community?	NO	

In terms of the Council’s Significance Policy, is this proposal of high, medium, or low significance?		
HIGH	MEDIUM	LOW
		✓

7.4 **Options**

<p>An assessment of costs and benefits for each option must be completed. Use the criteria below in your assessment.</p> <ol style="list-style-type: none"> 1. What options are available? 2. For each option: <ul style="list-style-type: none"> • explain what the costs and benefits of each option are in terms of the present and future needs of the district; • outline if there are any sustainability issues; and • explain if the outcomes meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions? 3. After completing these, consider which option you wish to recommend to Council, and explain: <ul style="list-style-type: none"> • how this option is the most cost effective option for households and businesses; • if there are any trade-offs; and • what interdependencies exist.

The Committee can recommend a combination of the below options:

7.4.1 Environmental Impacts on Assets and Services

Option 1a (Status Quo): Continue to address any environmental impacts on services, assets and facilities in the context of other factors affecting these, allowing for holistic decision making for each service, asset and facility, rather than a view through a single-purpose lens.

Option 1b: That staff prepare an initial assessment of environmental impacts on existing services, assets and facilities. This would be a living document and reported on annually to council to reflect any new information. This would require specialist input as council does not hold the tools, data, skills or resourcing to undertake this in house.

7.4.2 Environmental Impacts by Assets and Services

Option 2a (Status Quo): That decisions such as environmental performance continue to be made at a project, service or activity level, rather than being guided by an overarching policy. This provides an element of flexibility to weigh up costs, level of service and other factors.

Option 2a: To put a stronger emphasis on environmental measures and climate change in particular, by introducing a stand-alone Sustainability Policy and/or strengthening the sustainability criteria in the existing Procurement Policy to make environmental considerations a much stronger aspect of decision making.

7.5 Financial

- Is there an impact on funding and debt levels?
- Will work be undertaken within the current budget?
- What budget has expenditure come from?
- How will the proposal be funded? eg. rates, reserves, grants etc.

Deviation from the status quo will require external expertise in the form of specialist consultants and modelling. This will require ongoing maintenance to ensure relevance of the data used for decision making. Depending on the scope of work it may also require internal resourcing to operationalise and maintain such information. It is relevant to note that other councils that are active in this space generally have multiple dedicated FTEs.

7.6 Prioritisation & Trade-off

- Have you taken into consideration the:
- Council's capacity to deliver;
 - contractor's capacity to deliver; and
 - consequence of deferral?

Subsequent work that may be triggered by this report may impact Council's prioritisation processes. This is within the intent of this report and aligns with the purpose of any policies or policy change that may arise from this report.

7.7 **Legal Issues**

- Is there a legal opinion needed?
- Are there legal issues?

There is no need for a legal opinion with regards to the content of this report.

7.8 **Policy Issues - Section 80**

- Are there any policy issues?
- Does your recommendation conflict with Council Policies?

This report provides the opportunity to review existing and assess the need for additional policies.

Attachments:

Appendix A - Initial stocktake of current and historic actions and services council has taken to address environmental impacts, including climate change.

Appendix B - Simpson Grierson: Preparing a Climate Change Policy for Local Authorities



Sven Hanne
CHIEF EXECUTIVE

DATE 14 July 2020

APPENDIX A

Initial stocktake of current and historic actions and services council has taken to address environmental impacts, including climate change

Initiative / Purpose	Environmental improvement primary objective of this initiative	Cost reduction primary objective of this initiative	Minimise organisation's environmental footprint	Minimise community's environmental footprint
Kerbside Recycling	✓			
Provision of waste minimisation activities, such as green waste and free recycling at transfer station	✓			✓
Waste minimisation and recycling at council and council supported events	✓		✓	✓
Fuel efficient fleet management, including introduction of hybrid vehicles		✓	✓	
All-of-life asset design & procurement or assets			✓	✓
Procurement Policy – Policy allows for Sustainability criteria to be considered	✓		✓	✓
Increasing the size of culverts when we replace them. Minimum diameter is 375 to reflect climate change.	✓			
TRC consents require larger culverts to cater for fish passage and increased flows due to climate change.	✓			

Initiative / Purpose	Environmental improvement primary objective of this initiative	Cost reduction primary objective of this initiative	Minimise organisation's environmental footprint	Minimise community's environmental footprint
Look at alternative treatments for weed control – reduced use of Glyphosate	✓			
Development of walking and cycling initiatives/Strategy				✓
Designing for better resilience of the road network to reduce likelihood of slips. Better drainage control at culvert outlets.			✓	
Raising of low lying bridges to lift them above flood levels.	✓			
Introduction of recycled materials into road construction, eg crushed concrete used as subbase under footpaths	✓		✓	
Composting of green waste – leaf fall and open space contract green waste	✓			

APPENDIX B



Preparing a Climate Change Policy for Local Authorities

Summary and Insights from Workshops

FEBRUARY 2020

APPENDIX B



WORKSHOP OVERVIEW

Simpson Grierson, Climate Planning and CLIMSystems, with contributions from Toitu Envirocare, Victoria University, Waikato Regional Council, and Watercare, held workshops on 10 - 12 February 2020 with 27 local authorities from across New Zealand.

The workshops provided attendees with a practical guide to preparing a climate change policy that addresses both physical and transitional risks arising from adjusting to a low-carbon and climate resilient economy. Among other essential considerations, the workshops covered:

- Essential **elements of a climate policy**
- How to undertake **climate scenario analysis**, and its importance in a climate policy
- Embedding climate informed decision-making into existing **core governance mechanisms** (long term plans; financial and infrastructure planning)
- Quantifying a local authority's **exposure to climate risk**, including financial, economic, legal, environmental risks
- Tackling **capability and capacity issues**
- How to pre-empt issues arising from impending **climate risk disclosure obligations**.

KEY MESSAGES

The first key message for local authorities was that the Policy sets the rules, whereas the Strategy is the game plan. As such, it is essential that the Policy comes first.

The second key message was that the growing global pressure on financial institutions (banks, investors, insurers, etc) to internalise the cost of climate change-related financial risk is already affecting the cost of lending and allocation of capital. Coupled with the Government proposal to introduce mandatory disclosure of climate related financial risk for certain

APPENDIX B

organisations, climate change-related financial risk must be taken into account when developing local authority policies, strategies and plans. For this reason, the CFO must be at the table when responses to climate change are being considered.

The third key message is that we are now in a time of rapid transition from a high to low carbon global economy. Local authorities must be managing the transition of their organisations and communities, now.

RISK EXPOSURE ASSESSMENT

We highly recommend that, before developing a response framework (policies, strategies and any deep dives into TCFD type risk disclosure) local authorities carry out an initial risk exposure assessment. This will allow the organisation to set essential parameters and direction for any subsequent climate change related risk identification and management. Simpson Grierson is a leader in the provision of advice on climate change-related legal risk. We have a number of tools to identify and size exposure to key climate related risks; tools specifically designed to mitigate climate related liability risk exposure to decision makers.

Workshop attendees were surveyed on a range of relevant matters. Disaggregated results from this survey are attached to this report and provide valuable insights in to the level of progress being made on climate-related risk at the local authority level.

Powerpoint slides from the workshops are also attached.

If you would like further information or assistance on any matters related to climate risk, please contact:

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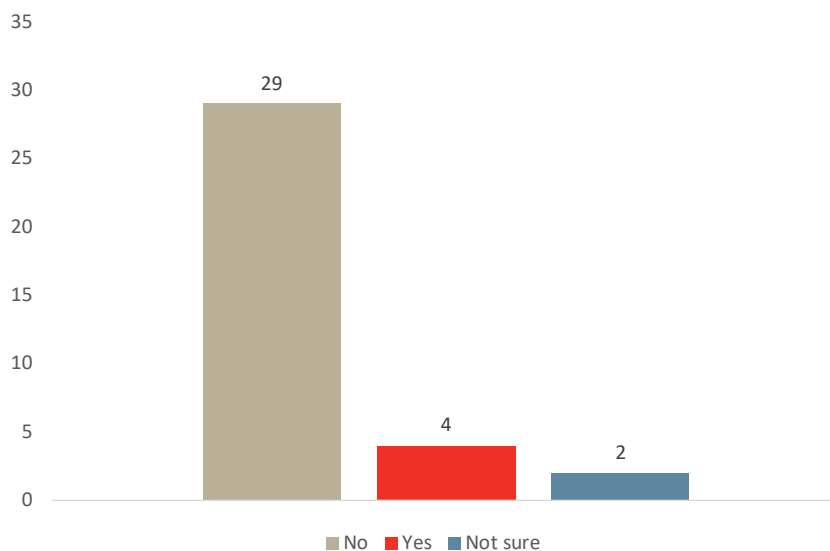
SURVEY RESULTS

LEVEL OF PREPAREDNESS OF LOCAL AUTHORITY ATTENDEES AT CLIMATE WORKSHOPS

The majority of workshop attendees (approximately 70%) were from district or city councils, with the remainder representing regional councils (20%), Unitary Authorities (8%) and Council-controlled organisations (2%).

Q1. DOES YOUR LOCAL AUTHORITY CURRENTLY HAVE A CLIMATE CHANGE POLICY, AND IF SO, DOES IT ADDRESS SOME OR ALL OF THE MATTERS THAT HAVE BEEN DISCUSSED TODAY

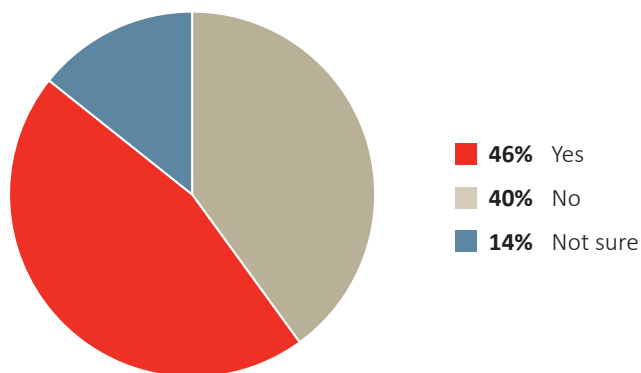
Attendees were asked whether their local authority has a climate change policy. The results are stark, indicating that local authorities are only recently starting to think about climate change risks and future planning:



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Q2. HAS YOUR LOCAL AUTHORITY CONSIDERED CLIMATE CHANGE IN TERMS OF THE FINANCIAL RISK IT POSES TO YOUR ORGANISATION?

Attendees were also asked if their local authority had considered climate change in terms of the financial risk it posed to the organisation. The majority of local authorities in attendance had considered this:



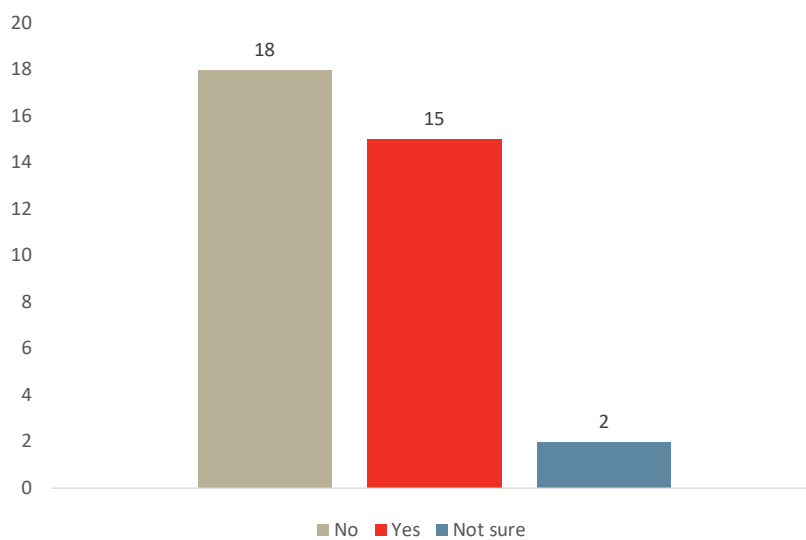
Attendees were then asked the follow up question, who in your organisation do you need to talk to in order to better understand this? Answers included:

- Environmental planners;
- Asset management team;
- Finance department
- Commercial & Corporate Services Group Manager;
- CFO and CEO;
- Senior leadership team;
- Level 2 managers;
- LTP consideration;
- Auditors; and
- Treasurer.

APPENDIX B

Q3. HAS YOUR LOCAL AUTHORITY CARRIED OUT A SCENARIO ANALYSIS TO BETTER UNDERSTAND THE POTENTIAL EFFECTS OF CLIMATE CHANGE ON THE ORGANISATION AND COMMUNITY, AND TO HELP IT DETERMINE THE BEST PATHS FORWARD IN A RANGE OF DIFFERENT FUTURE SCENARIOS?

Attendees were also surveyed as to whether their local authority had carried out a scenario analysis to better understand the potential effects of climate change on the organisation and community, and to help it determine the best paths forward in a range of different future scenarios. The results indicate that the majority of local authorities had not carried out a scenario analysis, with some noting that this was about to be undertaken by their respective local authorities:



Q4. WHAT DO YOU SEE AS THE TOP THREE BARRIERS THAT YOU NEED HELP WITH TO OVERCOME CHALLENGES TO MAINSTREAM THE CONSIDERATION OF CLIMATE CHANGE INTO YOUR ORGANISATION?

- 1** Resources/capability/cost
- 2** Lack of expertise, guidance and understanding
- 3** Political will

Other significant barriers included:

- Lack of leadership
- Difficulty prioritising the issue/keeping to the status quo
- Size and scope of local authority
- Knowing where to get the best information
- Waiting for climate change policies and strategies to be prepared/implemented
- Getting elected members on board
- Lack of central government support/legislation
- Novelty of the issue
- Competing agendas
- Short electoral cycles

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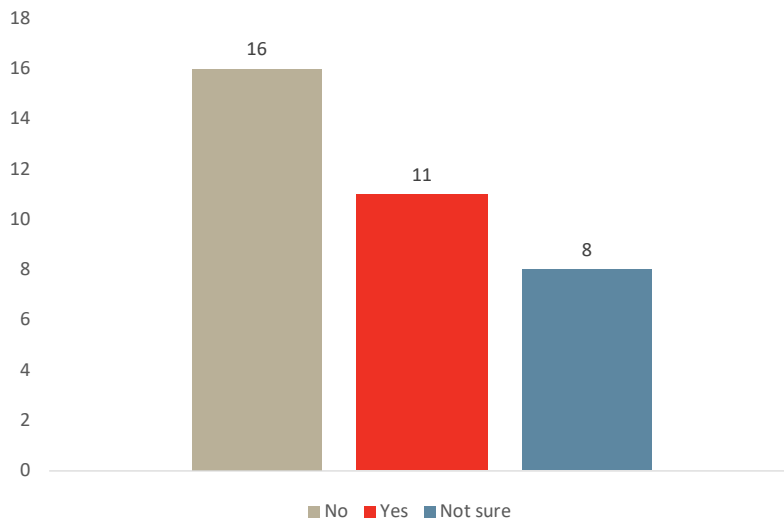
Q5. WHAT IS YOUR LOCAL AUTHORITY DOING, IF ANYTHING, TO ENSURE THAT IT IS MANAGING THE TRANSITION RISK TO THE ORGANISATION AND THE COMMUNITY?

Attendees were also asked what their local authority is doing, if anything, to ensure that it is managing the transition risk to the organisation and the community. While some respondents said their local authority wasn't doing anything or was doing very little, other answers included:

- Discussions with the community about the development suitability of land;
- Understanding changes in stormwater management and water availability;
- Natural hazards programme e.g. Regional Natural Hazard Management Strategy;
- Coastal Erosion Response Policy;
- Start up for Māori environmental projects office;
- Developing a Climate Change Strategy and Action Plan;
- Engaging with the Mana Whenua Kaitiaki Forum;
- Working with the relevant parent council (from a CCO perspective);
- Developing working groups in specific areas e.g. Climate Change Working Group;
- Emissions reduction targets;
- Declaring a climate emergency;
- Carbon neutrality resolution;
- Working with the community to develop a Project Plan, Communication & Engagement Plan, and Community Assessment Panels;
- 30-Year Infrastructure Plan;
- Asset Management Programme;
- Sustainability Strategy;
- Emissions stocktake;
- Undertaking a risk assessment;
- Flood modelling work/management planning;
- Establishing a Climate Change Communicator position;
- Collaborating with other councils;
- Incorporating climate change into decision-making;
- Looking at reporting requirements;
- Recognising M&A through the Regional Plan;
- Ensuring infrastructure meets the specifications for extreme weather events;
- Using a web-based sea level rise tool;
- Recognising Sustainable Development Goals (including Goal 13 – climate action);
- Contributing to the Ministry's National Climate Change Risk Assessment;
- Working with a technical advising group of university, science, communication, and community groups;
- Building internal capability;
- Investing in PD;
- Recognising climate change as a key theme in the Infrastructure Strategy;
- Community initiatives e.g. flood network initiative;
- Reviewing the district plan; and
- Preparing a climate change road map.

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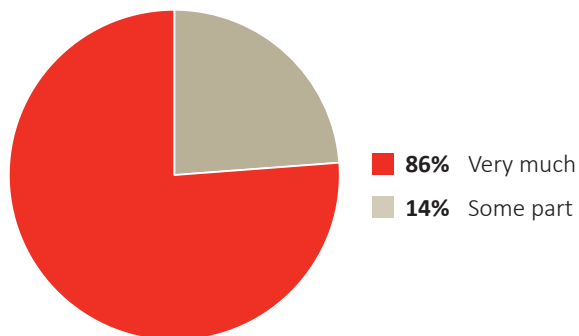
Q6. HAS YOUR LOCAL AUTHORITY TAKEN ANY STEPS IN PREPARING TO MAKE DISCLOSURE OF ITS CLIMATE-RELATED RISK?



IF SO, WHAT IS IT DOING?

- City risk analysis
- Joined with CDP
- Regional Emissions Inventory
- Corporate Emissions Inventory
- LTP assumptions e.g. sea level rise and other indicators
- Preparing draft disclosure
- Coastal hazards information
- Coastal Structures Policy
- Including climate change in LTP
- Undertaking GHG emissions accounting
- Toitū Envirocare verification
- Conversations among finance/legal/policy teams

Q7. WAS THIS WORKSHOP HELPFUL FOR YOU TO UNDERSTAND THE ESSENTIAL ELEMENTS OF A CLIMATE CHANGE POLICY?



WORKSHOP POWERPOINT SLIDES



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@climateplanning

Caveat Please Read

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Local Governments Responding to Climate Change

Climate change is a pressing issue for local government that is already manifesting as a legal, social, economic and environmental risk. Local governments make decisions that span generations (e.g. roll-out of infrastructure, planning for future settlements) and as such need to be actively assessing and responding to the direct and indirect risks that climate change presents. However, since climate change presents a plethora of direct and indirect challenges that are likely to change over time, it will be impossible to effectively manage the issue in an ad-hoc and reactive manner.

Climate change requires a focus on both mitigation and adaptation activities. Mitigation limits the long-term contribution of greenhouse gas emissions to global environmental change and adaptation responds to the impacts that will already be locked into the climate system. The integration of mitigation and adaptation activities act as drivers for a low carbon economy, accessing economic and social opportunities.

Robust decision-making frameworks minimise future uncertainty as issues and information emerge and become important. In fact, this has been identified as the priority for Australian local governments:

Local governments will better respond to the challenges of climate change in an environment where adaptive responsibilities are clear, response and evaluation frameworks are consistent across jurisdictions, approaches to mainstreaming climate change adaptation are implemented, and decisions are made on the basis of the best data and information. (National Climate Change Adaptation Research Facility (NCCARF), 2013)

NCCARF. (2013). Challenges of adaptation for local governments: Guidance Policy Brief Number 5. Retrieved June 5, 2017, from http://www.nccarf.edu.au/sites/default/files/attached_files_publications/GOVERNMENT_070313_A4.pdf



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Why Have a Climate Policy?



An internal climate change policy (or corporate standard) allows the organisation to place a **climate change lens** over all of council's activities and use the existing system to drive adaptation and mitigation.

Staff members in local government have a range of viewpoints and approaches.

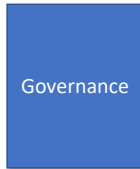
It can allow for the **consistent application** of standards, agreed use of information sources and specific **triggers for change**.

Adopting a formal policy places limitations on the extent that personal viewpoints affect the professional judgments of people who may be sceptical or deny the existence of climate change.



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Climate Policy Feeds into the Core Governance Framework



- Long Term Plan
- Financial Planning
- Infrastructure Plans
- Emergency Management
- Development planning



- Quantifying exposure
- Council
- Community
- Businesses
- Environment



- Response Plan
- Actions
- Roles & Responsibilities
- Timing
- Opportunities
- Adaptation + Mitigation
- Community responses



- Regulatory
- Market
- Community
- Internal



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APPENDIX B

Climate Policy Components



Context

- Objectives
- Where things are at

Climate change scenarios

- Mitigation
- Adaptation

Governance

- Core mechanisms

Capability / Capacity

- Skills
- Working groups
- Networks

Monitoring and Review

- Metrics
- Review points

Disclosure

- What to disclose
- Who to disclose to

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Policy Context: Objectives



Example Components of Context Section

- Support long term financial planning, asset management, strategic planning, emergency management and other key Council processes with consistent, timely and scientifically sound information related to climate change.
- Ensure that climate change adaptation is a core component of planning for a more resilient Council and is therefore mainstreamed into council's functions and activities.
- Commit Council to becoming a leader in climate change innovation and community resilience planning.
- Acknowledgement that a focus must be placed on the significant impacts that climate change will have on the natural assets and ecosystems in the Council area.
- Ensure that Council is well placed to benefit from economic development opportunities that may eventuate due to its proactive climate change adaptation and community resilience commitment

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**Policy Context:
General Context**



Minimal Elements of a Context Section

- International issues and trends (e.g. Paris Agreement)
- Central Government Regulation
- Council's risk summary
- Market forces
- Other issues



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Climate Change Scenarios

- Scenario analysis is a tool to enhance critical strategic thinking
- Policy context:
 - What physical climate scenarios?
 - What carbon price?
 - What regulations to track?
 - What complex scenarios will be used to stress-test or use as outliers?



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Scenarios

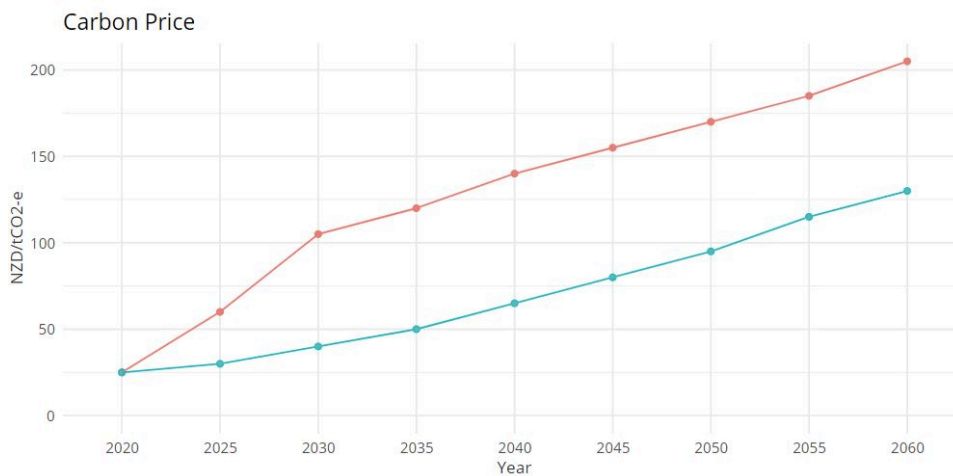
- What information will you use?
- What time period/s will you choose?
 - Minimum outlook (e.g. 2050)
 - Multiple outlook (2030, 2050, 2070)
- Where will you get information from?
- What will be used for quantitative analysis
 - Specific values, and/or
 - Scenario testing



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Policy Scenarios

Quantify the price of carbon into all financial modelling. Have more than one price range.



https://www.bec2060.org.nz/_data/assets/image/0005/182453/1-carbon-price.jpg

APPENDIX B

Policy Scenarios

- Emissions reduction target
 - Align to Central Government
 - Or more progressive..?
 - What scope? (Scope 1, 2, 3)
 - Any stepping stone targets (e.g. 2030, 2035, etc.)
 - Any stepping stone actions (e.g. all council vehicles 100% electric by 2025)
 - Where are the stubborn emissions..?
- What is the current value of Council’s carbon exposure (with future carbon prices)
- What is Council’s policy on carbon offsets (where from)?

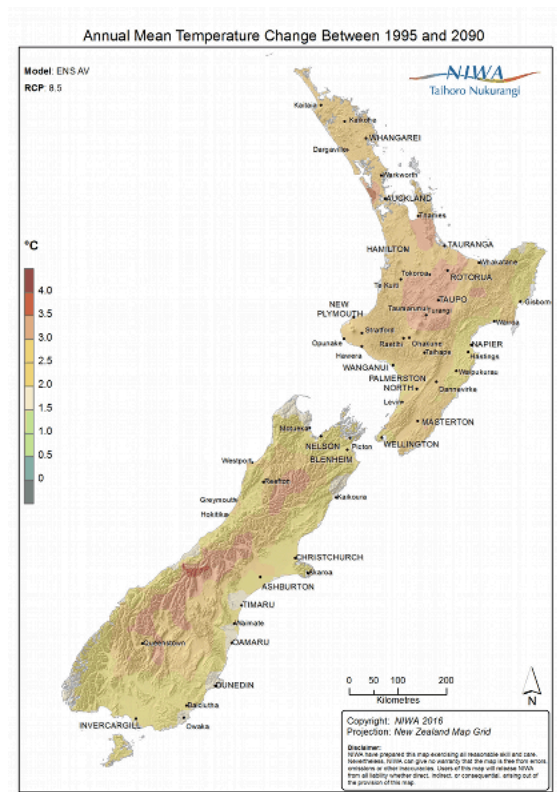


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Remember – climate models have differing results.

Have policy refer to technical manual.

Use policy to set the meta framing of the modelling (e.g. IPCC scenario, timeframe etc.).

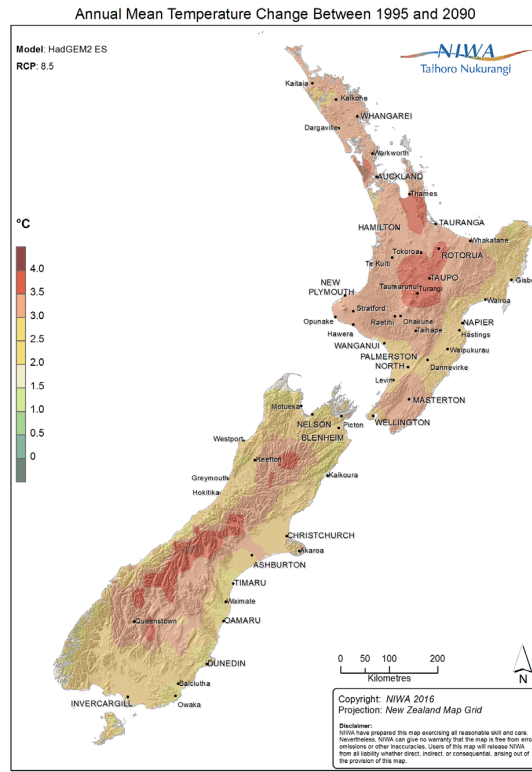


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Have policy refer to technical manual.

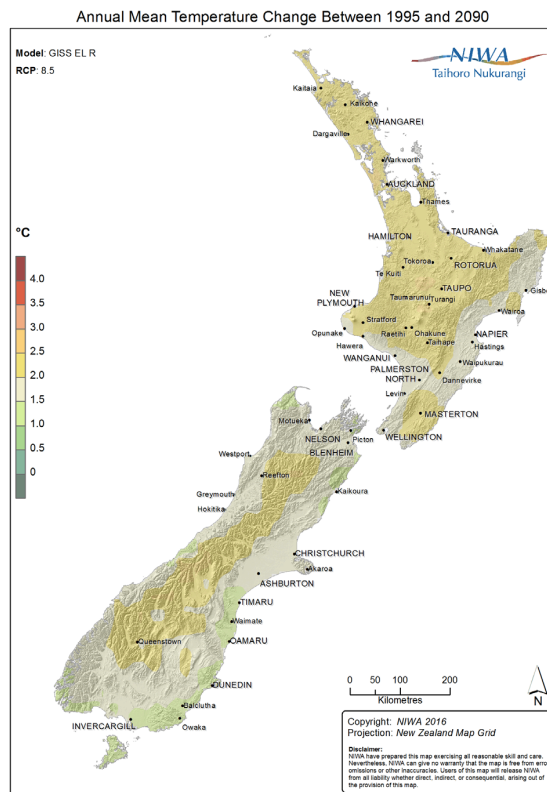
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Remember – climate models have differing results.

Have policy refer to technical manual.

Use policy to set the meta framing of the modelling (e.g. IPCC scenario, timeframe etc.).



APPENDIX B

Climate Variables

- | | |
|---|--|
| Mean temperature (absolute change C) | Very cold nights |
| Maximum temperature (absolute change C) | Maximum 1-day precipitation (absolute change mm) |
| Minimum temperature (absolute change C) | Extremely wet day precipitation |
| Precipitation (percentage change) | Simple daily intensity (absolute change mm/hr) |
| Pan evaporation (percentage change) | Consecutive dry days |
| Relative humidity (percentage change) | Consecutive wet days |
| Solar radiation (percentage change) | Duration of Droughts |
| Surface wind (percentage change) | Frequency of Moderate Droughts |
| Temperature of Heatwave Amplitude | Frequency of Severe Droughts |
| Heatwave Frequency | Frequency of Extreme Droughts |
| Heatwave Duration | Duration of Floods |
| Days in year > 40°C | Frequency of Moderate Floods |
| Hot days | Frequency of Severe Floods |
| Hot nights | Frequency of Extreme Floods |
| Warm spell duration | |
| Cold spell duration | |

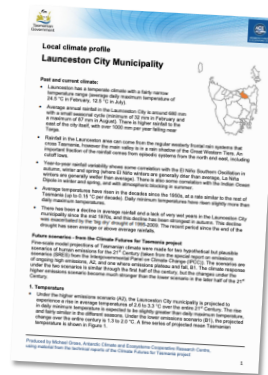


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Scenario Examples

- **General** – that refer to local technical guidelines, which will at a minimum include RCP 8.5 or worst case modelled IPCC GCMs:

“For climate change projections Council will use the Council technical guideline on climate change.”



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Scenario Examples

- **Explicit (detailed)** – that embed the scenarios / variables into the policy itself.

“Council will use at a minimum IPCC 8.5 and as a minimum include changes to average and extreme annual and seasonal projections for 2030, 2050, 2070 and 2100”

- Also has to consider timing with RMA (e.g. 100 years)



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Other Scenarios

- Litigation
- Insurance
- Lending risk
 - Council
 - Community
- Food security
- Water security
- Energy security
- Health (e.g. Pandemics, vectors)
- Environmental (e.g. invasive species)



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Governance

- List the core mechanisms that will drive decision-making
- Describe what you want by when..?
- Prioritise what you want to focus on first

- Corporate Plan
- Financial Management
- Public Risk Register
- Asset Management
- Land Use Planning
- Disaster Management
- GHG Emissions
- Climate Risk Management
- Adaptation Planning
- Climate Change Policy



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Additional components

- Community engagement
- Cultural considerations
- Procurement
- Definitions of “suitably qualified” climate change experts (for consulting)



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Capability / Capacity



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Capability / Capacity

- Establish capability assessments (staff surveys)
- Defining skills required – for each department / area – link to professional development in position descriptions Identify key conferences
- Working groups
 - Make up of the working group
 - When they meet etc.
- Networks
 - Defining key stakeholders
 - Regional / national working groups
- Resourcing
 - Align to budget planning



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Monitoring and Review

RELEVANCE	The indicator should have a strong link to the adaptation goals
FAMILIARITY	The indicators should be easy to understand by the users
DATA AVAILABILITY	Data for the indicators should be easily available and be gathered at reasonable costs
MEASURABILITY	The identified indicators should be capable of being measured, preferably as objectively as possible
RELIABILITY	The results of the indicators should have a limited degree of uncertainty and margin of error. Factors that increase reliability are; good quality of the underlying data, clear and specific definition of the indicator and a transparent and direct calculation methodology.
NON-REDUNDANCY	Indicators within a framework should not measure the same aspect
COMPLETENESS	The total set of indicators should consider all aspects that affect the adaptation goals



Adapted from: (Rooijen and Nesterova, 2013)

Monitoring and Review

- Requirements under financial and/or non financial reporting
- TA assets
 - Exposed units or length (total and by area)
 - Value of the above (replacement)
 - Damage curves
- TA changes to income
- Residential properties (number, damages, exposed \$)
- Business properties (number, damages, exposed \$)
- When to Review
- Science based targets



APPENDIX B

STAGE 3: COUNCIL GOVERNANCE TRACKING

Indicator tracking summary for Asset Management (#4)

Select council:
Kingborough Council

Select indicator:
Asset Management (#4)



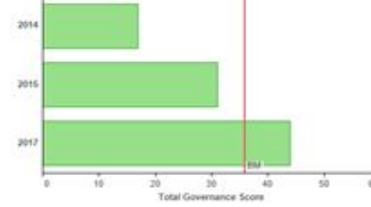
Click on an Year to filter the indicator scores for a specific Assessment Year

Information removed commercial in confidence

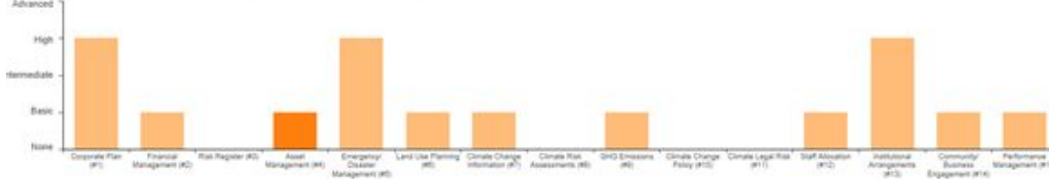
Asset Management (#4) indicator score for each assessment year
Asset management documents were reviewed for words associated with managing climate change (e.g. "climate", "climate change", "sea level rise", "greenhouse gas", and "adaptation")

	2014	2015	2017
None	None	None	None
Basic	Basic	Basic	Basic
Intermediate	Intermediate	Intermediate	Intermediate
High	High	High	High
Advanced	Advanced	Advanced	Advanced

Total climate change adaptation governance score for Kingborough Council



2014 indicator scores for climate change adaptation governance in Kingborough Council



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STAGE 3: COUNCIL GOVERNANCE TRACKING

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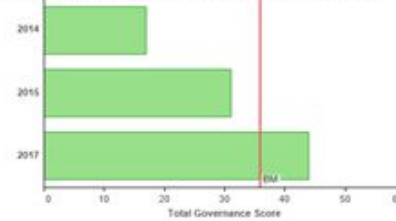
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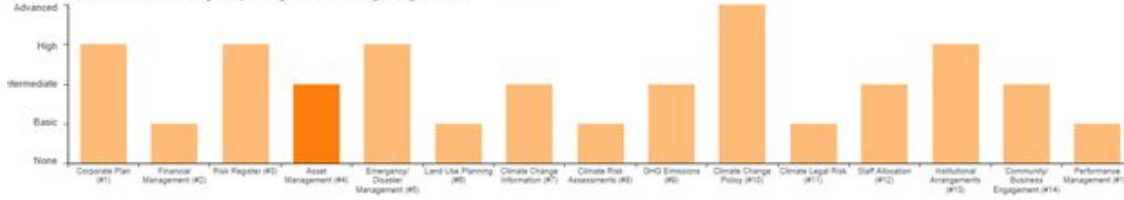
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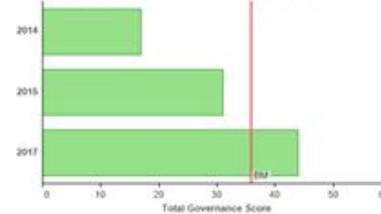
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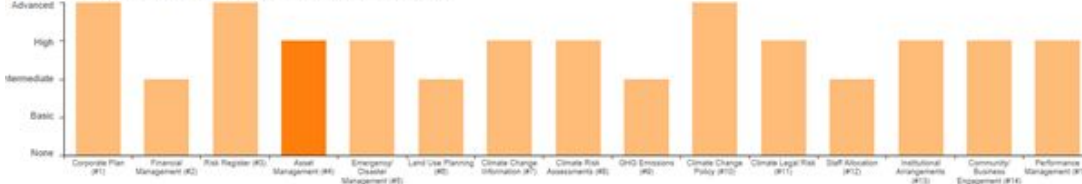
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Basic	Basic	Basic	Basic
Intermediate	Intermediate	Intermediate	Intermediate
High	High	High	High
Advanced	Advanced	Advanced	Advanced

Information removed commercial in confidence

Total climate change adaptation governance score for Kingborough Council



2017 indicator scores for climate change adaptation governance in Kingborough Council



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Monitoring and Review

- Set a baseline (may be various baselines) e.g. carbon recording may have patchy earlier than set date
- Ensure systems to gather the information are establish and someone has ownership of collecting then
- Set key performance indicators
- Link to other reporting (e.g. Sustainable Development Goals, LTP etc.)
- Data visuals



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Review Points

- Set review times (e.g. in line with existing policy), and
- Set review triggers
 - IPCC Assessment Report (AR6 is next)
 - Litigation (council or precedents)
 - Regulatory change
 - Market triggers (e.g. trouble getting finance, insurance, etc.)
 - Significant extreme event (outside, say, 1% return rate)
 - Increase in exposure (e.g. number of houses exposed to x event increasing)
 - After an audit



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Please Reach Out

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donovan@climateplanning.com.au



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BARRISTERS AND SOLICITORS

AUCKLAND: Level 27, Lumley Centre, 88 Shortland Street, Private Bag 92518, Auckland 1141, New Zealand. T +64 9 358 2222

WELLINGTON: Level 24, HSBC Tower, 195 Lambton Quay, PO Box 2402, Wellington 6140, New Zealand. T +64 4 499 4599

CHRISTCHURCH: Level 1, 151 Cambridge Terrace, West End, PO Box 874, Christchurch 8140, New Zealand. T +64 3 365 9914

www.simpsongrierson.com

INFORMATION REPORT



TO: Audit and Risk Committee

FROM: Health and Safety/Emergency Management Advisor

DATE: 21 July 2020

SUBJECT: TWO MONTHLY REPORT FOR THE AUDIT & RISK COMMITTEE

RECOMMENDATION

THAT the report be received.

Moved/Seconded

This report presents a summary of the two monthly progress and any highlights for the main areas of activity within for the period to June 2020.

1. **HIGHLIGHTS**

No major injuries to date with staff or contractors.

2. **EXECUTIVE SUMMARY**

- 2.1 This report provides an overview of Council’s health and safety performance through statistical data reported and recorded in the health and safety software (Vault) for the two months ending 30 June.
- 2.2 Results of data analysed since 1 May 2020 show that there have been a total six events logged in Vault. There was also one other minor event recorded from the TSB pool.

Incidents (1 May 2020 –30 June 2020)

Incidents 7 (59 YTD)	Injury 0 (1 YTD)	ACC Claims 0 (0 YTD)
Notifiable 0 (1YTD)	Near Miss 3 (20 YTD)	Observations 1 (8 YTD)

Types of Incidents and Injuries

Type of Incident

Slips/Trips/Falls (no injury)	2
Sprains/Strains	0
Cuts/Abrasions/Bleeding nose	0
Bruising	0
Near Miss	3
Aggressive/Abusive Customer	0
Vehicle Damage	0
Insect Stings	-
Other	2

Level of Treatment

No Treatment	6
First Aid	1
Medical Centre	-
Hospital	-

Level of Investigation

No Investigation	0
Formal Investigation	1
WorkSafe Investigation	-

Health and Wellbeing

Workstation Assessments 0	Health Monitoring Assessments 0 Baseline Monitoring 0
Wellness Initiatives:	Health and Safety Committee Meeting 1
EAP Referrals 1	Site Reviews 2

2.3 Six out of the seven events logged were of minor nature resulting in low levels of first aid treatment required and or near misses. One event requires further explanation.

2.4 Several weeks ago a Council staff member observed an unsafe work practice taking place in Prospero Place. This involved a subcontractor to one of Council's main contractors undertaking cleaning of the walkway canopy. The council staff member was concerned that the worker had stepped off an elevated work platform straight onto the walkway to continue cleaning. All work carried out from scissor lifts (MEWP's) stipulates that a harness must be used and that you do not exit the platform whilst it is in use. Council's investigation into this incident so far has confirmed that the MEWP was not functioning correctly and the person cleaning had decided to climb from it to complete washing the building.

The company that was undertaking the cleaning has been suspended from further work as the investigation continues. Background

information to this outlines that the contractor/subcontractor relationship continues to be one of Council's main critical risks and although nobody was hurt this time, it highlights the need to ensure that our contractors ensure their subcontractors do what they say they are going to. In this case, it was a category 3 subcontractor that was engaged to carry out the work. This means they had passed all the main contractors questionnaires and processes and were entitled to carry out work for them without any supervision or contact from the main contractor.

It is pleasing that Council is developing a culture of understanding health and safety better and that staff are equipped to challenge others if they do not feel that it is right. Praise must go out to the staff member that raised this concern.

- 2.5 As the organisation and indeed New Zealand moved to Alert Level 1 on the 9 June, preparations and protocols for all Council staff to return to work were moving just as quickly as the country recovered from bubbles, physical distancing, public venues closed and working from home to no restrictions on gatherings, personal movement and domestic travel with the disease being contained in New Zealand and our border restrictions in place.

All of Council's staff have returned to work with little or no disruption. Hygiene is still at the forefront of everybody's mind including staying home when sick and reporting flu-like symptoms. Staff indicated that they were satisfied with measures taken at Council to ensure their safety which included the daily temperature checks and personal movement logs.

As the rest of the world grapples with global coronavirus cases exceeding 11 million and over 520,000 fatalities linked to the disease so far, It is vitally important that we do not relax and remain diligent to ensure there is no resurgence in infections as partial lockdowns could be a way of life overseas for some time to come.

If the country was to go back into an increased level of alertness, Council is positioned well to react accordingly again at minimal levels and ensuring that essential services can be maintained.

As COVID-19 has had a significant impact on how we interact with others, go about our lives, our work, and many other aspects of our lives. We know that a combination of stress and uncertainty can have significant and wide-reaching impacts on the mental wellbeing of people in New Zealand. It is imperative that as an organisation we can recognise any stress our staff may be exhibiting and support them through these anxious times.

- 2.6 Significant progress has been made with the Flyers Swim School who have now met Council's health and safety requirements. This included a review of their policies and procedures, re-induction to the facility, and human resource documentation. They will now be issued with a Licence to Carry out Business for a period of two years.



M Bestall
HEALTH AND SAFETY/ CIVIL DEFENCE ADVISOR



Approved by
Kate Whareaitu
ACTING CHIEF EXECUTIVE

DATE 14 July 2020