TE KAUNIHERA Ā ROHE O
WHAKAAHURANGI
STRATFORD
DISTRICT COUNCIL

Our reference
F19/13/03-D21/26182

1 December 2022

Farm and Aerodrome and Audit and Risk Committees

Notice is hereby given that the Farm and Aerodrome Committee and Audit and Risk Committee Meeting will be held in the **Council Chambers, Stratford District Council, 63 Miranda Street, Stratford** on *Tuesday 6 December 2022* starting at 12noon.

Timetable for 6 December 2022 as follows:

12 noon	Farm and Aerodrome Committee
2.00pm	Audit and Risk Committee

Yours faithfully

Sven Hanne
Chief Executive

Stratford District
In the heart of Taranaki

2022 - Agenda - Audit and Risk - December - Open

06 December 2022 02:00 PM - 05:00 PM

Agenda Topic	Page

AGENDA
Audit and Risk Committee

F22/55/05 – D22/46131

Date: Tuesday 6 December 2022 at 2 PM
Venue: Council Chambers, 63 Miranda Street, Stratford

1. Welcome

   1.1   Opening Karakia
   D21/40748   Page 7

   1.2   Health and Safety Message
   D21/26210   Page 8

2. Apologies

3. Announcements

4. Declarations of members interest
   Elected members to declare any real or perceived conflicts of interest relating to items on this agenda.

5. Attendance Schedule
   Page 9

   Attendance schedule for Audit and Risk Committee meetings.

6. Programme of Works
   D21/42807   Page 10

   Recommendation

   THAT the Audit and Risk Committee's rolling programme of works up to the end of 2023 be received.

   /
   Moved/Seconded

   ---

7. Confirmation of Minutes

   7.1   Audit and Risk Committee – 20 September 2022
   D22/36176 (open) D22/36102 (PE)   Page 11

   Recommendation

   THAT the confirmed minutes of the Audit and Risk Meeting of Council held on Tuesday 20 September 2022 be received.

   /
   Moved/Seconded

   ---

8. Matters Outstanding
D18/27474   Page 19

Recommendation

THAT the matters outstanding be received.

/
Moved/Seconded

9. Information Report – Health and Safety
D22/45592   Page 20

Recommendation

THAT the report be received.

/
Moved/Seconded

10. Information Report – Internal Audit 2021/22
D22/45824   Page 24

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 – Capital Works Programme – Key Projects Update – November 2022
D22/44738   Page 39

Recommendation

THAT the report be received.

Recommended Reason
To present an update on the progress of our key capital projects in the 2022/23 financial year.

/
Moved/Seconded

12. Information Report – Risk Management
D22/45421   Page 47

Recommendation

THAT the report be received.

Recommended Reason
To provide an update to the Audit and Risk Committee of any significant risks and any incidents or threats in relation to significant risks on Council's risk register, since the last Committee meeting.

_____/_____
Moved/Seconded

13. Information Report – Service Delivery (Section 17a Reviews) Update
D22/46483   Page 62

Recommendation

THAT the report be received.

Recommended Reason
To give an update to the Committee on the status of the Service Delivery (Section 17a) Reviews.

_____/_____
Moved/Seconded

14. Decision Report – Three Water Reforms – Risk Management
D22/46201   Page 95

Recommendations

1.   THAT the report be received.

2.   THAT the Committee consider the discussion points listed in 7.4 of this report, and decide whether further investigation is required for each.

Recommended Reason
To assist and guide the Committee in managing all aspects of risk in relation to the Three Waters Reform.

_____/_____
Moved/Seconded

15. Correspondence

16. General Business

17. Questions

18. Closing karakia
D21/40748   Page 106

Our reference
F19/13/03-D21/40748

Karakia

Kia uruuru mai	I draw in (to my being)
Ā hauora	The reviving essence
Ā haukaha	The strengthening essence
Ā haumāia	The essence of courage
Ki runga, Ki raro	Above, Below
Ki roto, Ki waho	Within, Around
Rire rire hau Paimārire	Let there be peace.

Stratford District
In the heart of Taranaki

63 Miranda Street, PO Box 320, Stratford 4352
Phone. 06 765 6099 | stratford.govt.nz

Our reference
F19/13/03-D22/17082

Health and Safety Message

In the event of an emergency, unless guided to an alternative route by staff, please exit through the main entrance. Once outside the building please move towards the War Memorial Centre congregating on the lawn area outside the front of the council building.

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

Stratford District
In the heart of Taranaki

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5. Attendance schedule for 2022/23 Audit and Risk Committee meetings.

Date	6/12/22	21/3/22	16/5/22
Meeting	A	A	A
Neil Volzke			
Steve Beck			
Grant Boyde			
Annette Dudley			
Jono Erwood			
Ellen Hall			
Amanda Harris			
Vaughan Jones			
Min McKay			
John Sandford			
Clive Tongaawhikau			
Mathew Watt			
Philip Jones (External Chair)			

Key	
A	**Audit and Risk Meeting**
D	**Meeting deferred**
	Non-committee member
✓	**Attended**
A	**Apology/Leave of Absence**
AB	**Absent**
S	**Sick**
(AV)	**Meeting held, or attended by, Audio Visual Link**

Audit and Risk Committee - Programme of Works (D21/42807)

	Dec-22	Mar-23	May-23	Jul-23	Sep-23	Nov-23	Mar-24	May-24	Jul-24
Standing Items	-Auditor Correspondence Received -Health and Safety Report -Risk Management Review - LTP Capital Projects status update	-Auditor Correspondence Received -Health and Safety Report -Risk Management Review -Financial Report -Audit NZ Matters raised - LTP Capital Projects status update	-Auditor Correspondence Received -Health and Safety Report -Risk Management Review - LTP Capital Projects status update	-Auditor Correspondence Received -Health and Safety Report -Risk Management Review -Audit NZ Matters raised - LTP Capital Projects status update	-Auditor Correspondence Received -Health and Safety Report -Risk Management Review - LTP Capital Projects status update	-Auditor Correspondence Received -Health and Safety Report -Risk Management Review -Audit NZ Matters raised - LTP Capital Projects status update	-Auditor Correspondence Received -Health and Safety Report -Risk Management Review -Financial Report -Audit NZ Matters raised - LTP Capital Projects status update	-Auditor Correspondence Received -Health and Safety Report -Risk Management Review -Financial Report -Audit NZ Matters raised - LTP Capital Projects status update	-Auditor Correspondence Received -Health and Safety Report -Risk Management Review -Financial Report -Audit NZ Matters raised - LTP Capital Projects status update
Annual Items	-Internal Audit Report (outcomes)	- Internal Audit (Plan for 2023, and status report on previous year audit) - Annual Plan 2023/24 update	-Civil Defence Readiness -Cyber Risk prevention update	- Review of Insurances	-Internal Audit Report (outcomes)	-Committee Self-Review (workshop) - Annual Report 2022/23 (final draft for approval)	- Internal Audit (Plan for 2024, and status report on previous year audit) - Annual Plan 2023/24 update	- Internal Audit (Plan for 2024, and status report on previous year audit) - Annual Plan 2023/24 update	- Internal Audit (Plan for 2024, and status report on previous year audit) - Annual Plan 2023/24 update
One-Off Items	- 3 Waters Reforms: risk identification and management	- Section 17a Reviews final project plan and templates	- Climate Change resilience, strategic risk - deep dive	- Risk 32 - Lone Worker - deep dive					

MINUTES
Audit and Risk Committee

F19/13/06 – D22/36102

Date: Tuesday 20 September 2022 at 2pm
Venue: Council Chambers, 63 Miranda Street, Stratford

Present

Mr P Jones (the Chair), the District Mayor N C Volzke, the Deputy Mayor A L Jamieson and Councillors: P S Dalziel and J M S Erwood

In attendance

Councillors G W Boyde, G M Webby and V R Jones

The Chief Executive – Mr Sven Hanne, the Director Assets – Mrs V Araba, the Director Environmental Services – Mr B Sutherland, the Committee Advisor and Executive Assistant – Mrs E Bishop, the Health & Safety/Civil Defence Advisor – Mr M Bestall (*part meeting*), and one member of the media (Stratford Press).

1. ## Welcome

   The opening karakia was read.

   The Chair welcomed the District Mayor, Councillors, staff and the media to the meeting.

   The Chair reiterated the health and safety message and emergency procedures.

2. ## Apologies

   An apology was received from Councillor M McKay and the Director – Community Services – Ms K Whareaitu

   ---

   Recommendation

   THAT the apologies be received.

   ERWOOD/DALZIEL
   Carried
   A&R/22/34

   ---

3. ## Announcements

   There were no announcements.

4. ## Declarations of Members Interest

   The Chair requested councillors to declare any real or perceived conflicts of interest relating to items on this agenda.

   There were no declarations of interest relating to items on this agenda.

5. Attendance Schedule

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

6. Programme of Works
   D21/42807   Page 11

Recommendation

THAT the Audit and Risk Committee's rolling programme of works up to the end of 2023 be received.

JONES/DALZIEL
Carried
A&R/22/35

It was noted that the audit correspondence would be updated to Deloitte New Zealand.

7. Confirmation of Minutes
   7.1   Audit and Risk Committee – 19 July 2022
   D22/26022   Page 12

Recommendation

THAT the minutes of the Audit and Risk Meeting of Council held on Tuesday 19 July 2022 be confirmed as a true and accurate record.

JAMIESON/VOLZKE
Carried
A&R/22/36

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8. Matters Outstanding
   D18/27474   Page 21

Recommendation

THAT the matters outstanding be received.

ERWOOD/JONES
Carried
A&R/22/37

The Director – Corporate Services noted that the contract manager process was part of the internal audit process. The plan for the internal audit had been approved at the last Audit and Risk Committee Meeting. The timeframe for the internal audit has been extended due to time restraints but it was envisioned a report would be brought back to the next committee meeting.

9. Information Report – Health and Safety
   D22/32364   Page 22

Recommendation

THAT the report be received.

                                                    JAMIESON/DALZIEL
                                                          Carried
                                                        A&R/22/38

The Health and Safety/Civil Defence Advisor noted the following points:
- It was noted that the two incidents involving contractors being threatened by members of the public were two different contractors and two different situations.
- There had been a couple of staff injuries but none had required time off work.
- A fish filleting knife was found in the swimming pool changing room.
- There is a still an issue with Civil Defence numbers and the ability to activate if required.
- There were three EAP referrals.
- The lone worker solution has been implemented. There are a couple of teething issue with the software with one of the pendants activating at 10.46pm last night at the library.

Questions/Points of Clarification:
- It was clarified that the three incidents that were not reported were considered minor such as a bleeding nose or a stubbed toe. It was requested that the table provided to the committee provide further detail such as major/minor to indicate the level of investigation and time required to enable the committee to gauge an understanding of the time required and to provide some consistency in the reporting. This could potentially include time off work, hospitalisation etc.
- The District Mayor noted the incidents with the contractors being threatened twice and the filleting knife at the pool and noted the increase in the nature of these incidents and the frequency was alarming and could happen at any of the council facilities. The Chief Executive noted that the new lone worker solution did have a panic button and was used within the facilities as well as being used offsite.

The Health and Safety/Civil Defence Advisor left the meeting at 2.16pm.

10. Information Report – Risk Management
    D22/32217   Page 25

Recommendation

THAT the report be received.

                                                    JONES/ERWOOD
                                                        Carried
                                                      A&R/22/39

Recommended Reason
To provide an update to the Audit and Risk Committee of any significant risks and any incidents or threats in relation to significant risks on Council's risk register from the previous quarter.

The Director – Corporate Services noted the following points:
- This report looks at the top ten risk register, notes any changes and highlights any incidents relating to the top ten risks that have been actively managed.
- A new risk was added to the full register regarding elections and council's compliance with the biggest risk being an election being deemed invalid and a by-election being required.
- The following risks required active management:
  - Contractor damage
  - 3 Waters
  - Attracting and retaining staff
  - Elected Member decision making
  - Natural disaster and fire
  - Critical Asset Failure

Questions/Points of Clarification:
- The District Mayor noted that elected members had questioned the Minister on his recent visit on the possibility of council being required to undertake the invoicing once the 3 waters entities are established. He noted he had an email from his office stating they were looking into this issue. The Chief Executive noted that he, the Director – Assets and the Director – Corporate Services attended a one day roadshow undertaken by the national transition unit. It was treated as a fact that there are a number of roles that the entity would not fulfil on day one, and billing was highly likely. The other one was the housing of staff, staff will have employment and location guarantees in the transition but there does not seem to be any intention to create offices or satellite offices. It was noted there could be an issue for council undertaking billing for an external provider.
- The chairman noted that the workload for the 3 waters was significantly behind where it should be and this could impact the intended start date of 1 July 2024. This could significantly impact council's Long Term Plan and this committee should be considering the risks surrounding this. Mrs Radich noted that the Taituara Financial Management Group she was a member of was seeking advice from the Office of the Auditor General regarding the inclusion of 3 waters in the Long Term Plan process.
- Councillor Boyde questioned council's ability to have good governance when information such as the Local Government Reforms, 3 waters reforms and the Resource Management Act changes impacted its ability to proceed with documents such as the District Plan. The Chairman questioned if the current residual risk score was adequate or did it need to be reviewed due to the significant uncertainties. The Director – Environmental Services noted there was a little bit of time before council would be required to make the decision on the District Plan.
- Mrs Radich noted that they have been advised that the debt relating to 3 Waters will not be repaid on takeover but have assured council that it will not be put into a worse situation and what is currently paid will be covered by entity B. The District Mayor noted his concern that effectively council would have debt in relation to assets it no longer owns.
- The District Mayor noted the sewerage overflows during storm events. There seems to some progress being made with pipe replacements, however he questioned if council should be penalising those who have deliberately piped their rain and storm water to go into the waste water system as this is causing issues for other residents and the environment, he felt a notice to fix was now inadequate. The Director – Assets noted that as part of addressing the issue a storm water model was underway to allow trouble shooting and identifying work that needs to be done. She noted the impact from climate change will see these issues happening more frequently and the model will consider climate change and determine how much is required in ensuring this doesn't affect our properties.
- It was clarified that Stratford does not provide storm water infrastructure and has limited stormwater primarily for roading infrastructure with residents largely relying on soak holes or other location specific solutions. There are a limited number of properties that disposal into the curb is permitted.
- The Chief Executive noted that network tests – both visual and smoke, are done as part of the stormwater maintenance programme.

11. Information Report – Annual Report Update
D22/32899   Page 37

Recommendation

THAT the report be received.

JAMIESON/DALZIEL
Carried
A&R/22/40

Recommended Reason
To provide an update to the Committee of the Annual Report 2021/22, including draft financial statements and adjusted net surplus.

The Director – Corporate Services noted that this report was to give the committee an update of the current Annual Report progress and draft financial statements. The interim audit has been completed with the final audit commencing 17 October 2022.

Questions/Points of Clarification:
- It was clarified that the total debt noted on page 39 ($32 million) was gross debt. Net debt was approximately $18 million.
- Mrs Radich confirmed she currently had no concerns that Deloittes would not be able to meet the statutory timeframes. She noted that some council's will be receiving a qualified opinion as a result of mandated performance measures but this is out of their control.

12. Decision Report – Section 17A Reviews – Approve Terms of Reference
D22/32248   Page 54

Recommendations

1.   THAT the report be received.

2.   THAT the Terms of Reference for the Section 17A reviews are approved.

ERWOOD/DALZIEL
Carried
A&R/22/41

Recommended Reason
The Committee's endorsement of the proposed plan for conducting the Section 17A reviews will enable Council officers to commence work on the reviews.

The Director – Corporate Services noted the following points:
- This programme will take up quite a bit of time as she would like to put a lot of effort and focus into it.
- The aim is to review all activities.
- This is a legislative requirement to be completed every six years and is due to be completed by this council by August 2023.
- The suggested project team is a mix of staff and elected members.

Questions/Points of Clarification:

- It was clarified that governance had not been included as the main cost is the elected members remuneration which is determined by the Remuneration Authority and would not be an area that could gain any cost efficiencies.
- The District Mayor complimented the addition of elected members to the project team which will allow elected members to influence this at the very beginning of the programme rather than critiquing the recommendations prior to the Annual Plan adoption. Elected members will then be able to see line by line how costs arise.
- It was clarified this review does not consider level of service and purely focuses on if the activity is being delivered in the most cost effective way. Mrs Radich noted that New Plymouth District Council would be completing their review at the same time so this would include how council can collaborate with other councils.
- It was clarified that should an activity change as a result of this review, such as outsourcing tasks, then this would fall under the procurement policy as a secondary outcome.
- Councillor Boyde felt the inclusion of elected members in this project team would need their roles clearly defined so not to proceed at a management level. Mr Hanne noted that the inclusion would mean elected members would have confidence that staff didn't unduly influence what activities were being looked at and elected members would be assured they have been selected objectively.
- It was requested that a template for both the deep dive review and the light review be brought back for approval by elected members once they have been established by the project team.
- Mrs Radich noted that these reviews will inform the 2024-2034 Long Term Plan.

The media left the meeting at 3.07pm.

13. Correspondence
    - LGFA – Statement of Intent 2022-2025
    - LGFA – Annual Report Letter

14. General Business

15. Questions

There were no questions

16. Resolution to Exclude the Public

Recommendation

THAT the public be excluded from the following parts of the proceedings of this meeting, namely:

Agenda Item No: 17

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

General subject of each matter to be considered	Reason for passing this resolution to each matter	Grounds under section 48(1) for the passing of this resolution
Insurance Renewal	The withholding of the information is necessary for commercial sensitivity	The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information. Section 7(2)b(ii) of the Local Government Official Information and Meetings Act 1987.

JAMIESON/VOLZKE
Carried
A&R/22/42

17. Public Excluded Item

Recommendation

THAT the open meeting resume.

ERWOOD/JAMIESON
Carried
A&R/22/44

18. Closing karakia
D21/40748   Page 178

The closing karakia was read.

The meeting closed at 3.23pm.

P Jones
Chairman

Confirmed this 4th day of October 2022.

N C Volzke
District Mayor

Audit and Risk Committee
Matters Outstanding Index

ITEM OF MATTER	MEETING RAISED	RESPONSIBILITY	CURRENT PROGRESS	EXPECTED RESPONSE
Health and Safety Framework Review – manual review	22 June 2021	Sven Hanne/Mario Bestall	Underway	Update in item 9 – Information Report - Health and Safety
Contractor Management Processes – review	15 March 2022	Tiffany Radich	Complete	Internal Audit complete Item 10– Internal Audit 2021/22
Three Waters – Debt and Borrowing ability following 1 July 2024	P&S 27/9/22	Tiffany Radich	Complete	Report - Item 14 – Decision Report – Three Water Reforms – Risk Management
Health & Safety Report – further detail relating to major/minor investigations on incidents	Audit and Risk – 20/09/2022	Mario Bestall	Complete	Updated in Report – Item 9 – Information Report - Health and Safety

INFORMATION REPORT

TE KAUNIHERA Ā ROHE O
WHAKAAHURANGI
STRATFORD
DISTRICT COUNCIL

F22 – D22/45592

To: Audit and Risk Committee
From: Health and Safety/Emergency Management Advisor
Date: 6 December 2022
Subject: Health and Safety Report

Recommendation

THAT the report be received.

_____/_____
Moved/Seconded

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1.   Purpose of Report

1.1   This report presents a summary of three-monthly progress and any highlights for the main areas of activity within for the period to 30 November 2022.

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 three months ending 30 November.

2.2   Results of data analysed since 1 September show that there has been a total of 41 events logged in Vault. This incorporates 30 pool events that are now being logged in Vault. There was 1 near miss reported and no positive observations noted.

3.   Incidents

1 September 2022 – 30 November 2022

	Report period		Year to date	
	Incident count	Monthly average	Incident count	Monthly average
Events	**41**	**13.6**	**50**	**10**
Of which:				
Injury(to our staff/ Contractor)	1		1	
ACC Claims	-		-	
Notifiable	-		-	
Near Miss	1		1	
Observations			-	
Other	39	13	48	9.6
Type of Incident				
Slips/Trips/Falls	6		6	
Sprains/Strains	4		6	
Cuts/Abrasions/ Bleeding nose	5		6	
Bruising	5		5	
Rescues	3		3	
Contamination incidents (Pool)	2		2	
Aggressive/Abusive Customer	4		7	
Trespass			-	
Vehicle Damage	-		-	
Non-compliance of process	1		1	
Plant/Building/Equipment	2		2	
Other	9		12	

	Report period	Year to date
Level of Treatment		
First Aid /DR/ Medical Centre	21	23
Level of Investigation		
No Investigation	28	30
Minor Investigation	6	6
Formal Investigation	6	13
WorkSafe Investigation	-	-
Health and Wellbeing		
Workstation Assessments	2	3
EAP Referrals	3	6
Health Monitoring Assessments	25	25
Health and Safety Committee Meeting	1	2
Site Reviews	1	2

3.1 The reported number of events submitted was a lot higher than usual as a result of the reporting period being for three months instead of the usual two and also includes the larger than usual number of events being reported from Wai o Rua – Stratford Aquatic Centre. Since the opening of Wai o Rua, the volume of reporting has definitely increased - although the nature of events is the same. Three of the incidents logged were still from the old TSB pool.

Although there was a two-week shut down for the month of October for the transition between the old and new pool, figures suggest that patronage has increased by over 30 percent which would align with the rise in incidents being reported. This compares with other aquatic centres of the same size. The Customer and Leisure Services Manager has also confirmed that there are a lot of visitors/ non-residents visiting the centre who are unfamiliar with the rules of the facility.

There has been no aggressive and unsavoury behaviour experience by the Customer Services team or Library during this reporting period, however there were several cases of this at Wai o Rua. It is worrying that behaviour such as this is being presented to the mostly young lifeguards who of course are there to ensure preservation of life and are not fully versed to deal with this type of behaviour. Appropriate training is run on a regular basis which helps staff to address these situations – however doesn't make them any less unpleasant.

3.2 Of the 41 events logged in Vault, here are some of the more varied ones:

3.2.1 General
- Glockenspiel tours were called off due to the effects of moisture ingress during high rainfall affecting safety. This has been addressed and the structure has since re-opened for tours.
- The library was placed into lockdown when Police advised that there was a person with a knife in Prospero place. Suitability of our existing processes to deal with this type of event is currently being reviewed.
- A patron hurt their wrist in the library, the contributing factors have been investigated.
- WorkSafe contacted Council with concerns over the state of a bridge that was damaged by logging operations and has since issued an improvement notice. While officers agree that the bridge requires repairs, officers are not convinced that this matter falls within WorkSafe's mandate and are concerned about the precedent set.
- A contractor re-aggravated their back whilst doing a site inspection. The contractor is recuperating and will not undertake any further inspections until fully fit.

3.2.2   Pool
- In two separate incidents, injuries involving fractures were reported after children had twisted their ankles. One on the diving block and the other on the ramp as they were getting out. There was no causal link identifiable between the two incidents.
- A rescue tube was used in a dry rescue has to aid a patron back to the shallower area of the pool.
- A child needed first aid to their eye after an altercation with their friend.
- Numerous accounts of bumps, scrapes and bleeding noses were logged.
- An alarm was activated in the pool changing rooms as a child had become unwell. It was later established that the child has a known underlying condition which caused the event.
- Patrons became aggressive towards lifeguards after being warned on multiple occasions that they could not leave their three-year-old child unattended.
- A child required first aid to their toe after getting it trapped underneath an automatic sliding door at the pool. A barrier is being fabricated to prevent this event from re-occurring.
- A patron fainted in the changing rooms after completing swimming lessons. First aid was administered whilst an ambulance was called.
- An ambulance was called when a patron triggered a recurring health condition while exercising in the pool.

4.   Civil Defence

4.1   A practice Emergency Operations Centre activation was held on Wednesday 16 November. A mock scenario was exercised to give staff an insight in what it would look like in a "real" activation. Whilst the activation went well there were some areas noted for improvement including having another practice early in the New Year.

4.2   Intermediate training is being held in Stratford on the 30 November / 1 December which has a good number of registrations for the district.

4.3   Council held a successful Shakeout 2022 exercise across sites all three sites with staff and patrons practicing to Drop, Cover and Hold.

5.   Contractors

5.1   There have been no reported incidents with contractors in the past three months apart from the injury already noted in 3.1 above.

6.   Site reviews

6.1   One site review has been conducted over the period with minor non-conformances noted and corrective actions issued.

7.   EAP Referrals

7.1   There have been three EAP requests reported in the portal for the period.

8   Wellness Committee

8.1   The Committee remain well engaged and committed to leading wellbeing across the Council. The senior leadership team were given a presentation on the current situation and a calendar of events that they sought approval on. These would coincide with national events and leverage off their popularity.

9   Matters Outstanding

9.1   **Health and Safety Manual**

The review of the Health and Safety Framework has been undertaken as part of the overall Health and Safety Manual review which is nearing completion. The first draft has been reviewed and final changes are now being implemented.

9.2   **Investigations**

The subject of investigations was brought up in the last Audit and Risk Committee Meeting with a desire to what type of event necessitates an investigation and what doesn't – and whether the fact that an investigation occurred means that the event was of a serious nature.

An investigation is a purposeful, structured process of inquiry that helps the advisor: establish facts or find something out, and decide what action to take (if any). During the course of the reporting period, the advisor will receive a varied amount of information about harm or the risks of harm and this is presented in our Incident management system called Vault.

This harm, or the risk of harm, can be the result of a single event, a pattern or a series of events, a precursor event or a near miss. Because of the large and varied amount of information that is received, there is a deliberation in choosing when there will be a formal investigation and when there will not. If the incident that needs investigation, considerations applied are: What needs to be found out? What is trying to be achieved? Whether an investigation is the right approach given the situation, and is it creating a sustained change to a system or specific behaviour?

It is very difficult to investigate some of the smaller incidents that occur at the pool as an example as nearly always these incidents have been dealt with straightaway and the harm was minimal and not localised to one particular area. If however there was a number of incidents reported for the same mechanism of injury or a particular area then this would necessitate investigation. The significance of the risk or harm means it warrants intervention and the factors considered include; a risk's urgency and its consequences, the degree of risk caused by the Councils actions or inactions, whether it's part of a pattern of harm or poorly managed risk, and whether it's of high public interest and expectation, or whether it's a strategic focus area.

Closing an investigation usually means recording the findings and any interventions that need to be taken and having the ability to reopen if new information comes to hand.

What happens with the information that is found out? The ability to learn from our investigations and share this with the staff involved and health and safety committee is absolutely beneficial and ensures what we have learned is retained and used. Physical or procedural changes are also a common outcome of investigations.

M Bestall
Health and Safety/Civil Defence Advisor

[Approved by]
Sven Hanne
Chief Executive   **Date:**   25 November 2022

INFORMATION REPORT

F22/55/04 – D22/45825

To: Audit and Risk Committee
From: Corporate Accountant
Date: 6 December 2022
Subject: Internal Audit Report 2021/22

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

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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 2022, conducted by Stratford District Council staff.

2.   Executive Summary

The Audit and Risk Committee have, in its Terms of Reference adopted in February 2020, 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.

Management have been informed of the findings and agree with and support the recommendations

Key findings from the audit – based on the risk categories were:

- Data and Information
  - Controls on approved online platforms is tight, as verified by Deloitte's IT auditors.
  - Recommend to conduct an audit of cloud based systems and access.
- Financial
  - Recommendation to ensure offices with IT bulk IT equipment, or at times hazardous chemicals, are securely locked at the end of the day; and
  - Recommendation to have all cleaners in the Administration building sign in each day.
- Reputational and Conduct
  - LGOIMA register well maintained and information recorded correctly;
  - Recommendation to ensure full documentation held with all access to systems;
  - Recommend that when staff leave, all relevant passwords are changed and access discontinued immediately;
  - Recommend that if a staff member commences employment before the police vetting form is received back from NZ Police, the new employee must not be left alone, and is to be supervised by another staff member.

- Health and Safety Wellbeing
  - o Recommendation to include the vehicle rules as part of the induction process for all staff;
  - o Recommendation to have driver training e.g., defensive driving, and 4WD, where applicable;
  - o Recommend to ensure all relevant information regarding a staff member (licence, convictions etc) be held in one register and updated annually:
  - o Recommend that budgets are included to allow for ergonomic workplace assessments, and equipment required as a result.
- Operational
  - o Recommend investigating whether RAMM can be used to store waters information, to provide for back up when needed.
  - o Recommend enhancing the procurement process, including a specialised software programme being used
  - o Critical assets records should be held in one place, and available to staff when necessary
  - o EnviroHaz compliance certificate displayed had expired.

3.   Local Government Act 2002

Under section 10 of the Local Government Act 2002, the Council's purpose is to "enable democratic local decision making by and on behalf of communities; as well as promoting the social, economic, environmental, and cultural well-being of communities now and into the future"			
Does the recommended option meet the purpose of the Local Government 4 well-beings? And which:	Yes		
Social	**Economic**	**Environmental**	**Cultural**
	✓		

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 third in-house internal audit undertaken since the inception of the Audit and Risk Committee, the first one being in July 2020. Unlike the previous internal audits which were undertaken by external consultants, these audits were 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 once again considered good practice to undertake this year's internal audit by council staff. In addition to cost savings, this also gave the audit participants 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 July 2022 meeting. As expected, the audit identified areas for improvement and these are commented on in the next section.

4.6 <u>Other work that was performed</u>

4.6.1 Review of contractor management

Council requested that an internal audit be undertaken to assess the systems and controls in place to ensure that contractors' services are being used effectively and correctly. This review included the on-boarding process; training provided by staff; access to council owned property i.e., IT systems, offices, equipment; and health and safety procedures.

New Plymouth District Council had recently hired Deloitte to review their use of contractors, from which a number of findings arose, as a result it was considered prudent that SDC conduct a similar review.

Refer to **Appendix 3** for a summary of what formed part of the review.

<u>Findings and recommendation</u>

- Nine of the nine selected for the review did not have a contract, nor follow the procurement process
- All nine were providing services, not supplying goods
- Five of the nine performed the services on council owned property.

Refer to **Appendix 4** for the full results of the sample of nine selected for review.

4.6.2 Swimming Pool Stocktake

Given that there was the upcoming move to the new pool complex, council needed to ensure that the stock that was currently held on the shelves for resale matches exactly with what is held in the electronic stock register.

This stocktake was performed manually, in September 2022, and overseen by finance staff, then compared to the register.

<u>Findings and recommendation</u>

The value of stock on hand at that time was minimal, however the manual count and the electronic version did not match with some items. One of the

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reasons is that when staff take an item off the shelf for work purposes, the stock register is not adjusted accordingly.

Given that the new pool, Wai o Rua, is now fully operational, and stock levels will start to build up again, a further stocktake will be done in the new year, to ensure manual counting and electronic stock levels match.

Following this review, there may be further recommendations.

5. Information Summary

5.1 Ten staff – eight from Corporate Services Department, and two other staff members – 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) *Risk 16 – Data and Information -Unapproved online platforms used*
   i. All request for software of hardware goes through the IT helpdesk and consistent with council's Information Acceptable Use Policy.
   ii. Software access based on the role.
   iii. Any new cloud systems must go through a Cloud Risk Assessment, using DIA guidelines.
   iv. Testing to see if hacking is possible cannot be undertaken internally as it requires a specific skill set.
   v. Controls on systems and access are tight.

b) *Risk 36 – Health and Safety and Wellbeing – Council vehicle accident*
   i. Reviewed staff register in Vault, and consulted Health and Safety Advisor on policies and procedures.
   ii. Council has a register but does not have all staff, nor all the details.
   iii. No driver training is currently provided.
   iv. Need to keep register up to date, and include all staff, and provide driver training where necessary.
   v. Ensure all staff are familiar with the rules and policy relating to vehicle use.

c) *Risk 44 – Operational – Road closures unplanned*
   i. Reviewed progress reports for road closures.
   ii. The test samples did not contain sufficient information to tell whether the closures were planned or unplanned.
   iii. The contractor to include whether planned or unplanned in their weekly report, and the expected duration of the closure.

d) *Risk 50 - Operational – Key person risk*
   i. Good business continuity plans prepared in response to Covid measures
   ii. Procurement process development is ongoing
   iii. Look at using RAMM to hold waters information also, so there is always a backup available.

e) *Risk 53 – Reputational and Conduct - Release of incorrect or confidential information*
   i. Reviewed LGOIMA Register, and spoke with relevant staff members.
   ii. The register is well maintained, all information recorded correctly, and staff aware of responsibilities.

f) *Risk 57 – Reputational and Conduct – Online passwords*
   i. Ascertained processes relating to sharing system passwords, records kept, and the process when a staff member leaves.
   ii. There are some systems that have shared passwords, including administration access for IT, however this password is changed regularly.
   iii. There is no register kept that lists all staff who have access to a shared password, so a register is recommended. This will include external contractors as well as staff.

g) Risk 63 – Financial – Theft by contractors
   i.   Various council areas were checked for security of council property, outside of normal business hours.
   ii.   The library / i-site and pool had minimal opportunity for theft, however the administration building was not as secure.
   iii.   Cleaners are not required to sign in to the visitor i-pad, however contractors and visitors during the day do need to sign in.
   iv.   There is no way of knowing who came in each night to clean, and at what time, should anything go missing. The IT office and the storage room in the engineering office are the main locations for items of value that could be removed, particularly when the building is empty of staff.
   v.   Recommend that cleaners sign in to the administration building every day.
   vi.   Recommend that some form of security be placed on the IT office, or storage areas within it, and on the engineering storage room.

h) Risk 67 – Health and Safety and Wellbeing – Muscular discomfort, ergonomics
   i.   Viewed a selection of strain incidents recorded, and spoke with a group of staff regarding a safe work environment.
   ii.   No current budget for eye checks or ergonomic equipment.
   iii.   No current formal process for ergonomic assessments, although he Health and Safety Advisor does do regular checks.
   iv.   Recommend an external workplace assessment be done in relation to ergonomics within each office space.
   v.   Recommend eye checks be provided every two years to staff.

i) Risk 71 – Operational – Critical asset failure
   i.   Evidence of bridge inspections available, and CDEM response document for roading and water assets was available.
   ii.   No evidence of roading contractor's qualifications and experience.
   iii.   No evidence available for two yearly reviews of 3 waters critical assets
   iv.   EnviroHaz compliance certificate currently displayed had expired. together with data safety sheets, also a certificate for each officer qualified to handle chemicals.

j) Risk 75 – Reputational and Conduct – Council employees abuse members of the public
   i.   Selected a set of staff who had started at the pool within a specific time period, to ensure they did not start work until the police vetting form had been received by council.
   ii.   Of the 5 selected, 3 started working before the vetting form was received from the police.
   iii.   Need to look at the timeframe for pre-employment procedures.
   iv.   If the employee must commence work before the form is returned by the police, then they must be under continual supervision until cleared.

6.   Strategic Alignment

6.1   **Direction**

This does not link directly to Council's strategic direction or the long-term plan, however direction was taken from Council's Risk Register which identifies and evaluates the risks of all Council's activities and responsibilities. This register was adopted by the Audit and Risk Committee and regularly reviewed to ensure it meets the needs of council.

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 resource consents are granted incorrectly.
- Council could be subject to scrutiny and being legally challenged by the Department of Internal Affairs if reporting of water complaints is not correct.
- Potential liability could be imposed on Council if regulatory decisions are made incorrectly.
- Possibility of death or serious injury at a public event, or from incorrect chemical handling, could lead to litigations.

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 July 2022 Audit and Risk Committee Meeting
Appendix 3 -   Contractor management review
Appendix 4 -   Findings and recommendations of the contractor management review.

Christine Craig
Corporate Accountant

[Endorsed by]
Tiffany Radich
Director – Corporate Services

[Approved by]
Sven Hanne
Chief Executive   **Date:** 25 November 2022

APPENDIX 1

INTERNAL AUDIT PLAN - RISK FINDINGS AND
RECOMMENDATIONS

	Risk category	Risk description	Control description	What auditor will be looking for	Work undertaken	Findings	Recommendations
6	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 publicly.	All Council information should only be stored on platforms that are approved by IT and gone through proper procedures and checks by IT.	Check that all platforms used by council are approved, and that access is secure	Reviewed platforms used by council, and that they were secure. Looked at who has access to online platforms from behind the scenes, including administrators. Test whether it is possible to be hacked.	Controls are tight, and this was verified by the IT auditors from Deloitte. All requests for software must go through IT, and in line with the Information Acceptable Use Policy. Requests authorised by the system owner and logged accordingly. Software access is related to the user role, and any changes are advised by the relevant manager. Any new cloud systems must go through a Cloud Risk Assessment, using the assessment tool provided by DIA. Only approved staff have access to systems, via the documented processes. Hacking is not somehting that can be carried out internally and is a task that would require an external security provider to be engaged in, over a lengthy time period and very costly, as requires specific skills that are not available internally.	That the new user request form to include the option to select more cloud based applications. That an audit of cloud based systems and access be conducted as a separate audit.
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.	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 tracking. Council has an up to date Vehicle Use Policy.	That a central register is held, with all staff licence details, and is up to date; together with a register of driver training required and undertaken for certain roles.	Reviewed staff register in Vault. Consulted with Health and Safety Adviser on existing policies and procedures.	Council has a Vehicle Use Policy. A register of all staff with their licence expiry date is held in Vault, however doesn't include classes / endorsements. An audit of the register found that not all new staff had been added to it, and that some staff that had left were still on it. No driver training has been provided by council. Vehicle orientation included in council induction process, but no record of who has received this. Vehicle induction process carried out by H & S Advisor, signed off, and put on personnel file. Vehicles are available to all staff for booking. Council's vehicle insurance policy doesn't require a driver to have driver training, nor does it require the driver to be driving in accordance with their licence conditions, or to not be at fault for any incident, in order for a claim to be accepted. Council does not GPS track vehicles to monitor driver behaviours. Council has recently implemented lone worker tracking devices which are yet to prove their worth but demonstrate Council's commitment to driver safety. There are laminated copies of driving policy do's and don'ts in each pool car's glove box.	Induction process to include vehicle orientation for all new staff. Many accidents in the past have been preventable, caused by driver behaviour - council could benefit from defensive driver training (NB - no harm to staff has occurred from vehicle accidents in the past). Could collect data on driving convictions to assess driver risk at recruitment, and ongoing, however relies on staff honesty. Implement a driver training procedure that should include targeted 4WD training, regular reminders to all staff about vehicle checks, what to do in an accident, and safe driving procedures. Previously a sign was on the inside of the vehicle reminding the driver to turn their lights on while driving - this was largely ignored. May need to revisit this, and could be an alert in the booking folder, with a reminder to do a quick safety check of the vehicle. Need to update staff licence register, with ongoing monitoring, and can also include in the induction and departure process. Promote the use of the laminated policy of do's and don'ts in the glove box.
44	Operational - road closures unplanned	IF there are unplanned road closures due to collapse of culvert/bridges/landslides and so forth THEN access in/out of district could be lost and people could be injured as a result.	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	That appropriate records are kept regarding routine inspections, and any work required is given the necessary resources, which can be verified from documentation supplied by the contractor.	Progress reports were reviewed for evidence of unplanned roadworks and road closures. Reviewed reports for evidence of road inspection.	The reports had not been entered in to Content Manager but were unable to be accessed without requesting them from the Roading Asset Manager. The reports did not contain sufficient information to be able to tell whether works were planned or unplanned, there were associated road closures, and how long they lasted. Each report had a map of roads inspected during the period.	The reports should be routinely saved within Content Manager. The contractor should provide information in the weekly report on planned versus unplanned works, associated road closures, and proposed duration.

			diverted from other planned projects to remediate repairs to enable the road to be re-opened.				
50	Operational - key person risk	IF a key person in the organisation could not work for a significant time THEN this could affect council's ability to perform core functions and duties.	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 resources if needed.	That there is a register of key persons / positions, and suitable documentation for day to day processes, including training plans for other staff. Ensure there is also an up to date list of comparable staff from other Taranaki councils, and consultants.	Viewed Business Continuity Plans for Assets department, and back up for all positions. Reviewed the procurement process, and the GIS Survey Information Process. Reviewed data collection for water meters in Stratford township.	Business Continuity Plans were created in February 2022 for Assets department, in response to Covid measures. There are back up positions for all assets positions except Asset Management Coordinator and GIS Officer (both currently vacant). Multiple forms are being created / developed to improve the capture of procurement, and the GIS Survey Information process, including a documented process. Downloading information is not able to be achieved due to old software which is no longer supported. Information is manually inputted into an email and sent to GIS Officer.	Investigate the possibility of using RAMM to asset GIS information instead of Assetfinda. This will hold data in one place, and provide further back up for staff. Explore software to manage procurement in one package, to enable the process to be done in the correct order, no steps missed, templates to be completed, and save time later when looking for information. Update hardware to improve connections with software. Update GPS to new software and install more computers for easier and more efficient uploading of data.
53	Reputational and conduct	IF incorrect or confidential information was given out through social media, media releases, staff actions at the service desks, LGOIMA requests, council meetings, and/or functions THEN risk of damaged reputation, ratepayer district and actions from Local Government ministry and/or Privacy Commissioner.	All media releases are to be checked off by Director - 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 by FAQ's from public. Consider implementing a Privacy Impact Assessment for how council handles personal information.	That all information released is done through a LGOIMA request, and recorded in a register, or if through other channels, correctly recorded and verified. That the register is retained for seven years.	Discussions with Community Services Director, and Communications Manager. Checked the LGOIMA list register. Interviewed relevant staff members to ascertain staff awareness around the Privacy Policy and around what can and can't be shared.	LGOIMA request register goes back to 2015/16. It records the date and officer who responded to the request. Follow up requests are logged as a new request in the register if they are different. No personal information was shared in the Facebook sample that was exported and checked. Internal media policy clearly outlines the rules.	The register is well maintained, and all information is recorded correctly. Staff are aware of what can and can't be shared with media or the public. Media releases are approved before going public. Therefore no recommendations were necessary.

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.	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.	That there are no computer systems that have shared passwords: - Authority software - Building consent processing - RAMM - roading - Assetfinda - Pool software - Library / i-site	Interviewed staff to ascertain processes in allocating access to systems, removing staff from systems, and whether there is shared access.	Access is given to staff or contractors at the time of induction /employment with council. Managers send requests to IT advising what access is required. When a person leaves, exit forms are completed , and access removed. Assets department have some systems that are accessible by contractors, to update information as per call logs, however can not administer or change any details. Customer Service staff have their own login, but when at front counter the main login is shared. IT have access to the database of staff access, with IT having one shared password for administrative work on the systems. This is changed regularly, and when an IT staff member leaves. AA systems are user specific and can only be accessed on the AA hardware, and does not interact with council's systems. When an AA staff member leaves, access is disabled immediately. In the library / i-site, the 3 computers at the customer service desk share a generic windows login and password for Koha, the library system. The login has limited permissions, and does not interact with any of council's systems, and have an internal procedure for all departing staff, to ensure all access is disabled. Pool staff all use one login, due to the number of staff, including casual staff. This is meant to be changed when staff leave. There is no current document showing a full list of staff that have access to the password. Building inspectors have 2 software systems, with access given at the start of employment. Assets staff can also access these, but with limitations. Roading staff use RAMM, and contractor has read only access except for one of their staff, who can update data. The Waters staff have other software systems, access given to staff as applicable at commencement of employment. Contractor can update the waters tasks assigned to them, but can't change details.	All new staff and contractors (individuals) that have access to any computer systems must go through the correct IT induction system. This must be documented and reviewed at least annually. Where there is shared access to any system, it is imperative that passwords are changed immediately when a staff member or contractor leaves. This process needs to be documented. When an employee or contractor leaves, the exit form must have a prompt in it to ensure shared passwords are changed where applicable.
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.	Whether there is the opportunity for contractors to obtain access to council property or information, and how the opportunities can be reduced.	Five places in the administration building, the office at the pool, and the team leader's office at the library / i-site were selected. The Property Officer advised what the processes and procedures were around the cleaners access to facilities. The Customer Services team leader advised the process in relation to signing in by contractors in the administration building.	Cleaners are police vetted by the sub-contractor when they sign their employment agreement. The Property Officer completes an induction with the supervisor, who then inducts the other cleaning staff. They are all instructed to not touch anything on a staff member's desk, nor clean them, unless otherwise advised by the Property Officer. Cleaners have a set of keys for all council owned buildings. There is currently no sign in procedure for the cleaners. Other contractors to the administration building must sign in on the i-pad, and given lanyards if required. The staff member they are visiting are advised of their arrival, then they go through their responsibilities while on council premises. Two internal cameras cover the service centre area. The IT office is easily accessible by anyone, and contains valuable IT equipment. There is nothing to stop cleaners from removing items, especially with cupboards that are broken and can't be locked. The storage room in the engineering office has a sliding door, that does not lock. It stores supplies including hazardous chemicals and other equipment. The Community development office stores items for events, that can easily be removed. The library team leaders office is not locked, however there are both internal and external cameras in place. No cash is kept in here. At the new pool, items for sale could easily be removed by cleaners, however there are two cameras in the reception area, and cash is securely locked at night. There have been no reported instances of theft to the Property Officer.	Items in the IT office need to be secured, or a lock placed on the door. The new Aquatic Centre are still working on their storage solutions. Install a lock on the sliding door in the engineering office, that is securely shut every evening. Have a sign in and out process for the cleaners in the administration building
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.	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.	Check that there are processes and procedures in place, commencing with induction of new staff, and then ongoing, to ensure that the ACC guidelines are being followed.	Requested incidents of strains reported to the Health and Safety Advisor. Also selected a random group of staff, and asked whether they had experienced any strains or discomfort. Checked to see if there was any budget for eye tests or ergonomic equipment.	Currently there are no formal, documented processes, however the Health and Safety Advisor does perform an ergonomic check on new staff, as part of the induction process. There is no current budget for individual departments to purchase ergonomic equipment, or for staff to have regular eye checks. With no budget, this could hinder staff in asking for the necessary equipment, and they continue to work in an uncomfortable working space, so not as productive. There are external parties who provide workplace assessments, and will work with staff to ensure that they get the equipment required.	Budgets be included for each department to ensure the necessary equipment can be purchased. Engage a workplace assessor to come in and assess each staff member's work space, and provide a report of what they consider is necessary, after talking to each employee. Create a register to record all workplace checks, and update as required. Allow for funding for staff to have regular eye tests, possibly every two years. Council would cover the cost of the test only.

| 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. | 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. | Documentation provided by independent parties regarding the condition of critical assets, 2 yearly reviews, and suitable staff training is provided. | Requested and viewed evidence of up to date records regarding critical assets. | Roading
Sighted evidence of bridge inspections, which are stored in Content Manager, and carried out every 2 years.
Viewed a CDEM response document.
Records of suitable training qualifications for some contractors are held, however auditor does not have sufficient knowledge as to whether these qualifications are suitable or appropriate.
Main contractor has no documentation on training records for their staff and their training is based on qualification or experience.
Roading Asset Manager advised that no official training courses are provided.
Water assets
Services Asset Manager unable to locate evidence required for t2o yearly review of critical assets.
CDEM incident response plan was sighted.
Water treatment records were provided in paper form, but nore sure if any documents stored digitally.
EnviroHaz compliance certificate was displayed at the water treatment plant, however had expired in October 2021.
Training records register was not conclusive and some digital records were in unknown locations. | All copies of records to be held in an approved repository, whether Content Manager or Vault, depending on the record type, and all responsible staff aware of where they are held.
CDEM response plan for Water Assets required contact details to be updated.
Expired EnvirHaz compliance certificate to be removed and the current one displayed.
Ensure contractors qualifications are suitable for the work required, and evidence of qualifications.
Investigate whether training courses should be provided for contractor's staff. |
| 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. | 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. | - Compliance with council's Induction Policy, regarding police vetting
- View evidence that police vetting reports have been obtained. | Went through a sample of staff who started at the pool within a specific three month period, to ascertain whether the police checks were completed prior to the staff member actually commencing employment with Council. | All staff members had the police vetting form submitted and returned. The request for offer of employment stated that you must give eight working days, to allow for the reply.
This means that it is only giving five days to process the application and three days for the employee to review the contract, therefore making it almost impossible to get the police form back in time, before employment is due to commence.
Normally the police vetting form is given out when the letter of offer is sent to the applicant, and the applicant then completes it and sends it back as soon as possible, so that processing can occur.
However, this is not always the case, as they don't come back in a timely manner, and the time the police take varies.
Out of the five staff members selected, three were found to have commenced work before the police vetting forms were processed and returned. | That the request for offer of employment is extended out to at least four working days to allow all the processes to be completed within the time frames.
However, the issue with this is that sometimes the police process the form on the same day, and other times it can take up to a month to be returned to council.
Therefore recommend that until the police form is received by council, the new staff member is not left alone, at any time. |

APPENDIX 2

INTERNAL AUDIT PLAN - RISKS TO BE REVIEWED

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
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 publicly.	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	To ensure that all sensitive or private information is stored securely	Check that all platforms used by council are approved, and that access is secure	- Review current documented processes around the approval of online platforms. Ensure they are robust, easy to follow and compliant. - Review who can access online platforms from behind the scenes. - Test whether it is possible to be hacked.	IT Manager
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 tracking. Council has an up to date Vehicle Use Policy.	3 Moderate	To ensure council is correctly recording all employees drivers licence details, including expiry dates, and ensuring staff are aware of what to do in the event of an accident.	That a central register is held, with all staff licence details, and is up to date; together with a register of driver training required and undertaken for certain roles.	- Check the register includes all staff on the payroll, showing expiry date, classes permitted, and any endorsements - Check there is a record of all driver training provided to employees where applicable to that role - Check there is a register of roles in council that require driver training - Check Council's Vehicle Use Policy is still fit for purpose.	Health and Safety / Civil Defence Advisor
44	Operational	Road closures - unplanned	IF there are unplanned road closures due to collapse of culvert/bridges/landslides and so forth 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	To ensure council is actively monitoring and inspecting critical roading assets, so there are no injuries due to lack of management or poor workmanship. Ensure contractors are also aware of their obligations. To ensure that there is sufficient resources available should there be an unplanned road closure.	That appropriate records are kept regarding routine inspections, and any work required is given the necessary resources, which can be verified from documentation supplied by the contractor.	- Select 3 random weekly progress reports from January to March 2022 as supplied by the roading contractor - Review reports with Roading Asset Manager to ascertain if there were any unplanned roading works in that week - If there were unplanned works, ascertain whether there were any road closures required as a result of these works - Review reports to ensure there were sufficient resources available to complete the required works in a timely manner, seeking guidance from the Roading Asset Manager - Review register that has a record of roads inspected as part of a routine inspection programme.	Roading Asset Manager
50	Operational	Key Person risk	IF a key person in the organisation could not work for a significant 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 resources if needed.	2 Moderate	To ensure there is no disruption to council's ability to deliver certain services to the public and ratepayers during a prolonged absence of a key staff member.	That there is a register of key persons / positions, and suitable documentation for day to day processes, including training plans for other staff. Ensure there is also an up to date list of comparable staff from other Taranaki councils, and consultants.	- Review duties for roles undertaken by key persons - Ensure there is sufficient back up from either internal or external sources, should a key person be absent - Ensure key processes are pro mapped.	Chief Executive

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 service desks, LGOIMA requests, council meetings, and/or functions THEN risk of damaged reputation, ratepayer district and actions from Local Government ministry and/or Privacy Commissioner.	8 High	All media releases are to be checked off by Director - 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 by FAQ's from public. Consider implementing a Privacy Impact Assessment for how council handles personal information.	2 Moderate	To ensure council is not releasing incorrect or confidential information, as this could lead to parties initiating legal action, and damage council's reputation. It could also damage the reputation of an individual if confidential information was released. To ensure that all LGOIMA requests and responses are retained for seven years.	That all information released is done through a LGOIMA request, and recorded in a register, or if through other channels, correctly recorded and verified. That the register is retained for seven years.	- Select a 2 month period during the 2021/22 financial year and ensure that all LGOIMA requests have been recorded correctly. - Check that all responses have also been recorded in the register - Check that the register records the last seven years - Check what is in the responses does not include any personal information - Talk with service centre staff to ascertain that they understand what information can and can't be given out against the - Select a 2 month period and ensure that all information posted by council on its Facebook page or website is both correct and not confidential - Select 5 random staff, and ascertain their understanding of what information can and can't be released.	Communications Manager Customer Services Team Leader
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	To ensure that no passwords are shared, unless pre-approved by the IT Manager, for a specific purpose, or where it is necessary for the operations of council.	That there are no computer systems that have shared passwords: - Authority software - Building consent processing - RAMM - roading - Assetfinda - Pool software - Library / i-site	- Check all systems to see if there are any shared passwords - What record is kept of who has access to each one - If there are, look at how access can be done without sharing a password - What record is kept of that of who has access to each one - If there are shared passwords, what procedures are in place when someone holding that password departs council.	IT, Aquatic Services Team Leader, Assets Director, Building Control Manager, Customer Services Team Leader
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 for any contractors that have access to council, the opportunities are mitigated where ever possible for theft to occur.	Whether there is the opportunity for contractors to obtain access to council property or information, and how the opportunities can be reduced.	- Select 5 places at random in the administration building where the cleaners have access, to see if there are opportunities for theft, and whether there are adequate controls in place to prevent any occurrences of theft - Check the main office at the pool complex, and the team leader's office in the library, where cleaners have access, to see if there are opportunities for theft.	Customer Services Manager Property Officer
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	To ensure that council is acting responsibly regarding staff welfare in their work environment, so that council will not be subject to any investigation and penalties or fines by Worksafe.	Check that there are processes and procedures in place, commencing with induction of new staff, and then ongoing, to ensure that the ACC guidelines are being followed.	- To ascertain that reviews /assessments are being undertaken - Is there a record of a review as part of the induction process - How often do the ongoing reviews take place, and is each review being appropriately documented - Assess whether these reviews are frequent enough, to take in to account changing needs of staff.	Health and Safety / Civil Defence Advisor
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	To ensure that all critical assets of council are maintained in good working order, as per drinking water standards, NZTA, or the relevant legislation or guidelines. If this is not done, then there could be serious harm to people and/or property, and at a significant cost, and inconvenience to residents and ratepayers.	Documentation provided by independent parties regarding the condition of critical assets, 2 yearly reviews, and suitable staff training is provided.	- Check there is documentation showing required 2 yearly review for all critical assets - Check there is documentation showing how each asset complies with these standards - Check there is documentation showing suitable staff training has been conducted with relevant staff to ensure critical assets are maintained.	Roading Asset Manager Services Asset Manager

| 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 | To ensure no council employees abuse members of the public, including children, while performing council duties. | - Compliance with council's Induction Policy, regarding police vetting
- View evidence that police vetting reports have been obtained. | - Obtain police vetting forms for all staff that started working at the pool between 1 January and 30 April 2022
- Check the date the form was received, and compare to the employee's actual start date
- Ensure there is evidence the forms have been sighted and signed off as appropriate prior to commencing work
- Where the form was received after employment commenced, ascertain the reason why this happened. | Executive Administration Officer |

Appendix 3

CONTRACTOR MANAGEMENT REVIEW

Purpose of review
To assess the systems and controls in place to ensure contractors services are appropriately utilised to best effect, giving consideration to the following:

- Purpose of the contract – why the contractor was engaged
- Correct documentation before commencing
- On-boarding (hiring) process, induction if applicable
- Training – IT and other areas where necessary
- Health and safety
- How the contractor is managed by Stratford District Council (SDC).

Background
New Plymouth District Council recently hired Deloittes to review their use of contractors. A number of findings arose from this review, and as a result it was considered prudent and timely that SDC conduct a similar review.

Nine contractors were chosen, from a total of 72 (12.5% selected). Total expenditure for the nine selected is $232,000, during the period March 2021 to February 2022.

As this $ value is material, SDC need good robust internal controls in place to manage the contractors. Any weaknesses can expose SDC to legal and reputational risk.

Currently, it is up to the managers to manage the process, from on-boarding, to the completion of the project, therefore there is the risk that processes are inconsistent, and not aligned with other contract processes.

What general processes will be looked at
- What processes are in place to manage contractor performance?
- Is there a process to determine whether and individual is a contractor or an employee?
- Is SDC effectively hiring a contractor to fill a staff vacancy?
- Is there a process for on and off boarding?
- Is there a process for SDC's health and safety requirements?
- Is there a process for IT, including security and privacy?
- Is there a process to ensure SDC gets value for money, and is not being over-charged or ripped off?
- Is there a process for training the contractors?
- Is there a process to determine whether there is any potential or perceived conflict of interest, and documentation to support this?
- Is there a process to ensure payments are made in accordance with the contract?
- Is there a standard contract template that is used for consistency?
- What is the selection process to ascertain the successful contractor?
- How is the hourly rate determined?
- Are the critical tasks identified, so that the contractor doesn't add any extras in?
- What is the trigger for the end of the contract, so it not extended by the contractor?
- Is there a centralised list of contractors available to staff – including both current and former contractors?

Specific items to be considered relating to the nine selected

- How many had a current contract?
- Were all contracts available for perusal?
- If they did have a contract, how many went past the contract expiry date?
- How many were renewed regardless of performance, or whether they were still even needed?
- Who approved the hiring of the contractor – was it done in accordance with Council's Procurement Policy
- Who is following up on practical completion certificates and releasing of retentions?
- Can documentation be provided for any conflicts of interest declared?
- If any of these are still current (not expired) check that payments have bene made in accordance with the contract
- Ensure all invoices received from the contractors have supporting evidence attached to each claim, to show a breakdown of the services completed.

Appendix 4

FINDINGS AND RECOMMENDATIONS OF THE CONTRACTOR MANAGEMENT REVIEW

Nine contractors were selected from a total of 72 (12.5% selected), with a total expenditure for the nine selected of $232,000 for the period march 2021 to February 2022.

Findings:

- There is no central contract management area within council, and all departments manage their procurement in their own way, which is not best practice
- None of the nine consultants / contractors had a contract at the time of these works being undertaken
- None were approved in accordance with council's procurement procedures
- All were providing services only, and not goods
- Five of the nine were providing services on council property
- Given that none had contracts, it is unknown whether the correct on-boarding processes were followed
- One of these nine should have been assessed to determine whether they were a contractor or employee
- All invoices had evidence of work performed, however with no contract there is no way of knowing if we were correctly charged for the work performed
- Four were for specialised services, however a contract is still required
- Of the nine selected, the following were the types of work performed:
  - ➢ Security services   1
  - ➢ Consultancy services   5
  - ➢ Traffic count services   1
  - ➢ First Aid services   1
  - ➢ Design and printing services   1
- Eight of the nine are still performing services for council, and one of these has now prepared a contract, from September 2022.

Update:

- Since this review was undertaken, the Project Manager has commenced drafting a process for procurement, that will have a check list to follow, templates etc. This is in line with our procurement policy, currently in manual form and officers are looking at software that is currently being used by both New Plymouth and South Taranaki District Councils.

Recommendations:

- Management work with the Project Manager, to ensure the new process will be suitable for all departments, and all staff are aware of what to do
- All staff be advised no further contractors are to be "hired" unless they have been through the process
- Before any contractor commences work, council must first assess whether they are an employee or contractor
- If it is determined that they are an employee then HR must be advised, and they are paid through payroll
- If it is determined they are a contractor, staff follow the contract management process, working with the Project Manager
- The process currently underway will need to be all inclusive, and include health and safety, in-boarding, managing the contract, through to completion of the works performed as per the contract
- Council undertakes a review of the Procurement Policy to ensure it allows for these types of services to go through a different procedure.

Conclusion:

- Given the results of the findings, serious weaknesses are exposed in council's contract management process and the internal controls of council are compromised
- This can expose council to both legal and reputational risk.

- When all recommendations are in place, council's internal controls will be much more effective, and eliminate weaknesses in the existing process.

INFORMATION REPORT

F22/55/04 – D22/23985

To: Audit and Risk Committee
From: Projects Manager
Date: 6 December 2022
Subject: Capital Works Programme – Key Projects Update – November 2022

Recommendation

<u>THAT</u> the report be received.

Recommended Reason
To present an update on the progress of our key capital projects in the 2022/23 financial year.

                                                                 /
                                                         Moved/Seconded

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1.   Purpose of Report

1.1   The purpose of this report is to provide the Audit and Risk Committee with an update on the progress of key capital projects in the 2022/23 financial year.

1.2   The intent is to track these projects and provide confidence both to the Council and ratepayers that the capital works programme will be delivered as indicated in the 2021-31 Long Term Plan (LTP).

2.   Executive Summary

2.1   The Council, in the 2021-31 Long Term Plan, approved a total of $11,764,000 for the delivery of capital expenditure for the 2022/23 financial year and $10,183,000 for the 2023/24 financial year. The total LTP (over 10 years) is $125,463,814, with 40% of this to be delivered in the first three years of the LTP.

2.2   These projects are spread among Council departments, the majority of which are to be delivered through the Assets, Environmental Services, and the Community Development departments.

2.3   This report provides information to the Committee to enable the achievement of Section 2 of the Audit and Risk Committee Terms of Reference, specifically to allow the Committee *"To proactively assess, monitor and provide governance oversight of risks, and the internal controls instituted, including finance … Contract Management, … Quality Management."*

2.4   Council officers are proactively managing all aspects of risks being identified in the delivery of these capital projects, which are mainly:
- Cost overruns;
- Not delivering to timeframe; and
- Not delivering what was expected.

2.5   As a result, Council officers are monitoring and mitigating the identified risks by:
- Regular tracking of the project;
- Tracking and reporting on the budget; and
- Regular supervision through communication and meetings with contractor oversight by the respective project manager.

2.6   This Capital Works Programme report will be brought before the committee quarterly.

3.   **Local Government Act 2002**

Under section 10 of the Local Government Act 2002, the Council's purpose is to "enable democratic local decision making by and on behalf of communities; as well as promoting the social, economic, environmental, and cultural well-being of communities now and into the future"			
Does the recommended option meet the purpose of the Local Government 4 well-beings? And which:	Yes		
Social	**Economic**	**Environmental**	**Cultural**
✓	✓	✓	✓

3.1   Good risk management and regular monitoring supports the Council's social, economic, environmental and cultural outcomes.

4.   **Background**

4.1   This report is directly as a result of the request made by this Committee in the November Audit and Risk Meeting, to present an update on the progress of our key capital projects in the current financial year.

5.   **Information Summary**

5.1   Please refer to the Executive Summary and the **Appendix 1**, which shows that all year 2 projects are in progress, along with year 1 projects that were carried over from the 2021/22 financial year.

5.2   All capital projects are now being vetted and/or are under the supervision of Council's Projects Manager (and Special Projects Manager), who has also produced a number of documents and tracking tools to support the successful project planning, procurement and management. These tools should satisfy Audit New Zealand's requirements in terms of action plans identified at their recent audit exercise.

5.3   Updates on key projects are provided below.

5.3.1   **Bike Park**

All physical works completed.

Signs were regularly stolen from the Bike Park before the installation of CCTV. New CCTV has been installed and new signs with anti-theft devices will be installed before the end of 2022.

5.3.2   **Stratford Aquatic Centre**

Construction is complete and the Centre is now open to the public.

5.3.3   **Stratford Duplicate Trunkmain**

This is one of the shovel ready projects funded largely by central government. It is being completed in 3 stages due to the complexity of the project and the delays inherent in landowner negotiations.

Fulton Hogan was awarded:

- **Stage One** – through a competitive tendering process;
- **Stage Three** – through direct appointment using the same rates that were included in Stage One. Direct appointment was preferred due to the timing of funding requirements through the 'shovel ready' projects from DIA. Council has met all deadlines set by DIA in terms of releasing of funds to complete this project; and
- **Stage Two** – by direct appointment for the same requirements as Stage Three. This stage included rates that were not part of Stages One and Three. The Project Team carried out due diligence on the pricing from Fulton Hogan to determine the rates were still competitive.

All stages are now complete, with the Practical Completion Certificate issued in Mid-November.

5.3.4 Whangamomona Camping Ground Septic Tank

WSP has completed a report exploring the different options:

- **Option 1** – Installation of a larger holding tank than present with associated repair of connecting pipework's. This option is an increase in capacity of the existing system. Effluent will then be transported to Stratford's Wastewater Treatment Plant.
- **Option 2 –** Installation of a new wastewater system (commercial septic tank) to treat and dispose of wastewater on site. This will most likely require Horizon Regional Council consents and may include Reserves Act conditions.

The report recommends Option 2 as the preferred options, due to the cost of emptying a holding tank and the associated transport costs to and from Whangamomona for Option 1.

WSP is finalising the concept design, at which, we will then proceed with a design and build contract to install the wastewater system.

5.3.5 Economic Development Strategy & Town Centre Plans

Draft documents were presented to elected members in August for initial discussion. Officers have since worked through the feedback provided and will present the Community Development Strategy back to council in quarter three. The intention for the Town Centre Plans is to have them as part of council's A&P Show display for early community engagement and feedback. The Economic Development Strategy requires additional consideration and will be presented back to council in 2023.

5.3.6 Stratford Schools Safety Projects

Consultation with the entire district for all schools not on state highway was held in August / September 2022.

A change in scope from Waka Kotahi has delayed the installation of school speed zones. Waka Kotahi has advised SDC to look at a district wide speed management plan. We are working with Waka Kotahi representatives to develop a plan to present to Council in 2023.

5.3.7 Connecting our Communities Strategy

The Connecting our Communities Strategy will help identify improvements in our networks to improve accessibility for residents and visitors to the Stratford District. A specific strategy will help Council to meet some funding requirements from Waka Kotahi for the transport network.

This strategy has been approved by the Policy and Services Committee to proceed to consultation with the public. Consultation is completed and officers are working through the feedback received for present back to Council in 2023.

Once approved, the strategy will help guide projects like the Stratford 2035 Town Centre Plans and School Safety Projects listed above.

6. Strategic Alignment

6.1 Direction

This report is consistent with our Long-Term Plan Outcomes and directly relevant to supporting the work of the Audit and Risk Committee.

6.2 Annual Plan and Long-Term Plan

This report is consistent with the Annual and Long-Term Plan outcomes.

6.3 District Plan

There is no direct relationship with the District Plan.

6.4 Legal Implications

There are no legal implications.

6.5 Policy Implications

The report is consistent with Council policies relating to service delivery.

Attachment:
Appendix 1 - Capital Work Projects Update

Steve Taylor
Projects Manager

Stephen Bowden
Acting Director – Assets

[Approved by]
Sven Hanne
Chief Executive   **Date:** 25 November 2022

APPENDIX 1

	Category	Budget Y2	Actual Spent	Budget LTP	Project Status	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Civic Amenities																	
Stratford 2035 Projects	Level of Service	979,056	-	4,664,082	*Ongoing*												
TET Multi Sports Centre	Level of Service	51,300	2,447	554,400	*Fire design underway*												
Demolish Bell Tower	Replacements	-	-	30,000	*Gardens to be planted in December. Car park to be sealed in December.*												
Storage Shed	Replacements	26,699	22,721	70,000	*Construction completed, drainage remedials and clean up of accessway*												
Parks, Reserves, and Cemeteries																	
Upgrade Broadway Roundabout	Level of Service	60,000	-	60,000	*Working in conjunction with Community Development Team/Broadway 2035. Awaiting the development of the Town Centre Plan before implementing the action plan identified*												
Trees of significance - access	Level of Service	5,000	-	35,000	*Waiting for iwi confirmation on signage*												
Walkway upgrade	Level of Service	10,000	-	50,000	*Works underway*												
Parks upgrade	Level of Service	6,000	-	34,300	*Lime chip path in Victoria Park - awaiting quotes*												
Victoria Park - Exercise and Fitness Trail	Level of Service	16,400		84,300	*To be looked at in the next LTP*												
Whangamomona Camp - septic tank	Replacements	45,699	9,402	47,000	*WSP finalising concept design for design and build specifications.*												
Kopuatama Cemetery entrance upgrade	Level of Service	76,800	-	76,800	*Concept design underway*												
Victoria Park Drainage	Level of Service	60,000	-	-	*Request for tender closes Decmber 2022. Construction in March / April between Cricket and Rugby seasons*												
* LED Screen (southern entrance)	Level of Service	75,000	-	-	*NZTA have declined proposed location, further investigation on other locations underway.*												
* Discovery Trail (signage, glockenspiel upgrades, new features)	Level of Service	15,000	-		*Elements of Project commenced*												
Purchase of land - Prospero Place	Level of Service	385,500	-	Part of the Stratford 2035 budget	*Officers to prepare an Options Assessment report to Council for a decision to progress the preferred option*												
Pool Complex																	
New Swimming Pool	Level of Service	3,410,000	-	17,212,500	*Completed*												
Democracy																	
Computers and Periherals	Replacements	212,875	129,341	1,442,000	*Ongoing*												
Vehicle replacements	Replacements	39,500	-	342,500	*Ongoing*												
Micellaneous equipment	Replacements	20,000	-	200,000	*Ongoing*												
Furniture Replacement - Miranda Street	Replacements	3,200	-	33,200	*Ongoing*												
Furniture Replacement – WMC	Replacements	3,200	-		*Ongoing*												

	Category	Budget Y2	Actual Spent	Budget LTP	Project Status	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Economic Development																	
Council Subdivision	Level of Service	2,218,975	475	3,274,000	*Negotiating with land owner on Flint Road for purchase of land*	█	█	█	█	█	█	█	█	█	█	█	█
Rental and Investment Properties																	
Farm - Landscaping and riparian planting	Level of Service	3,500	-	38,900	*Ongoing*	█	█	█	█	█	█	█	█	█	█	█	█
Farm - Waterlines and trough upgrade	Level of Service	12,300	3,940	24,900	*Four troughs installed after calving had finished, remainder to be installed by end of 2022.*	█	█	█	█	█							
Farm - Hot Water cylinder	Replacements	-	7,728	-	*Completed*	█	█	█	█								
Environmental Services																	
Roading																	
Walking and Cycling improvements	Level of Service	276,900	62,137	3,823,700	*Upgrade to the southern footpath on Fenton Street between Swansea Road and Cordellia Street.*	█											
Brecon Road Bridge	Level of Service	257,700	-	13,022,683	*Waiting for a decision on the Better off Funding application.*	█											
Unsealed Road Metalling	Replacements	840,000	262,193	10,480,208	*Funding reduced to pay for the rehabilitation programme*	█											
Sealed Road resurfacing	Replacements	893,034	59,502	12,351,731	*Half of this project expected to be completed before end Decmember 2022.*	█											
Drainage Renewals	Replacements	700,000	304,128	7,634,676	*Kerb and Channel replacement on Swansea Road, Elisnore Street, and Surrey Street*	█											
Pavement Rehabilitation	Replacements	750,000	440,839	7,531,118	*Monmouth Road and Flint Road*	█											
Structure Component Replacement	Replacements	647,000	58,835	6,277,706	*Sites to be confirmed with consultants*	█											
Traffic Services	Replacements	113,000	42,950	1,243,036	*Works less to due limited budget*	█											
Footpath renewals	Replacements	170,000	-	1,944,901	*About to commence on Elisnore Street*	█											
Low cost low risk roads	Replacements	521,142	44,016	5,270,000	*Beaconsfield Road improvements, Dunn's Bridge realignment*	█											
Sealed Road resurfacing - special purpose roads	Replacements	114,000	-	723,916	*Pembroke Road reseals programme for early 2023. Brought forward 2023/24 allocation of funding to have one contract.*	█											
Low cost low risk roads - special purpose roads	Replacements	39,695		210,000	*Dawson Falls carpark*	█											
Drainage Renewals - special purpose roads	Replacements	10,000			*Approved allocation from Waka Kotahi*	█											
Traffic Services - special purpose	Replacements	5,000	3,162		*Installation of site rails*	█											
Unsealed Road resurfacing - special purpose	Replacements	10,000	-		*Approved allocation from Waka Kotahi*	█											
Stormwater																	
Pipework capacity increase	Level of Service	210,372	-	1,418,885		█	█	█	█	█	█	█	█	█	█	█	█
Modelling	Level of Service	31,000	-	31,000	*Change of scopeto include catchment 6 only. Tenders currently being evaluated*	█	█	█	█	█	█	█	█	█	█		
Safety improvements	Level of Service	238,770	903	1,275,770	*Rock amouring of stormwater culvert on Pembroke Road.Resouce consent requirements has increased costs*					█	█	█	█	█	█	█	█

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	Category	Budget Y2	Actual Spent	Budget LTP	Project Status	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Reticulation renewals	Replacements	101,983		769,000	*Achilles / Brecon Road and Miranda Street design complete, tender documents underway.*												
Wastewater																	
Pipework capacity increase	Level of Service	222,581	9,805	1,187,000	*Modelling proposal accepted. Will start in January 2023*												
Modelling	Level of Service	51,700	-	51,700	*Modelling proposal accepted. Will start in January 2023*												
Infiltration renewals	Replacements	344,986	17,060	1,961,600	*Out for tender for 3 year contract*												
Diatomix to enhance growth of good algae	Level of Service	394,979	68,830	500,000	*Ongoing*												
Bulk discharge renewals	Replacements	31,000		55,300	*Works planned to remediate areas around pump station that eroded during heavy rain*												
Routine step / aerate renewals	Replacements	50,800	24,349	343,800	*Ongoing*												
Inflow and Infiltration programme	Replacements	297,919	1,391		*Out for tender for 3 year contract*												
Solid Waste																	
Transfer Station building renewals	Replacements	10,300	4,260	70,100	*Obtaining quotes for works*												
Water Supply																	
Universal water metering implement	Level of Service	558,270	1,269	2,195,000	*Water meters being replaced in Midhirst and Toko.*												
Second water trunk main	Level of Service	1,024,650	399,619	2,911,100	*Practical completioncertificate awarded*												
Street work ridermains	Level of Service	301,700		206,100	*Craig Street identified due to recent failures*												
Pipe bridges	Replacements			103,500	*Patea River and Hunt Road*												
Midhirst Resource Consent	Replacements	197,040	-	309,700	*Awaiting Iwi assessment report*												
Hydrants	Replacements	30,100	-	169,600	*Ongoing*												
Laterals	Replacements	62,200	-	350,800	*Ongoing*												
Meter renewals	Replacements	57,750	-	4,338,800	*Ongoing*												
Street water ridermains - 3 waters schemes	Replacements	368,900	-	2,993,100	*Surrey Street completed. Broadway scheduled for February / march 2023*												
Toko Bore	Replacements	134,500	-	134,500	*Ongoing, as required*												
Reservoir overflow to pond	Replacements	77,600	-	77,600	*Scope works underway*												
Reservoir cleaning - 3 waters scheme	Replacements	82,036	-	107,600	*Cleaning requirement to be assessed.*												
Membranes	Replacements	150,000	-	150,000	*Replacement membranes have been delivered and are being installed as required. Further membranes are being procured.*												
Instructure general - 3 waters scheme	Replacements	33,500	-	338,200	*Ongoing as required*												

	Category	Budget Y2	Actual Spent	Budget LTP	Project Status	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Electronic water reading software	Level of Service	51,500	-	51,500	Due to be trialled once meters are installed												
Raw water delivery line	Level of Service	2,000,000	-	338,200	Final dsign with consultant												
Raw water analyser	Level of Service	95,000	-	95,000	Procurement progressing												
Generator for Treatment plant	Level of Service	105,000	-	105,000	With consultant to design foundation pad to earthquake requirements												

INFORMATION REPORT

F22/55/04 – D22/45421

To: Audit and Risk Committee
From: Director – Corporate Services
Date: 6 December 2022
Subject: Risk Management

Recommendation

<u>THAT</u> the report be received.

Recommended Reason
To provide an update to the Audit and Risk Committee of any significant risks and any incidents or threats in relation to significant risks on Council's risk register, since the last Committee meeting.

_____/_____
Moved/Seconded

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1. Purpose of Report

1.1   To provide a high-level update on Council risk management, in accordance with Council's Risk Management Policy.

2. Executive Summary

2.1   The incidents that have occurred, since the last Committee meeting, in relation to the top ten risk register are as follows:

- *Risk 71 Critical Asset Failure*: Fire hydrant damage causing major water leak and disruption on Broadway
- *Risk 78 Government Policy Impacting on Local Government*: Future for Local Government Review – draft report out for consultation, RMA Reform
- *Risk 47 Attracting and Retaining Staff*: A number of staff vacancies across the Council
- *Risk 11 Server Failure:* Network outage during office hours

2.2   There have been two new risks identified by the Senior Leadership Team and added to Council's risk register since the last Audit and Risk Committee meeting. These relate to consultation and engagement with Māori, and adherence to tikanga Māori and protocols in work settings.

3. Local Government Act 2002

Under section 10 of the Local Government Act 2002, the Council's purpose is to "enable democratic local decision making by and on behalf of communities; as well as promoting the social, economic, environmental, and cultural well-being of communities now and into the future"			
Does the recommended option meet the purpose of the Local Government 4 well-beings? And which:	Affects all four well-beings in some way.		
Social	**Economic**	**Environmental**	**Cultural**
✓	✓	✓	✓

Risk Management aims to protect all areas of Council operations and therefore indirectly meet the purpose of all four well-beings.

4.   Background

4.1   The Council maintains a full risk register, which currently has 91 risks. Of these, 10 of the highest risks in terms of likelihood and consequence are monitored and reported to the Audit and Risk Committee.

4.2   The risk register includes a description of the risk, and evaluates the raw risk in terms of likelihood and consequence without any controls in place. Controls (risk reduction methods and mitigations) have been established for each risk, and then the risk is re-evaluated to get a residual risk score. In terms of what constitutes a significant risk, the raw risk score is taken into account rather than the residual risk as it is important that the Senior Leadership Team and the Audit and Risk Committee regularly monitor that the controls in place are appropriate and effective.

5.   Information Summary

5.1   **Risk Events in relation to the Top Ten Risk Register**

Risk 71 – Critical Asset Failure

In November, a riser between a fire hydrant and the main water line failed after a truck ran over the fire hydrant lid, which broke in two and subsequently impacted the hydrant, causing the riser to crack, leak and then ultimately fail, causing a large water fountain lasting for approximately 30 minutes on Broadway, Stratford (CBD). Traffic management was immediately set up and staff and contactors undertook to isolate the water supply to the fire hydrant. The riser was replaced and the road was reinstated. No injuries or additional damages resulted from the event.

This was the last of the hydrants to be replaced on Broadway so it could have been age related fatigue, or the road works which recently occurred on Broadway may have damaged the hydrant. Council officers are unable to definitively apportion blame to any party.

Risk 78 – Government Policy Impacting on Local Government

Refer to **Appendix 2** for a list of legislation, relevant to local government, currently under review and open for submission.

Future for Local Government review

The Independent Panel released their draft report in October 2022, *He mata whariki, he matawhanui*. The following 25 recommendations were made by the review panel.

1. That local government adopts greater use of deliberative and participatory democracy in local decision-making.

2. That local government, supported by central government, review the legislative provisions relating to engagement, consultation and decision-making to provide a platform for revitalising community participation.

3. That central government leads a comprehensive review of requirements for engaging with Māori across local government related legislation to streamline or align those requirements.

4. That councils develop and invest in their internal systems for managing and promoting good quality engagement with Māori.

5. That central government provide a statutory obligation for councils to give consideration to an agreed, local expression of tikanga whakahaere in their standing orders and engagement practices, and for chief executives to promote the incorporation of tikanga in organisational systems.

6. That central government develops a new legislative framework for Te Tiriti-related provisions in the Local Government Act that drives genuine partnership in a local context and explicitly recognises Te Ao Māori values and wellbeing concepts.

7. That councils develop in partnership with iwi/hapū a partnership framework that complements existing co-governance arrangements to ensure that all groups in a council area are involved in local governance in a meaningful way.

8. That central government introduce a statutory requirement for local government Chief Executives to develop and maintain the capacity and capability of council staff to grow understanding and knowledge of Te Tiriti, the whakapapa of local government and te ao Māori.

9. That central government explore a stronger statutory requirement on councils to foster Māori capacity to participate in local government.

10. That local government leads the development of coordinated organisational and workforce development plans to enhance the capability of local government to partner and engage with Māori.

11. That central government provide a transitional fund to subsidise the cost of building both Māori and council capability and capacity for a Tiriti-based partnership in local governance.

12. That central government and local government notes that the allocation of the roles and functions is not a binary decision between being delivered centrally or locally.

13. That local government and central government, in a Tiriti-consistent manner, review the future allocations of roles and functions by applying the Panel's proposed framework, which includes three core principles:
    - the concept of 'subsidiarity'
    - local government's capacity to influence the conditions for wellbeing is recognised and supported
    - te ao Māori values underpin decision-making

14. That local government, in partnership with central government, explore funding and resources that enable and encourage councils to:
    - Lead and support innovation to achieve greater social, economic, cultural, and environmental wellbeing outcomes

- build partnership and co-design capability and capacity across their whole organisation
- embed social/progressive procurement and supplier diversity as standard practice
- review their levers and assets from an equity and wellbeing perspective
- take on the anchor institution role initially through demonstration initiatives with
- targeted resources and peer support
- share learnings and emerging practice from innovation and experimentation.

15. That the Electoral Commission be responsible for overseeing the administration of local body elections.

16. That central government undertakes a review of the legislation to:
   a) introduce Single Transferrable Vote as the nation-wide voting method in local body elections
   b) lower the eligible voting age in local body elections to the age of 16
   c) provide for a four-year local electoral term
   d) amend the employment provisions of chief executives to match those in the wider public sector.

17. That central government and local government, with the Remuneration Authority, review the criteria for setting elected member remuneration to recognise the increasing complexity of the role.

18. That local government develops a mandatory professional development and support programme for elected members.

19. That central government and local government:
   a) support councils to undertake regular health checks of their democratic performance
   b) develop guidance and mechanisms to support councils to resolve complaints under their code of conduct and explore a specific option for local government to refer complaints to an independent investigation process led by a national organisation
   c) Assess whether the provisions of the Local Government Official Information and Meetings Act 1987, and how it is being applied, supports high standards of openness and transparency.

20. That central government retain the Māori wards and constituencies mechanism (subject to amendment in current policy processes), but consider additional options for providing for a Treaty-based partnership at the council table.

21. That central government expands its regulatory impact statement assessments to include the impacts on local government; and undertakes an assessment of regulation currently in force that is likely to have significant future funding impacts for local government and makes funding provisions to reflect those impacts.

22. That central government and local government agree on arrangements and mechanisms for them to co-invest to meet community needs and priorities, and that central government makes funding provisions accordingly.

23. That central government develops an intergenerational fund for climate change, with the application of the fund requiring appropriate regional and local decision-making input.

24. That central government reviews relevant legislation to:
- enable councils to introduce new funding mechanisms, and
- retain rating as the principal mechanism for funding local government, while simplifying long-term planning and rating provisions to allow a more holistic and responsive process.

25. That central government agencies pay local government rates and charges on all properties.

Submissions on the draft report are open until **28 February 2023**. Councils are being encouraged to make a submission on their own account. It is strongly recommended that Stratford District Council put forward a submission on the report in general, and in relation to each of the 25 recommendations.

RMA (Resource Management Act 1991) Reform

The Natural and Built Environments Bill and the Strategic Planning Bill were both introduced to Parliament on 15 November 2022. These are two of the three new pieces of legislation that will replace the Resource Management Act 1991. The new legislation would bring about significant change to New Zealand's resource management system and while we are still learning about the detail of the new legislation and how it would affect us, here are some initial high level observations:

The introduction of outcomes and limits.
The new legislation sets clear expectations about environmental outcomes, limits and targets, although it does not set those criteria itself. The environmental limits effectively set bottom lines for the quality of the natural environment and there seem to be limited exemptions from these. At first glance there seems to be a stronger theme of protection of the environment than currently.

Precautionary approach.
The use of a precautionary approach in circumstances where the environmental effects are not certain is an established principle on resource management. The Natural and Built Environments Bill includes a precautionary approach in a set of principles to guide decision making. This represents and elevation of this principle.

Changes to consenting processes.
There are a suite of proposed changes to consenting processes, including reducing the number of consent categories, increasing consent authorities powers to review and cancel consents, introduction of a requirement to consider the likely future state of the environment when consenting and a requirement to disregard certain effects, like the loss of scenic views and the effects of social housing. There are also several changes to the designation process, including increasing the lapse date from five years currently to 10 years.

Changes to notification requirements.
The proposed Bills include a requirement that controlled activities be non-notified and a presumption that discretionary activities will be notified. Where currently notification decisions must be appealed to the High Court there is provision for the Environment Court to consider these appeals.

More Māori involvement.
There is an express requirement to give effect to the principles of Te Tiriti o Waitangi, along with a requirement to recognise and provide for the mana of iwi and hapu to protect and sustain the health and wellbeing of te taaiao. They also signal the creation of a National Māori Entity to provide independent monitoring of decisions under the NBE or SPA. The issue of cost recovery for Māori participation in resource management process has been a long-standing issue and the new legislation is clear that consent authorities would be able to recover costs on behalf of relevant māori parties.

More active monitoring and enforcement.
New measures relating to monitoring and enforcement include powers to revoke or suspend resource consents, provisions for financial assurance and a new civil liability regime. Insurance against fines would be unlawful.

From here the new Bills will be referred to the Environment Select Committee and the public will be given a chance to comment. We don't have an indication of timeframes for this at this stage.

Risk 47 – Attracting and Retaining staff

As at November 2022, there were 99 staff employed by Council. In addition, there were vacancies for Asset Coordinator, GIS officer, Roading Engineer, Project Engineer, and multiple swimming pool vacancies including Group Fitness Instructor, Swim School Teacher, and Lifeguards. Offers have been made for some of these roles.

Council has implemented a Flexible Working Arrangements Policy, and is looking at further ways to increase staff retention and Council's reputation as an attractive workplace. The recruitment and induction process is also under review.

In the meantime, contractors and consultants are being used in many areas to fill the gaps and ensure levels of service are not compromised.

Risk 11 – Server Failure

In November, a network outage occurred resulting in staff not being able to access the Citrix environment for approximately two hours, which gives access to the majority of Council's systems, including email and the ERP (Enterprise Resource Planning) and document management systems.

It is suspected that it was caused by a telecommunications router in the Microsoft Datacentre in Australia, however Civica, who manages the Citrix environment on behalf of SDC, has not yet provided an incident report. At the time, SDC was informed that several other Australian customers were experiencing the network outage.

A further incident occurred the following week disabling access to the Citrix environment for the majority of staff, for up to three hours. This incident appears to be different to the previous week and occurred after an installed software patch upgrade of the Citrix servers overnight. At some point this broke the system policies which control login access to the environment. Civica failed to inform Council of changes to the system and did not have software engineers available the following morning (NZ time) to remedy any failures.

Until incident reports are provided from Civica, no further action has been taken by SDC.

5.4 **New Risks Identified**

The following new risks have been added to Council's Risk Register as it was identified by the Senior Leadership Team that the risk of failing to meet the Council's responsibilities to the Māori community and obligations under legislation in relation to the principles of the Treaty of Waitangi could have a serious/major impact on Council's reputation and relationships.

Risk Alert Number	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
90	Consultation and Engagement with Māori	IF Council does not effectively engage with Māori on matters of interest, THEN Council decisions will lack a Māori perspective which may lead to substandard community outcomes, and decisions that may not be supported by iwi which could harm relationships.	12 - Very High	Build and maintain strong relationships with all iwi in the Whakaahurangi rohe - between Chairs and Mayor, CEO levels, and between operational staff. All decision reports to Council must outline what consultation has been undertaken with Māori. Develop an iwi partnerships framework.	3 Moderate

| 91 | Māori Tikanga and Protocols | IF Council representatives show disrespect or ignorance to Māori tikanga, customs, protocols and/or environment, THEN this may cause harm to Council's relationships with the Māori community and put Council into disrepute. | 4 - High | Build and maintain cultural competency amongst Council representatives. Council staff lead initiatives to promote tikanga Māori and te reo in the workplace, by developing and maintaining a plan to encourage learning, and celebration, of tikanga Māori and te reo in the workplace. Seeking external advice and support where necessary to ensure tikanga is upheld appropriately. | 3 Moderate |

	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

6. Strategic Alignment

6.1 **Direction**

N/A

6.2 **Annual Plan and Long Term Plan**

N/A

6.3 **District Plan**

N/A

6.4 **Legal Implications**

N/A

6.5 **Policy Implications**

This report is in line with the Risk Management Policy.

Attachments:
Appendix 1   Top Ten Risk Register
Appendix 2   Legislative Reform currently open for submission – schedule

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Tiffany Radich
Director – Corporate Services

[Approved by]
Sven Hanne
Chief Executive   **Date** 23 November 2022

Appendix 1

Top Ten Risk Register

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.	20 Extreme	Where a policy change may have a significant negative impact on the Council then staff and elected members should consider making a submission to suggest and encourage alternative options. Council officers and elected members need to keep up to date with proposed changes to legislation and govt 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. Council should aim to maintain a position where it can be adaptive and respond well to change, e.g. low to medium debt levels, diversification, good employment relationships.	20 Extreme
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.	4 High
47	Operational	Attracting and Retaining Staff	IF Council is unable to attract and retain suitably qualified personnel, THEN services may become under threat and may cease.	16 Very High	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.	4 High
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	12 Very High

					place for each of their departments to ensure core functions can continue to be delivered.	
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
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. Information related to decision making should be given to elected members in a timely manner. 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
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 encrypted, and stored off-site at approved data-centres (Tier 3). Fail-over for Melbourne data centre replicates to Sydney data centre.	3 Moderate
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

| 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 |

Appendix 2

Open for Submissions as at 21 November 2022

(Note – in the Taituarā Action column a green cell indicates the Taituarā draft response is open for sector comment).
Everything beneath the buff-coloured line is upcoming and the information is speculative.

Name of initiative	Agency engaging	Due date	Taituarā Action	Description
Second Tranche of Drinking Water and Wastewater Network Environmental Performance Measures https://te-puna-korero.taumataarowai.govt.nz/regulatory/second-tranche-nepm/user_uploads/drinking-water-and-wastewater-network-environmental-performance-discussion-document.pdf	Taumata Arowai	25 November 2022	No action proposed	This discussion document provides detail on proposals for the second year of drinking water measures, including suggestions from submissions earlier in the year, and outlines the approach to introducing wastewater network environmental performance measures.
Interim State Highway Speed Limit Plan (New) – added 14 November Tackling Unsafe Speeds programme	Waka Kotahi	12 December 2022	TBC	This plan sets out proposed speed limit changes and safety improvements included in the current 2021-2024 National Land Transport Programme (NLTP) period and precedes the full state highway speed management plan that will cover the next NLTP period. (Hat-tip: Mark from Hamilton)
Consultation on reducing the emissions impact of fluorinated gasses https://consult.environment.govt.nz/waste/f-gases-and-refrigerants/	MFE	18 December 2022	No action proposed	Fluorinated gases (F-gases) contribute significantly to global warming. This is because they are potent greenhouse gases, with global warming potential hundreds or thousands of times greater than carbon dioxide. MFE seeking feedback on proposed measures to reduce the environmental impact of fluorinated gases (F-gases). This includes a regulated product stewardship scheme for refrigerants and prohibiting the

				import and sale of pre-charged equipment when alternatives are available.
Business Payment Practices Bill https://legislation.govt.nz/bill/government/2022/0179/latest/contents.html	Economic Development Science and Innovation Committee	8 Jan 2023	No action proposed	This bill would introduce a regime that aims to bring transparency to business-to-business payment terms and practices in New Zealand. Local authorities are included. NB – Taituara will place its efforts into the regulations and potentially seeking a sector exemption from the requirements. There was substantial cross party support for the Bill at first reading..
Natural and Built Environment Bill (New) – added 15 November https://www.legislation.govt.nz/bill/government/2022/0186/latest/096be8ed81cc5fed.pdf Awaiting first reading	Environment Select Committee (presumably)	TBC	Submit	First of two Bills giving effect to RMA reform. This focuses the setting of environmental limits, environmental and land use planning, and the governance of those activities.
Spatial Planning Bill (New) – added 15 November https://www.legislation.govt.nz/bill/government/2022/0187/latest/contents.html Awaiting first reading	TBC	TBC	Submit	Second of two Bills giving effect to RMA reforms. This one focuses on regional spatial strategies and the governance of these activities
Future for Local Government draft report https://www.futureforlocalgovernment.govt.nz/assets/Review-into-the-Future-for-Local-Govt-Draft-Report.pdf	Future for Local Government panel	28 Feb 2023	Submit Contact Kath Ross	Draft report including recommendations from the panel.
Business Payment Practice Regulations	MBIE	28 Feb 2023	Submit Contact	This regime will improve information and transparency around business-to-business payment practices by requiring large firms (those with turnover of $33 million a year) to

https://www.mbie.govt.nz/have-your-say/business-payment-practices-regulations			Raymond Horan	publicly disclose information on their payment practices, including payment times. This includes local authorities.
National Environment Plan on PFAS https://haveyoursay.agriculture.gov.au/nemp-on-pfas	MFE (joint with NZ and Aust EPA)	28 Feb 2023	TBC	The Heads of EPAs of Australia and New Zealand (HEPA) have released the draft per- and poly-fluoroalkyl substances National Environmental Management Plan (PFAS NEMP) version 3.0 for public consultation. We're advised that this potentially affects any entity that deals with water, wastewater, stormwater, biosolids, composting and landfills.
Upcoming				
Sale and Supply of Alcohol (Harm Minimisation) Amendment Bill https://www.legislation.govt.nz/bill/member/2022/0147/latest/LMS713437.html?src=qs NB. Private Members Bill – may not proceed. Update – the Government has announced it intends to review the law on local alcohol policies.	TBC	Awaiting first reading	TBC	Part 1 of the Bill abolishes appeals on local alcohol policies. Part 2 removes the advertising link between sport and alcohol by banning alcohol sponsorship and advertising of all streamed and live sports and bans alcohol sponsorship at all sporting events. NB – this is a Private Members Bill that is waiting first reading. Details about consultation will only be known if and when the Bill gets a first reading.
Housing Infrastructure (GST-sharing) Bill (New) https://www.legislation.govt.nz/bill/member/2022/0154/latest/096be8ed81c6447d.pdf NB. Private Members Bill – may not proceed	TBC	Awaiting first reading	TBC	This Bill would introduce a GST-sharing scheme to fund housing infrastructure. Effectively councils would receive 15 percent of the value of building work put in place in their local authority in the preceding year. NB – this is a Private Members Bill that is waiting first reading. Details about consultation will only be known if and when the Bill gets a first reading.
Sale and Supply of Alcohol (Cellar Door Tasting) Amendment Bill	TBC	Awaiting first reading	No action proposed	This Bill allows winery cellar doors to charge visitors for the samples of their own wine and adds an off-licence category for wineries holding an on-licence.

https://legislation.govt.nz/bill/member/2022/0173/latest/contents.html NB. Private Members Bill – may not proceed				NB – this is a Private Members Bill that is waiting first reading. Details about consultation will only be known if and when the Bill gets a first reading
Water Services Entities Amendment Bill	Finance and Expenditure Select Committee?	Bill into House in Nov 2022	Working with DIA on policy and then submit	Second of two Bills giving effect to water reform. Bill will cover powers, funding and pricing, links to land use planning, and amendments to LGA (including LTP 2024).
Water Services Economic Regulation and Consumer Protection Bill	TBC	Bill into House – 4th quarter 2022	Submit	Gives effect to Government decisions to introduce economic and consumer protection regulation for the three waters services,
Civil Defence and Emergency Management Amendment Bill	Governance Admin Select Committee	Bill into House 4th quarter 2022	Submit	Gives effect to whatever of the Trifecta Review survives the 'consultation' and policy development process. NEMA officials have said this is the formal consultation.
Land Transport Management Amendment Bill (not sure of title)	Transport and Infrastructure Select Committee	Fourth quarter 2022	Submit Jen Coatham	Legislation to give effect to changes to the Passenger Transport Operating Model.
Epidemic Preparedness legislation	TBC	Early 2023	Submit Raymond Horan	Develop an enduring legislative framework for COVID-19 that is fit for purpose for any future pandemics.
Climate Adaptation Bill	Presumably, Environment Select Committee	Early 2023	Submit	Will introduce the legal framework for managed retreat and other climate response matters.

INFORMATION REPORT

F22/55/04 – D22/46483

To:	Audit and Risk Committee
From:	Director – Corporate Services
Date:	6 December 2022
Subject:	Service Delivery (Section 17a Reviews) Update

Recommendation

<u>THAT</u> the report be received.

Recommended Reason
To give an update to the Committee on the status of the Service Delivery (Section 17a) Reviews.

<div align="right">

/
Moved/Seconded
</div>

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1. Purpose of Report

1.1 To give the Committee a progress report on the service delivery reviews, which are legally required to be completed within six years of the last review, which requires the reviews to be completed by August 2023.

2. Executive Summary

2.1 In September 2022, the Audit and Risk Committee approved the initial terms of reference for the Service Delivery Reviews.

2.2 The project team has now been established, and the first meeting date is proposed for 13 December at 10.30am. An agenda will be issued to the project team by 9 December.

2.3 The agenda for the first meeting will include decisions to be made on the following:

- What functions of Council will be reviewed.
- Approval of the review templates – full review, light review.
- Assigning each team member to specific functions.
- Allocate the task of final plan preparation, including timeframes and preparing decision/information reports to Audit and Risk Committee on behalf of project team.

3. Local Government Act 2002

Under section 10 of the Local Government Act 2002, the Council's purpose is to "enable democratic local decision making by and on behalf of communities; as well as promoting the social, economic, environmental, and cultural well-being of communities now and into the future"	
Does the recommended option meet the purpose of the Local Government 4 well-beings? And which:	Yes – the reviews themselves will be looking at the impacts on the four wellbeings.

Social	Economic	Environmental	Cultural
✓	✓	✓	✓

4. Background

4.1   The service delivery reviews involve analysing the various options for governance, funding, and service delivery for each Council function, including in-house delivery, delivery by a Council Controlled Organisation, another local authority, or another person or agency, and the rationale for delivering the function in the first place. It is an opportunity for Council to seek cost efficiencies and investigate options for out-sourcing or partnering with other Councils. The review does not include making operational decisions on a function; however, it does include looking at processes to achieve internal efficiencies of a function if it continues to be delivered in-house.

4.2   Council may opt out of reviewing certain functions if the delivery of that function is governed by legislation or a binding agreement that cannot be reasonably altered within the next two years, or if the cost of undertaking the review outweigh the benefits.

4.3   A formal cost benefit analysis is not required for every function reviewed. The depth of analysis will be decided on by the project team at the first meeting, as to whether an in-depth analysis is worthwhile, or whether only a light review is required due to the nature of alternative options and potential limited gains from a full review.

4.4   The plan is for the review of each function of Council to be conducted independently of the managers directly involved in that activity to avoid conflict of interest and bias. Therefore, a project team has been established made up of all levels of the organisation, including four elected members, three members of the senior leadership team, and three other Council officers.

5. Information Summary

5.1   The review team will be made up of the following members:

- Deputy Mayor Mckay
- Councillor G Boyde
- Councillor V Jones
- Councillor E Hall
- Chief Executive
- Director – Corporate Services
- Director – Environmental Services
- Projects Manager
- Building Control Officer
- Customer Service Officer

5.2   It is anticipated that the review team will be split into two and allocated equal share of the functions for review. This will be established at the first meeting of the review team on 13 December 2022.

5.3   To ensure the work is completed by the deadline of August 2023, project team meetings are proposed to be held fortnightly on Tuesdays from February onwards.

6. Strategic Alignment

6.1   **Direction**

The outcomes of the service delivery reviews will potentially have an effect on Council direction.

6.2   **Annual Plan and Long Term Plan**

The decisions made under this review will feed into the Long Term Plan 2024-34.

6.3   **District Plan**

N/A

6.4   **Legal Implications**

There is no involvement by audit in this review, however the review itself and the subsequent conclusions are open to judicial review. The grounds for a judicial review (a legal challenge to public decision-making) are procedural injustice, illegality, and unreasonableness.

6.5   **Policy Implications**

N/A

Attachments:

Appendix 1   Terms of Reference – Section 17A Reviews
Appendix 2   Service Delivery Reviews – SOLGM Guide - September 2015

Tiffany Radich
Director – Corporate Services

[Approved by]
Sven Hanne
Chief Executive   **Date** 28 November 2022

<div align="right"># Appendix 1</div>

Service Delivery Reviews (Section 17a of the LGA)
Terms of Reference

Background

Under Section 17A of the Local Government Act 2002, local authorities are required to review *"the cost-effectiveness of current arrangements for meeting the needs of communities within its district for good quality local infrastructure, local public services, and performance of regulatory functions".* This must be done no later than 6 years following the last review, which was undertaken in 2017 and approved by Stratford District Council on 8 August 2017.

The review will feed into the development of the Long Term Plan 2024-34, and associated asset management plans and supporting strategies, plans and bylaws.

There is no involvement by audit in this review, however the review itself and the subsequent conclusions are open to judicial review. The grounds for a judicial review (a legal challenge to public decision-making) are procedural injustice, illegality, and unreasonableness.

The S17A review should involve analysing the various options for governance, funding and service delivery for each Council function, including in-house delivery, delivery by a Council Controlled Organisation, another local authority, or another person or agency, and the rationale for delivering the function in the first place. It is an opportunity for Council to seek efficiencies and investigate options for out-sourcing or partnering with other Councils. The review does not include making operational decisions on a function such as whether or not to own a particular property, or fix a certain road, or have a spa/sauna at the swimming pool, for example. However, it does include looking at processes to achieve internal efficiencies of a function if it continues to be delivered in-house.

Council may opt out of reviewing certain functions if the delivery of that function is governed by legislation or a binding agreement that cannot be reasonably altered within the next two years, or if the cost of undertaking the review outweigh the benefits.

There is no legal requirement to consult with the community on the reviews, however if a recommendation comes out of the review that is considered significant in terms of Council's Significance and Engagement Policy, then consultation may be triggered for that particular decision. It is important though that community views and preferences are considered in this review, including the views of tangata whenua. This may be done through meetings with iwi, or using other data collected such as the Customer Satisfaction Survey 2022.

The Plan

A Project Team is to be established including at least two elected members, at least three of the senior leadership team, and at least two other staff within Council.

The actual reviews for each activity will be undertaken independently of the managers directly involved in that activity to avoid conflict of interest and bias. The project team will prepare a plan for each of the functions to be reviewed and a template by which each function will be reviewed. The team will also decide on the level of engagement with the community for each function review.

It is proposed that the following functions will be reviewed, however that is yet to be finalised by the Project Team:

- Roading
- Parks and Reserves
- Property
- Pensioner Housing
- Rubbish and Recycling
- Building Control
- Parking and Bylaws
- Environmental Health
- Animal Control
- Liquor Licensing

- Resource Consent
- Economic Development
- Library and Information Centre
- Swimming Pool
- Percy Thomson Art Gallery
- Aerodrome
- Information Technology and Records Management
- Communications
- Financial Administration
- Payroll
- Customer Service Centre
- Farm

It is proposed that the following functions not be reviewed, however again, the final decision will be recommended by the Project Team, with reasoning documented in the final plan as to why they will be excluded from the review:

- Water Supply
- Wastewater
- Stormwater
- Governance

The Process

The efficient and cost-effective delivery of successful and sustainable outcomes for ratepayers (value for money) and the desired service levels for the community (residential, rural, commercial) is the primary driver for these reviews. Taituara have defined cost-effective in terms of these reviews as meaning, *"that the end objective or desired end result is achieved at lowest cost from amongst the options you have considered"*, and is a policy judgment that elected members are to make.

The Project Team will prepare a final plan for the Section 17A reviews, including the functions to be excepted and why, and determine the information requirements for the review of each activity, the evaluation method of alternative delivery options, and make a recommendation on the delivery of the function going forward.

The final plan for the Section 17A reviews will be a decision report to Council.

The initial draft reviews for each function will be taken to a Council workshop, for review and feedback. Following this, a second draft will be prepared for final workshop review.

A decision report will be taken to elected members for final debate and to adopt the draft/final reviews, and seek community consultation (if consultation is required – refer to Significance and Engagement Policy following final draft review step).

After consultation, deliberations, and any further changes, the final review results will be brought to Council for adoption, if not adopted at the earlier step.

The Timeline

Draft Plan and Process approved by Audit and Risk Committee   Sep – 2022
Project Team established by Chief Executive (internal)   Nov – 2022
Final Section 17A Review Plan approved by Council   Feb – 2023
Work commences on Section 17A reviews   Mar to Apr – 2023
Initial draft reviews presented to Council workshops   May to Jun – 2023
Final draft review presented to Council workshop   Jul – 2023
Decision reports on final reviews approved by Council   Aug – 2023

APPENDIX 2

Service delivery reviews

Conducting a service delivery review under *section 17A*
of the *Local Government Act 2002*

leadinglearninglinking

CONTENTS

FOREWORD

This guide discusses the requirement to conduct reviews of service delivery under *section 17A* of the *Local Government Act 2002*. It is the last piece of SOLGM's planned suite of guidance that covering the legislative amendments made during 2014.

The legal requirements are not greatly different from the internal reviews of services that all of us have undertaken at some point in our careers. The only strikingly 'new' elements are is that there are two legal triggers for the review process and that the legislation sets a deadline for completion of the first set of reviews.

Of course, we review our services to ensure that we are getting the best value for our community. Possibly the most significant challenge we will face in implementing *section 17A* is to ensure that this does not turn the service delivery review process into a compliance exercise.

This guide will show you how to integrate the *s17A* requirements into your own processes for conducting reviews. The guidance provides navigation through what is one of the more complex pieces of drafting (at least for what it was attempting to achieve). The guide will help you develop a forward programme for reviews. And it will help you understand how to document your processes to safeguard against the legal risks.

This guide has primarily been the work of SOLGM's Planning and Accountability Working Party. I thank them for their work on this guide and the other products in our suite of guidance over the past year.

Barbara McKerrow
President SOLGM
August 2015

Disclaimer

This guide represents the collective wisdom of the local government sector on the conduct of a service delivery review that will meet the obligations under *section 17A* of the *Local Government Act*.

Every effort has been made to ensure that the information in this guide is as accurate as possible, including review by legal advisors.

The guide is not a substitute for appropriate legal and policy advice. Neither SOLGM nor the individuals involved in the preparation of this document accepts any liability for loss or damage arising from the use of material contained herein. Reading or using the information beyond this point constitutes acceptance of the terms of this disclaimer.

Copyright statement

1   WHAT IS A SERVICE DELIVERY REVIEW?

This guide discusses the requirement to conduct a review of service delivery under *section 17A* of the *Local Government Act 2002* (*LGA02*).

A service delivery review is a process of determining whether the existing means for delivering a service remains the most efficient, effective and appropriate means for delivering that service. The legislation requires that a service delivery review should periodically assess *"the cost-effectiveness of current arrangements for meeting the needs of communities within its district or region for good-quality local infrastructure, local public services, and performance of regulatory functions".*

One of the policy objectives underpinning the Better Local Government programme of 2012-14 was the promotion of efficient service delivery and governance arrangements. The *section 17A* requirements were one of a set of amendments along these lines, including:
*   amendments to the reorganisation process to better enable community-led reorganisation
*   a new principle that local authorities should "actively seek" to collaborate and cooperate with others
*   an expansion of the scope of the triennial agreement between all councils in each region to address how issues of mutual benefit will be addressed, and to enable the agreement to include commitments to joint committees or other shared governance arrangements
*   improved clarity about the process by which territorial authority functions can be transferred to regional councils, or vice versa and
*   an explicit framework for agreements to constitute joint committees.

The requirement to periodically review services supports the changes to the purpose of local government (*section 10, Local Government Act 2002*).[1] The review provides a statutory encouragement to actively seek efficiencies and is therefore a good way of demonstrating that your local authority is delivering its services in a manner that is most cost-effective for households and businesses.

Previous SOLGM guidance has emphasised that the term cost-effectiveness is not the same thing as 'least cost'.[2] Councils must also consider the effectiveness of current arrangements. Cost effectiveness is therefore much more consistent with 'least cost consistent with the achievement of the council's objectives for delivering the service'.

While the periodic review of services is now a legal requirement, every local authority has conducted a review of service delivery at some time. Parliament intended only that local authorities conduct reviews on a regular basis, there was no intent to point towards a particular outcome or even cut across the review processes local authorities currently have.

1.1   Why do a service delivery review?

Doing a service delivery review well can result in any or all of the following benefits:
*   *efficiency gains* – either from financial cost savings or reductions in resource requirements freeing up resources for use elsewhere
*   *improvements in services*
*   *improving relationships with other local authorities, community groups and private sector providers* – working through options for some services with other bodies builds trust and confidence, and might stimulate other ideas for review

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1   Unless otherwise stated, all subsequent references to 'the *Act*' or 'the *LGA*' refer to the *Local Government Act 2002*.
2   See SOLGM (2012), Purpose Clause, Frequently Asked Questions (available on request from SOLGM).

- *better understanding of available options* – identifying alternative means for service delivery can be a useful spur for future thought even if you decide not to pursue them in the current review. It also helps guard against complacency.

A service delivery review is therefore best viewed as an opportunity to improve the delivery of services to your residents and ratepayers. If your local authority approaches a review with a compliance mindset, it is likely to land on 'more of the same' outcomes.

Unlike many of SOLGMs other guides, the processes and pointers in this guide have a far stronger good practice element. Feel free to adapt to fit your own programme of reviews. You might even choose to ignore some aspects altogether.

1.2   What's a service?

Section 17A uses the same terminology as *section 10*, that is to say that it refers to the 'local infrastructure, local public services, and the performance of regulatory functions'.

The starting point for your definition of service should be the activities (not groups) that you disclose for reporting in your long-term plan. As noted later you might then elect to combine like services together for *s17A* purposes (for example by combining resource consents, building consents and licensing into one).

If a service is large, and consists of a number of elements where separation of one or more aspects of the service is a realistic prospect then you might consider disaggregating an activity into more than one subactivity or component. For example with an activity such as roading , you might de-couple transport planning from the physical infrastructural development. One involves retention of a strategic capability and might be a strong candidate for keeping in house, another must be delivered at arms-length (if funded by central government).

On a strict reading the *Act* is focused solely on the public-facing services. SOLGM considers that including back-office services such as debt collection (or other more transactional elements of the finance function) is consistent with Parliament's intentions. Those sceptical of this should remember that back office functions such as IT and debt collection were among the first candidates for the so-called shared service arrangements.

1.3   What must a service delivery review include?

A *section 17A* review determines the cost-effectiveness of different funding, governance and service delivery options for meeting the needs of communities. There is no definition of the terms funding, governance or service delivery in the legislation. In broad terms however:
- *a funding arrangement* involves the manner in which the financial resources are provided to support the service, including both the mix of sources of revenue or capital and any arrangement or agreement that governs the provision of these resources (such as a contract, deed of trust etc)
- *a governance arrangement* revolves around who has the right to make binding decisions about the overall objectives for provision of the service, and set the strategic framework in which the service operates. In the local authority context governance options fit into two broad categories – political or arms-length (which in itself is a catch-all term for a variety of models ranging from corporate forms to various forms of trusts)
- *a service delivery arrangement* essentially describes the body that physically undertakes the work or provides the service.

To give an example of the difference, take the delivery of passenger transport. In most New Zealand local authorities:

• the funding is provided by a mix of user charges and subsidies from the regional council and the New Zealand Transport Agency (there are exceptions to this in some areas)
• the governance of the activity is undertaken by a regional council and
• passenger transport services are provided under a contractual arrangement with a private sector agency.

Section 17A requires consideration of the following options:

a) funding, governance and delivery by your local authority
b) responsibility for funding and governance is undertaken by your local authority and delivery is undertaken by another local authority
c) responsibility for funding and governance is undertaken by your local authority and delivery is undertaken by a CCO, wholly owned by your local authority
d) responsibility for funding and governance is undertaken by your local authority and delivery is undertaken by a CCO, where your local authority is a part owner (the other owner or owners might be a local authority or other organisation
e) responsibility for funding and governance is undertaken by your local authority and delivery is undertaken by some other person or agency (such as a private or community sector agency)
f) responsibility for funding and governance is delegated to a joint committee or other shared governance arrangement, and delivery is undertaken by some other person or agency
g) any other reasonably practicable option for funding, governance and delivery (*section 17A* does not limit the options to those above)

We've been asked whether the review should consider options for generating efficiency gains even if no change in the funding , governance and delivery is proposed (we'll refer to these as refinement options) .

There is no legislative requirement to do this. The choice is one for your local authority to make. However, *section 17A* was intended to get local authorities thinking about ways to encourage efficiency gains. In many cases change options may not be practicable, in which case closing off on refinement options may be closing off on potential gains. Refinement options may sometimes be of more interest to elected members. Regardless, the data requirements are identical and reviews that are too unnecessarily frequent are likely to create an unsettled team culture with all that this involves (e.g. high turnover, low morale etc).

2   DEVELOPING A PROGRAMME OF REVIEWS

2.1   The trigger points

There are three statutory trigger points when a review must be undertaken:

1.   *when considering significant changes to service levels* – that is to say if you are considering a significant change, then you must undertake a review of service delivery in conjunction. We interpret the phrase significant change to include starting a new service, or significantly increasing or decreasing a level of service. This means your local authority will need to be keep a close eye on developments in the legislative and policy environment that have (or could have) a significant impact on levels of service

2.   *within two years of expiration of a contract or other binding agreement to deliver a service* – that is to say, if someone is delivering the service on your behalf, and that is due to expire inside two years, then you will need to conduct a review. We suspect that in practice this will be this most commonly triggered circumstance.

    We've been asked about contracts that have a right of renewal, for example a five year contract with a three year right of renewal. There isn't a single right answer in this case. Our advice is to carefully scrutinise the wording of the contract and look for the point when the contract or agreement would be most likely to end. Often this would be the end of the renewal period, as the intent is the agreement will be renewed except for underperformance. In cases where the agreement provides your local authority with more flexibility as to renewal, then the review should be undertaken within two years of the end of the first period. We suggest that the *section 17A* process should occasion a review of whether and in what circumstances your local authority offers rights of renewal.

3.   a review of service delivery has a maximum statutory life of six years from your last review under *section 17A*. For example, suppose you complete a review of a service on 6 August 2017, the next review would have to be completed by 5 August 2023 (unless something happens to trigger the review in the intervening period, or your local authority decides to undertake a review of its own accord).

Other circumstances do not trigger a review in and of themselves. For example, reviewing the funding of an activity as part of a review of your revenue and financing policy does not mean that your local authority needs to review governance and service delivery as well.

Regardless of the above, the *LGA* has a transitional provision that requires that all services must be reviewed by 8 August 2017.[3]

2.2   The exceptions

There are two statutory circumstances where a review is not necessary (even when triggers have been activated). These are:

•   there is a contract or other agreement in place that cannot reasonably be changed within two years (though if something happens that makes a change reasonably practicable you would need to do the review then)
•   your local authority is satisfied that the costs of doing a review outweigh the benefits of doing a review.

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3   *Clause 2, schedule 1AA.*

In cases where either of these exceptions have been triggered then you'll need to have evidence to support your judgement that these circumstances apply.

In the case of contracts or other binding agreements you'll need to document the reason why this document cannot reasonably changed. This will generally revolve around penalties or other impositions around termination, the difficulties involved in changing providers in mid-project or similar.

The second instance (costs outweighing benefits) was designed to ensure the requirement is observed in a workable fashion. It was designed more for circumstances where the service is small, or where significant cost savings are unlikely or where a review has been conducted relatively recently.

This does not require a formal cost/benefit analysis or necessitate hiring consultants (though for larger, more complex or contentious review projects you might wish to do so). It will require consideration of costs and benefits, and clear documentation of the reasons why you decided not to conduct the review.

Some local authorities have set a policy which sets out a minimum contract value before the local authority will undertake a service delivery review. In effect, this is a policy judgement that reviewing a contract below this size is unlikely to generate savings that outweigh the costs. This approach works well for very small services and smaller contracts (most probably for services that aren't capital intensive).

A more sophisticated approach will be needed for larger services. Your consideration of the costs and benefits that might arise from a review might include:
- *the anticipated cost of the review* – there are a wide variety of different processes for undertaking a review, select one or two options that appear most practicable as the basis for costing (in this way you've developed a potential range, and given yourself some protection from claims that you looked at a single option)
- *the total cost in providing the service* - a 10 percent per annum saving on a $1 million service may justify a review, a 10 percent per annum saving on a $50,000 service may not
- *the elapsed time since the last review* – if your local authority has done the last review of the service recently it may well be that you would end up with a similar result to your last review (unless there have been significant changes in the operating environment)
- *changes in the environment in which the service is delivered* – changes in the legislative environment might have made some options feasible, or reduced the potential to use other options (a hypothetical example might revolve around changes to the maximum time period set in *section 130* of the *Act* for contracting out delivery of water services)
- *effectiveness of current arrangements* – are the current arrangements meeting the councils objectives for providing the service, is there any credible (and quantified) evidence that a change in service delivery might provide improved service[4]
- *capacity/capability gains and losses* – some joint delivery options or options that involve delivery by third parties may result in the creation of greater capacity to manage complex issues (this is often one of the benefits that people cite as a rationale for creating CCOs to manage network infrastructure). Some options for delivering some services might remove or reduce the capacity within your local authority in places such as policy and procurement (need to "know what your local authority is buying from suppliers").

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4   Be sure to separate fact from fiction with this one, there are some agencies and groups that deal in unsupported assertions.

2.3   Developing a forward programme for reviews

The obligation to undertake *section 17A* reviews applies to all services, with both an initial review and an obligation to conduct reviews on a regular basis. Conducting a full review of all of your services is a large task, but fortunately the ability exists to stage the reviews. It would be wise to take advantage of this by developing a forward programme for the reviews, both up to August 2017 and beyond.

As the statutory "life" of a *section 17A* review is six years, its generally wise to set a forward review programme of six years. This ensures that all services are incorporated in the review, and that all interested or affected parties have an approximate idea of when their service is likely to come up for review. Developing a six year programme does not mean it's set in stone, the programme should be reviewed at least once per annum, and should retain the flexibility to adapt as developments occur.

Figure 1 shows an approximate order of steps to develop a forward programme of reviews
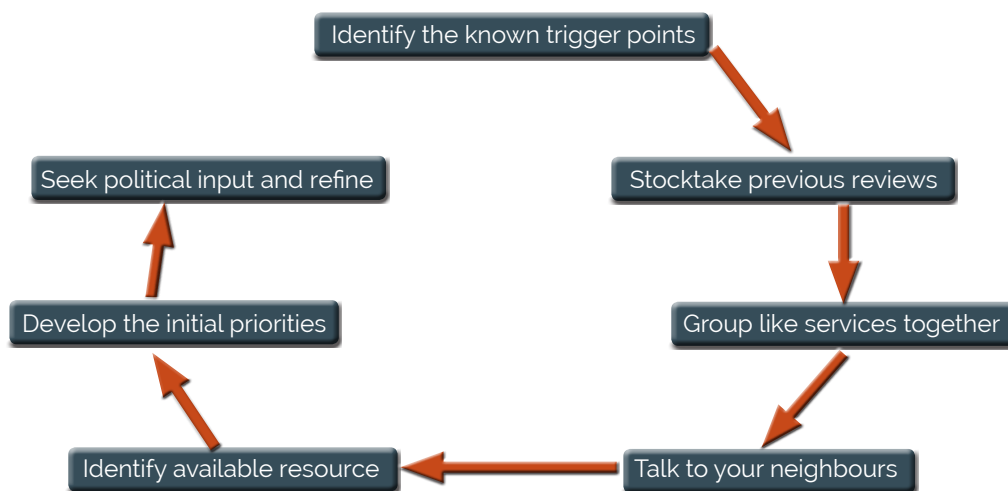
Figure 1: Developing a forward programme of reviews

Identifying the known trigger points

Your first step should be to identify the likely points that will trigger a *section 17A* review i.e. that there is less than two years to the expiry of a contract, or that there is a significant change to a level of service.

Likely information sources for that include:
*   *your local authority's contract documentation* will tell you when each contract is up for renewal, what amount and what each contract covers. Where joint procurement options have been arranged this documentation will also identify interested or affected parties. One implication of this is that those local authorities that do not already do so should consider some centralised register or other readily accessible information about contracts
*   *your local authority's long-term plan or asset/activity management plans* – these documents will identify any significant changes in levels of service that have been planned. Look for matters such as the expiry of resource consents, and use judgement as to what implications

are likely to have for levels of service. Don't forget that the obligation to review services applies to any significant change in levels of service – a significant decrease in levels of service decrease is as much a trigger for a review as a significant increase

- *the Government's policy agenda* (in as much as it is known) – if central government has signalled that a level of service for an activity will change significantly, for example if there were to be a change to the microbiological and protozoal components of drinking water standards, then a review of water services might be needed at that point
- *your significance and engagement policy* – will provide guidance for considering what is and isn't a significant change in levels of service, and what other issues or decisions might require engagement, when and how.

Stocktake any previous reviews

It's always a good idea to identify the previous service delivery reviews that you've undertaken. This includes both those undertaken under the authority of *section 17A*, and those undertaken of your own initiative. These reviews can provide lessons around:

- *undertaking the process* – for example who should be engaged in the process and at what point
- *previous thoughts around the cost-effectiveness of different options* – what conclusions did the council reach in that previous review and why. Be wary of placing too much weight on the results of a previous review however. Market conditions can change, developments in technology might make some options feasible, even changes in the political direction of council might make the outcomes of a previous review less relevant.

The results of these reviews can help identify priority targets for review – for example those where you know there has been some development that might mean a fresh option is feasible.

When reviewing the results of previous reviews that were 'voluntary' be sure to assess whether these reviews met the requirements of *section 17A*. For example, did your last review consider all of the options that are mandated under *section 17A* (our sense is that most will not have done so). If your last review missed one of these requirements it should not be treated as having been a *s17A* review and the service is most probably a candidate for early review.

Group like services together

There is nothing in legislation to preclude local authorities from grouping like services together to undertake *section 17A* reviews.

Giving thought to matters such as the degree of interconnection between the services, commonalities in the rationale for service delivery and common patterns of benefit might reduce the size of your work programme in a sensible way. For example, drinking water supply and sewage disposal are almost always managed as an integrated whole, and might be combined for the purposes of developing a programme.

Talk to your neighbours

Several of the options that must be considered involve joint delivery with groupings of other local authorities. Getting together with your neighbours to discuss a joint programme of *s17A* reviews avoids duplication of effort (and the result where two neighbouring councils conduct reviews in parallel and come to a different result). The initial place to start this discussion is in your regional networks (where they exist), although ad-hoc groups or some groupings at sub-regional level may make sense.

Identify available resource

Having broadly determined what needs to be done, it is time to consider when it needs to be done and by whom. These steps turn a list of tasks into a forward programme of work.

At this step you'll need to consider workflow amongst the different portions of council, especially your activity managers and the different parts of your governance structure. There are a wide range of matters you'll need to consider including:

- *statutory policy development* – including the development of the LTP, annual plan, and the activity that precedes that (such as asset management planning and development of financial and infrastructure strategies), district plan reviews, assessments of water and sanitary services et al. To take an example, a review that identifies a change in the funding of a particular service, might necessitate a change in your revenue and financing policy, which requires consultation and potentially an audit (if the change is significant).
- *non-statutory development* – how and when does your local authority undertake work such as rating reviews, level of service reviews and any other significant or contentious non-statutory plans and policies
- *consultation* – some options (such as establishment of a CCO) might require consultation, allow time for these processes to run
- *the political process* – there will be times when it may not be practicable to progress reviews with elected members. Few elected members will welcome being called on to make significant changes in the period before the election. Inducting elected members and activity such as direction setting may also preclude their taking significant decisions in the first few months after the triennial election.

As with the previous step, there are benefits in undertaking this work at regional or sub-regional level. Availability of resource across all of your regional partners means some synchronisation in the timetables is essential.

And don't forget to leave some degree of flexibility in the programme for amendments or adaptations as and when opportunities arise.

Develop the initial priorities

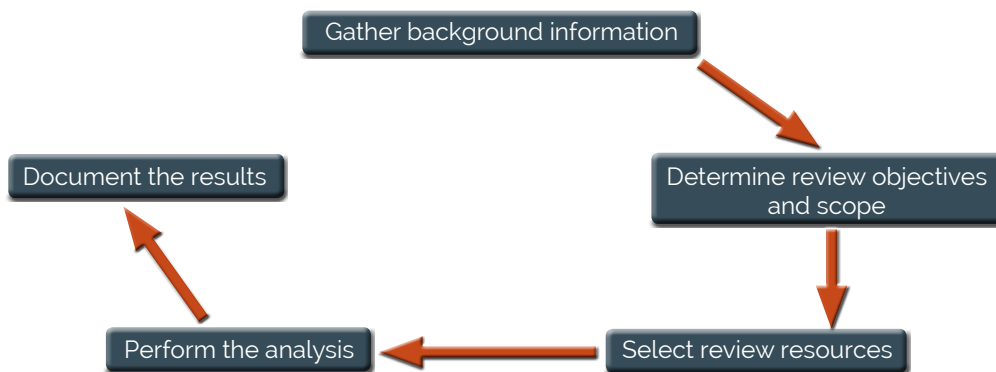And at last you're in a position to develop a set of initial priorities. Some things to consider at this point are:

- *timing of previous s17A reviews* – make things easy for your local authority. All things being equal if you've done an *s17A* review of service delivery in the last year, you would avoid placing it amongst those services up first for review (unless something triggers the review or there is some other compelling reason to)
- *when and in what circumstances s17A reviews might be triggered* – see the discussion above
- *the 80-20 rule* – use your professional judgement to identify those services where efficiency gains are most likely to sit, and which all things being equal, might be those your local authority tackles earlier in the programme
- *consultation* – where reviews could generate changes that require consultation then there may be benefits in aligning that with other consultation and taking advantage of the concurrent consultation provisions of the *LGA02*.

Seek political input and refine as needed

Service delivery, and changes to service delivery can be an intensely political issue. We recommend that your proposed programme for reviews should be exposed to the decision-makers before it is finalised.

3 CONDUCTING A SERVICE DELIVERY REVIEW

Having developed a forward review programme, lets now turn to conducting an individual review of service delivery.

Gather background information

Document the results

Determine review objectives and scope

Perform the analysis

Select review resources

3.1 Gather background information

This preliminary phase draws together information about the current state of the service into a single place to serve as the basis for the identification and analysis of options.

In the first instance this should be the responsibility of the activity manager or other staff that deliver the service. They will (or should) have ready access to most of this information.

A full information set would include the following:
- *a clear definition of the service* – what is this service, what does it do, what's been included and excluded from the scope of this service and why
- *current arrangements for funding, delivery and governance* – describe these succinctly including any contracts or other arrangements that relate to the funding, delivery or governance of the activity
- *legislative requirements* – is this a service that is required by legislation (and if so, what is the legislation) or is it discretionary
- *rationale for service delivery*[5] - why is that you provide the service (or have somebody provide the service on your behalf). In particular look for linkages between the service and your council's various strategies, policies and plans; and any other intervention logic (e.g. a territorial authority provides dog control services to promote public health and safety, not just because the *Dog Control Act 1996* requires it)
- *how does council currently define effective performance for the activity* – what are the council's objectives for the service and how do you know whether or not these objectives have been met (in the parlance of performance management – what are the levels of service and performance measures). This is your basis for making judgements about the effectiveness both of the current arrangements and future arrangements
- *the cost and resource involved in delivering the service* – provide a breakdown of the operating and capital cost for the activity, and other significant resources involved in its delivery. Ideally some trend information (for example the last five years) would be provided to garner some idea of expenditure trends and cost drivers. Forecasted budgets for the

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5 SOLGM (2010), Performance Management Frameworks: Still Your Side of the Deal, provides further information and some worked examples for developing rationale for service delivery.

service should also be provided – this is the basis for comparing the cost of different options
- *risks and risk management arrangements* – what are the financial, political, hazard, and legal risks with this service. How (and how well) are these managed under current arrangements
- *funding provided for the service, and the source(s) for this funding*
- *user/customer information* – this covers a variety of different topics including results of customer satisfaction surveys (where these exist); the common areas of customer complaints, requests for service, and other feedback to the provider of the service, what information exists on the vies and preferences for the service
- *other stakeholder information* – including the views and preferences of your elected members and staff involved in delivery of the service
- *results of the last review* – whether conducted voluntarily or under the authority of *section 17A*.

Scaling

The above list has been developed on the assumption that your review is of moderate scale. A smaller scale review might omit one or more of the items in the above list. A full scale review would include information to a greater level of detail and potentially formality. For example:
- the cost and funding information would be presented at 'line item' level and might well be forecasted ten to twenty years into the future
- documentation of the last review might be more indepth and explain in detail which options were traversed at length and why.

3.2 Determine review objectives and scope

In this phase of the review you determine objectives for the review and how far the review will extend. Although a *s17A* review must always have the primary objective of determining which options are most cost-effective for households and businesses, you may add other matters as well, such as improving customer service.

We've been asked if local authorities are obligated to review the governance, delivery and funding of an activity together or whether partial reviews can be undertaken. For example, governance and delivery might be reviewed at one time, and the funding at another. The short answer is that this is permissible, but that in most instances reviewing the three together is common sense, especially if change to governance or delivery are realistic options. Here are some reasons for keeping reviews of services unified:
- too many reviews, even limited reviews, can have impacts on staff morale with consequent impacts on service performance, staff retention etc
- it can be difficult to sensibly separate the funding of an activity from its delivery or governance, which means fragmenting reviews and involves a degree relitigating issues thought 'resolved' in other issues
- reviewing one of the aspects of the service might generate ideas for improvement elsewhere, that require a subsequent review
- too many reviews can create fatigue amongst elected members and the community (where they making decisions on, or being consulted on, the review)
- reviews have direct and indirect costs, including the opportunity cost of the time that could be spent on other activities.

This is the point where your local authority makes an informed judgement as to whether the costs of the review outweigh the benefits of the review (using the criteria above or others).

This phase of a review should see a 'first pass' at the options. At this phase the intent is not to conduct detailed analysis but to eliminate those that are obviously not feasible. For example any option that involves delivery of water services by a party other than a local authority or CCO could be constrained by the time limit on contracting out contained in *section 130* of the *Act*. It is not a licence to remove options based on perceptions that a particular option might not have political support, or might raise community concern.

Local authorities are not required to engage with the community when undertaking reviews. Obligations to engage may exist where levels of service are being changed or at the point when options such as establishment of a CCO are mooted. If engagement is likely, whether voluntary or because legislation requires it, then this should be identified at the scoping stage of the review.

Scaling

The scoping decision will be an important part of the scaling of the review. It is important that the service manager be involved in the scoping process, but the final decision on review scope should sit elsewhere. If the review is smaller in scope then it may be the service manager's immediate superior, if larger it may be a matter for your senior leadership team. If the review is to seriously traverse joint delivery options it may require council consideration.

3.3   Select review resource(s)[6]

Having determined the scope of the review and gathered the necessary background information, it's time to resource the review.

How you resource any review is a matter that is entirely up to your local authority. The resourcing of any review could be as small as a single person (such as the service manager) or as large as a multidisciplinary team (with supporting review panels). Likewise the decision to use your own staff, or contract out the review to consultants sits entirely within your local authority's discretion

Some things to consider at this stage of the process are:
*   *place in your overall review programme* – where several reviews are being conducted, a desire for consistency in methodology and overall policy approach can sometimes lend itself to undertaking reviews using a common resource (this might also be the case where one or more reviews are undertaken by groupings of local authorities)
*   *the scope of the review* – if a review is larger in scope and is likely to create a diversion from "business as usual" then there may be a case for having the review done externally
*   *the desired degree of independence* – generally the people who know the service best are the service manager and the staff involved in delivering the service. There will be a need to consider their knowledge against the possibility that an independent reviewer (whether from inside or outside the council) might provide new thinking and an independent approach (e.g. they are not reviewing their own roles)
*   *the balance of skills and knowledge* – a successful review incorporates skills, knowledge and experience from many professional disciplines. Where reviews are conducted internally it may be important to balance the representation from within the service with skills in financial analysis, asset or activity management, community engagement etc. Look for a balance of skills rather than ensuring that every area of council is represented. A moderate sized review might have 2-3 people involved with one designated as the overall review manager, and a relatively simple project structure

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6   We use the term review agent as a 'catch-all' term for any person or group assigned to conduct the review. This might include an individual, a project team assembled from within council, consultants or some combination of options.

- *access to specialist skills or knowledge* – where specialist economic or financial analysis skills are needed it may be necessary to acquire that knowledge from outside your local authority.
- involvement of elected members – this is one of the key decisions in resourcing a review project. Most elected members will have some views about options ranging from the "contract out for efficiency" to "public delivery and funding are important for their own sake" and all points in between. Elected members may also have strong views about what constitutes effective performance. There is a tension between securing elected member input during the review and ensuring the robustness in the analysis of options. In a larger or more politically contentious review it may be desirable to have elected members involved as part of an overall steering or review group (though watch for situations where some elected members may be seen to "know more" than others). Regardless of the decision around formal involvement of elected members, there will be a need to keep all elected members informed throughout the review process
- involvement of staff – how and when will staff in the service under review be involved in the review process, and how and when will other staff be involved (including those not directly providing the service). The box below discusses employee involvement in more detail.

Scaling

The amount and type of resources you devote to the review is clearly one of the most scalable items present in the review.

A moderate sized review might involve a team of 2-3 drawn from within the council. A smaller review might involve only one person performing the work, with a senior manager (or the CE) providing peer review. A larger more complex review might have a team of four of five performing the review, or be outsourced, with either option having the support of a review panel.

The service delivery review process and employees

Nothing in *s17A* removes or reduces the rights of staff in employment law, or abrogates from the Chief Executive's responsibilities under employment law, or as a good employer under clause 36, schedule seven of the *LGA02*. The immediate implication of this is that employees (and any representative bodies such as the unions) must be involved in the process.

But involving employees in the process is also the smart thing to do, regardless of the legal niceties. Staff can provide a useful front-line perspective of whether the objectives for a service are being met that no performance measure can ever provide. Staff have a working knowledge of how the service is being used or accessed on the ground, and therefore have a better understanding of the practical issues involved with alternative options. And, in the final analysis, the interaction of staff with the public will play some part in determining how the public view any actual change.

There are few hard and fast rules for determining when and where staff should be involved, up to the point where change is under serious consideration and options such as redundancy or redeployment are being considered. Otherwise it's a matter of common sense and application of the 'do unto others' rule.

In the scoping phases of a review, staff will need an understanding of what the review process involves and why it's being undertaken. At that point it is generally useful to seek feedback on the review objectives, and for feedback on the way the service is operating and suggested improvements.

Where working groups have been created, it is generally advisable to ensure staff are represented. Ensure that you've considered balancing representation from those staff who are members of unions, and those who are not, and how the views of all employees can be identified and considered during the review process.

Another place where you might consider inviting specific feedback is at the point where your review has narrowed options to a small number. An invitation to provide feedback at this point would state how and why the council these options appear the most practicable, and why others do not appear as practicable.

As with any employment process, and any consultation or decision-making process the obligation to approach the process with an open mind applies.

3.4   Analysis

The key principle in this phase is that a review of the options should involve a true consideration of the options.

Cost-effectiveness involves a degree of policy judgement, and therefore is a judgement for your local authority to make. Courts could intervene if your local authority has not turned its mind to the requirement, or on administrative law grounds.[7]

But in making that judgement, some factual evidence will be needed as to:
*   what constitutes effectiveness and why it is that the selected option is at least as effective as others

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7   In this context, the most likely way such a case would be made out through a lack of documentation and robust evidence about the effectiveness of a particular option and documentation that suggests that option has a lower cost than the council's preferred option.

- what the costs of the different options are (SOLGM considered that the nature of the cost/effectiveness balancing does not mean that costs have to quantified with precision but they should be sufficient to enable a reasonable person to draw a similar conclusion as the decision-maker).

Costing options

The legislation requires an assessment of the cost-effectiveness of different options for funding, governance and delivery. This means that a *section 17A* review will require some assessment of the costs of different options .

This does not mean that you undertake a formal cost/benefit study for every review. The depth of analysis is a decision for the scoping phase of the review. But reviews should generate at least a 'ball park' idea of the differences in cost involved.

Decisions to change governance and delivery are not always easy to reverse or amend. For that reason your assessment of costs of the different options should take a medium to long term focus. For a service that is not asset-intensive we recommend a ten year horizon as aligning with the timeframes set for long-term planning purposes. For a service that is asset intensive, we would suggest that 30 years is the absolute minimum and that good practice would be to consider costs over the lifecycle of the asset.

A robust costing of different options needs to be as much on a like for like basis as possible. That means taking the projected levels of service, projects and expenditures signalled in the activity plan and projecting them across the different options consistently. We've all seen studies that claim that a particular favoured option projects savings, where savings have turned out to come from reductions in levels of service or deferral of work.

Sometimes an activity management plan contains a project or programme added purely for political reasons, where alternative governance such as a CCO or a private sector agency would probably not proceed with. In these instances it is acceptable to remove these projects or programmes, but document these as part of your analysis.

And then the next part of the costing involves making assumptions about the form of delivery, its structure and method of operation. Again document all assumptions and your rationale for selecting these.

In costing different options it may be useful to draw comparisons from other local authorities where a particular governance or delivery option is employed. For example, those few local authorities that still collect waste 'in house' will probably find a wealth of information from those where the service is outsourced.

Watch for the so-called "stranded overheads". These are corporate level costs that will not transfer in the event that a service that will not transfer in the event that a service moves to a CCO, divested etc.

Service delivery reviews and performance improvement methodologies

Many local authorities use performance improvement tools such as Baldrige, balanced scorecard, six sigma and the like. These can be useful support tools and the metrics that they generate can provide useful information with which to judge the effectiveness of service delivery (a service that is meeting performance standards is, or should be effective by definition). These frameworks also provide useful thinking about the overall direction your review process should take.

However the *section 17A* test is a legal standard and requires a judgement of cost effectiveness. The legal standard takes precedence over anything that an off the shelf methodology will tell you. Be wary about relying solely on these tools as the basis for your judgements.

Benchmarking with other local authorities

Another common analytical technique is to benchmark performance with other comparable local authorities. While the term benchmarking may immediately conjure images of "league tables", many local authorities maintain informal benchmarking with peer groups across selected services. That might, for example, include comparisons of outcome information, levels of service, costs, resources employed, and funding needs and sources.

With careful design and interpretation, benchmarking can reveal areas where your local authority's financial or non-financial performance is an outlier (that is, either the exemplary or execrable). For example, if your local authority is delivering a service that meets the council's objectives, to a higher standard than others, and at less cost that's probably a good indicator of cost-effectiveness.

If you doing interested in doing benchmarking for this purpose alone, try to find peer councils that use different service delivery models (where these exist). If all local authorities are delivering using the same model then the information from benchmarking may not be a good basis to assess the effectiveness of different options.

Refinement options

Although not a statutory requirement, it is good practice to consider whether there are opportunities for efficiency gains even if your model is the most cost-effective of the options. Some of the options might include:

- a redesign of existing processes for delivering the service, for example, by removing duplicate collection of information
- investing in training and development of staff so that staff are able to 'multi-task' and handle more than one aspect of a regulatory process
- the selective use of technology – for example moving a service online to make the service available 24/7 or remove the need for people to physically come to the council office
- revisiting how and when governance input is necessary and when it not – for example by reviewing the delegations to take decisions. Remission and postponement of rates is a good example. Some applications might have a strategic element to them, but most are purely administrative and may not need authorisation by council or council committee.[8]

Engagement

There are no direct obligations to engage the community when undertaking a service delivery review. Your local authority may need to engage in circumstances where the review triggers an obligation under your significance and engagement policy. Your local authority may have to engage if the review suggests a change is necessary – for example if your local authority decides it wishes to establish a CCO as a result of the review.[9]

It's worth remembering that you are obliged to consider community views and preferences when making any decision under the *Act*. Depending on the information you already hold on views and preferences you may need to obtain, update, or get more specific information in regards community views and preferences. In particular if significant change is a serious option then your local authority should err on the side of caution. In these instances it would be wise to regard consultation as being in accordance with *section 82* of the *Act*.

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8   A good example of the former is a rate remission or postponement for economic development purposes, a good example of the latter is the power to waive a penalty on an overdue rate.
9   *Section 56, LGA*.

Alternative models

There is a wide range of literature (especially from overseas) available about the merits of different approaches to delivery. Often it is service specific – for example there is a great deal of research on alternative models for providing water services.

As a general rule the service might be a better candidate for shared service if:
- *there is evidence that economies of scale (savings from doing things on a bigger scale) or economies of scope exist* – but be careful that the evidence you base this on is robust and not merely opinion masquerading as evidence
- *the service requires a high level of specialist or technical expertise* – for example, some local authorities currently exploring delivery of water services by CCO see benefits from sharing expertise in both the strategic and technical aspects of asset management
- *the service is high volume and there is little variation in service delivery* – if the service is provided to or used in a relatively standard way then it may be a candidate for moving into a shared service arrangement. Don't forget many of today's shared services organisations have their roots in agglomerating back office functions such as debt collection
- *the service is non-strategic* – some services may play an important role in the achievement of your local authority's strategic objectives, in these cases it may be wise for your local authority to retain funding and governance control
- *the service would benefit from the application of commercial disciplines* – often this means that your local authority should consider both shared service, CCO type organisations and delivery by the private sector as alternative options
- *there are legal or regulatory barriers that impede your being able to deliver the service efficiently* – the establishment of Metrowater and Manukau Water[10] are both historic, but still relevant, examples. The councils wanted to be able to use pricing to manage demand and found the tools available under the *Rating Act* did not achieve everything the council wished to, so these CCOs were formed and given powers to charge volumetrically for wastewater
- *the service is self-contained* – that is to say it's not closely linked to other services. For example, few local authorities would seriously consider forming a CCO (or outsourcing) delivery of their wastewater disposal services alone, because they are so closely linked with the provision of drinking water.

Additionally a service might be a better candidate for delivery by a private sector organisation (e.g. a company):
- *there is an ability to charge for the service* – in particular there are cost-effective means to exclude people from using or accessing the service
- *the service has a low level of community or political interest*
- *the service is exposed to commercial risk* – for example, there are many active private sector competitors[11]
- *there are a large numbers of potential providers* – meaning that your local authority can secure the 'best value' through running a competitive tender process
- *the service requires investment in new technologies.*
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Additionally, a service might be a better candidate for delivery by a community or voluntary sector agency if:
- the objectives for providing the service are wholly or primarily non-commercial

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10 These were CCOs of the historic Auckland City Council and Manukau City Council that were subsumed into Watercare (and now Auckland Water) during the amalgamation of 2010.
11 It is an open question whether an activity that has multiple private sector competitors sits with the purpose of local government. In particular can a service that has multiple private sector competitors truly be said to be a public service?

- there is little or no ability for the deliverer to charge for the service – generally this means your local authority will retain a role in funding the service
- the community or voluntary sector provider has a better track record of identifying and engaging with the primary users or beneficiaries of the service than your local authority (this might especially be the case with parts of the community that have traditionally been regarded as hard to reach
- the provider has better networks within the community – one of the 'coming ideas' from English local government is the notion of local government building the capacity of the community to help itself through judicious partnering with, and development of, of the community and voluntary sector.[12]

3.5   Documenting your results

The decisions you take will be scrutinised , especially those decisions that involve the movement of services into and out of council delivery. In rare instances a decision to retain the status quo may even attract scrutiny. You will need to have evidence on hand that you have met the obligations of *s17A*.

The essential elements that need documenting are the:
- name of the service
- trigger (level of service, contract, expiry of the six years) or whether you are doing the review voluntarily
- decision whether or not the costs of doing the review outweigh the benefits and your basis for reaching that conclusion
- identification of options, and a statement as to whether each is reasonably practicable (and if not, why not)
- consideration of the costs and benefits of each option
- conclusion and recommendations for further analysis (if any).

SOLGM advises local authorities to develop a template to help ensure that each review has a clear trail of evidence. The template and working paper in the appendices to this guide are one way of meeting the obligations. However it's important that the template not force the way that your local authority undertakes any individual review, the important thing is to be systematic in your identification and analysis of options.

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12   For example, see the New Local Government Network, Local Government and the Commons.

4   SERVICE DELIVERY REVIEW TEMPLATE

Author's notes:

The template that follows is one way of meeting the legislative requirements, and is consistent with the guidance above. It is intended to be 'scalable' to the size of the review. Readers are encouraged to amend, add or subtract as meets the needs of their local authority – noting that SOLGM advises that templates receive a legal review before their first use.

The template is not as scary as it looks. It presents different combinations of options for funding, service delivery and governance. Having rejected some options will generally lead to the rejection of others. For example, if delivery by CCO is not feasible or viable and cost effectiveness then rejection of option 2 in the template, means that generally options 3,7, and 8 will also be rejected.

Don't forget that there may be other reasonably practicable options that you need to look at.

Present arrangements	
Name of the service and scope	(Identify the service and briefly describe the service. Try to keep this consistent with descriptions of the service in documents such as the long-term plan, asset/activity plan etc.)
Rationale for service provision	(Describe the reasons why the service is provided. Please consider: • the community outcomes that the service contributes to • any council strategy or plan that this service contributes to • any legal requirements to provide or have the service provided). The rationale should be consistent with any rationale for the service stated in the long-term plan.
Present arrangements	(Briefly describe the current arrangements for governing, funding and delivery of the service).
Last review	(When was the last review of this service undertaken? Briefly describe the results of the review.)
Performance	(Describe how the council knows or is able to assess the effectiveness of the current arrangements in achieving the rationale for service delivery. Consider levels of service and performance measures for the activity. You might also consider any benchmarking information that is available.)
Cost	(Note the total operating and capital cost of the service over the past three and next 10 years).

Decision to review	
Why is the review required? (*s17A(2)*)	(Describe the reasons why the review must be undertaken. Either: • there is a significant change to a relevant level of service – don't forget that this includes increases and decreases • a contract for delivery of the service is due to expire within 2 years or • it has been six years or more since the last review of service delivery under *section 17A* was undertaken or • set out other reasons for undertaking the review.)
Does the cost of undertaking a review outweigh the benefits? (*s17A(3)*)	(Consider: • the anticipated cost of the review • the total cost of providing the service – both operating and capital • the elapsed time since the last review • any changes in the policy and regulatory environment since the last review • the effectiveness of current arrangements • the ability of other local authorities to participate in the review • cost and capacity implications – especially where those relate to a statutory function • views and preferences of the users/ beneficiaries of the service and of the community.) Author's note: If your local authority has other criteria it wishes to have considered as part of this process, it should include/substitute as desired.
Recommendation whether or not to review	(Record your recommendation to review and your reasons for undertaking or not undertaking the review. Recommendations require the approval of [insert name of delegated officer])
Place in review programme	(Describe the service's place in the review programme (if any). How urgent is the review, and what are your reasons for reaching this conclusion)

Service delivery reviews

| Analysis of options (The options listed below are those listed in *s17A[4]*)	The Working Paper on page 25 has been developed to document the analysis in more detail.
1. Governance, funding and delivery by (insert your council name).	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)
2. Governance and funding by (insert your council name) with delivery by a CCO wholly owned by (insert your council name).	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended).
3. Governance and funding by (insert your council name) with delivery by a CCO partly owned by (insert your council name) and partly owned by other local authorities.	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)
4. Governance and funding by (insert your council name) with delivery by another local authority.	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)
5. Governance and funding by (insert your council name) with delivery by a person or agency not listed above.	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)
6. Governance and funding by joint committee or other shared governance with delivery by (insert your council name)	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)
7. Governance and funding by joint committee or other shared governance with delivery by a CCO wholly owned by (insert your council name).	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)
8. Governance and funding by joint committee or other shared governance with delivery by a CCO partly owned by (insert you council name) and partly owned by other parties.	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)

9. Governance and funding by joint committee or other shared governance with delivery by another local authority.	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)
10. Governance and funding by joint committee or other shared governance with delivery by a person or agency not listed above.	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)
11. Other reasonably practicable options (identify in detail).	(Insert summary comment on the cost effectiveness of this option – your evidence base should be appended.)
Conclusion Which of the above options is most cost effective?	(Insert comment on most cost-effective option.)
Recommendations from the service delivery review:	(Insert recommendations, note this includes a decision to retain the status quo. Please include recommendations for any next steps such as whether engagement is required (and why?) Where your recommendation is for a separation of governance and delivery you will need to ensure a contract or other binding arrangement is in place. This should include: • service levels and the associated performance measures and targets • how performance will be assessed and reported on • funding • risk management • any sanctions or other means for enforcing performance and accountability expectations.)

5   WORKING PAPER: ANALYSIS OF OPTIONS

Authors note: The working paper that follows has been designed to work in conjunction with the template in the proceeding pages. It is intended to be 'scalable' to the size of the review and to help those conducting the reviews to draw the evidence together. Readers should note that this is a device for recording evidence to support their conclusions – this working paper is not a substitute for the generation of this evidence.

Options analysis: Name of service review	
Name of the option	(Insert the option name here – include *section* reference from the *LGA*.) Is this the 'status quo' option?
Feasibility	Is a change to governance or delivery subject to a contract or binding agreement that is not reasonably practicable to alter in the next two years? If not, why not? Is the option feasible under current law – if not, why not?
Community views and preferences	Note any relevant information that your council holds on community views and preferences. Also include an assessment of when and how this information was gathered and how 'on point' this is to the issue at hand. Authors note: This is not an obligation to engage or consult in and of itself.
Assessment of the effectiveness of this option	How would this option impact on (i) the achievement of the council's objective(s) for the service (ii) the use of, experience of, or benefit received by the users or beneficiaries of the service? Be objective in your assessment and be prepared to justify your assessment with evidence.

Cost of the options	Identify the operating and capital cost for the option. SOLGM recommends taking a ten year horizon – unless the service is one of the mandatory inclusions in the infrastructure strategy (in which case thirty year horizons might be justified). Be prepared to justify your comments with objective analysis.
Overall assessment of cost-effectiveness	Record your judgement of the overall cost effectiveness of the option.
Enhancements to status quo option	If this option is the status quo option, then are there any enhancements that would improve the cost effectiveness of the option.

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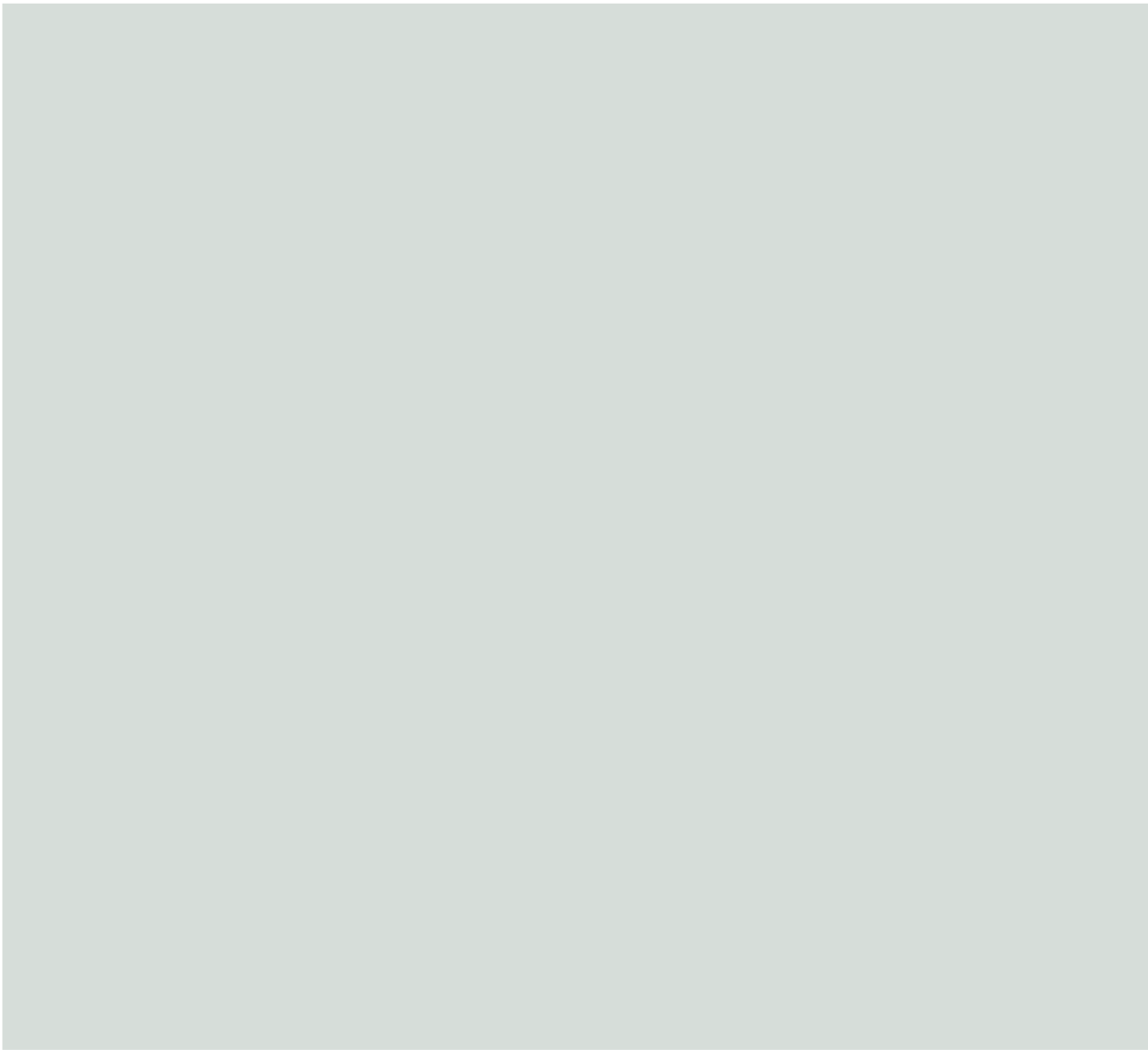
SOLGM

Professional excellence in local government

New Zealand Society of Local Government Managers (SOLGM)

8th Floor, Civic Assurance House
114 Lambton Quay, Wellington

PO Box 5538
Wellington 6145

Phone 04 978 1280 Fax 04 978 1285
info@solgm.org.nz www.solgm.org.nz

DECISION REPORT

F22/55/04 – D22/46201

To: Audit and Risk Committee
From: Director – Corporate Services
Date: 6 December 2022
Subject: Three Waters Reforms – Risk Management

Recommendations

1.   THAT the report be received.

2.   THAT the Committee consider the discussion points listed in 7.4 of this report, and decide whether further investigation is required for each.

Recommended Reason
To assist and guide the Committee in managing all aspects of risk in relation to the Three Waters Reform.

/
Moved/Seconded

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1.   Purpose of Report

1.1   The report has been prepared for the Committee to enable consideration of the implications of the Three Waters Reforms on Council functions, financials, and the organisation in general, in the near-term, and post-reforms.

2.   Executive Summary

2.1   This report was initiated to give the Committee an overview of Council's financial 'wellbeing', after 1 July 2024, when the amalgamation of Three Waters assets is expected to be implemented. As we head into preparation of the *Long Term Plan 2024-34,* many of the issues discussed in this report will help guide Council in planning for a resilient and sustainable future without Water Supply, Wastewater, and Stormwater.

2.2   Forecasts show that post-reforms, Council revenue will reduce by $3.6 million (17%), expenditure by $2.7 million (excluding overheads), rates by 15%, and gross debt (borrowings without netting off financial investments) by $15.8 million. Council will continue to be compliant with all lending covenants imposed by the Local Government Funding Agency (Lender). However, three out of four of the covenants will worsen post-reforms.

2.3   The transition, and post-reforms phases, present Council with risks and opportunities. The Committee is being asked to give Council officers direction on whether to investigate the following issues further:

- Prioritisation of the Department of Internal Affairs requests for information, via the National Transition Unit, to assist with the transition of Three Waters assets and service delivery to the new Water Service Entities.
- Investigating the appropriateness, and the costs against benefits, of a debt reduction programme.
- Funding for Three Waters depreciation, or not funding for it (via rates).
- Minimising the impact of stranded assets and stranded overheads.

2.4   As the legislation underpinning the reforms is still being worked through, no assessment has been made on the direct impact on the community, in terms of potential price changes, or level of service changes.

3. Local Government Act 2002 – Section 10

Under section 10 of the Local Government Act 2002, the Council's purpose is to "enable democratic local decision making by and on behalf of communities; as well as promoting the social, economic, environmental, and cultural well-being of communities now and into the future"			
Does the recommended option meet the purpose of the Local Government 4 well-beings? And which:	Yes		
Social	**Economic**	**Environmental**	**Cultural**
✓	✓	✓	✓

4. Background

4.1 In October 2021, the Government announced it would introduce legislation to establish four new publicly owned Water Services Entities to manage the Three Waters infrastructure – including drinking water, waste water, and stormwater infrastructure and service delivery. These new entities are planned to be operational from 1 July 2024. If the Government proceeds with their proposal to transfer three water services to the proposed new Water Services Entities (WSE's), there is still a significant amount of work that would need to be completed prior to the WSE's becoming operational.

4.2 The proposed model would see the responsibility for Stratford district's Three Waters services transferred to a regional entity, currently being referred to as Entity B, comprising 22 councils from the Waikato, Bay of Plenty, Taranaki and top of the central North Island. The entity would remain in public ownership, with Stratford District Council (SDC) owning one share in the WSE. The concept of ownership in this context is however problematic, as the proposed structure prevents the 'owner' from exercising most rights normally attributable to ownership.

4.2 Stratford District is a small council with a rating base of 4,820 rating units, providing water services in the form of three drinking water supplies (Stratford Town, Midhirst, and Toko) and one wastewater treatment plant. All of which are fully compliant with the applicable drinking water standards and resource consents.

4.3 Council made a submission to the proposed Water Services Entities Bill in July 2022, requesting that government pause the reforms, take stock, give Taumata Arowai an opportunity to positively influence drinking water quality and compliance with standards across the country, and allow for the implications of the Future of Local Government and RMA reforms to be better understood.

Council's submission also expressed concerns about the following:

- Mandatory nature of the reforms
- The Three Waters Reforms are disconnected from the Future for Local Government Review and Resource Management Act, Civil Defence and Building Act reforms
- We haven't yet seen whether Taumata Arowai can deliver expected outcomes without the reforms
- Potential for impact on the viability of remaining council services
- Loss of local voice and community input, in a super-sized entity
- Lack of protection against future privatisation
- Stormwater assets are complicated and should not be included in the reforms
- Pricing for consumers has not been addressed.

4.4 The National Transition Unit (NTU) has been established to execute the Government's decisions on Three Waters reform through a consistent and coordinated nationwide

approach to transition. From November 2021 to 1 July 2024, the transition from the current system to the new is an ongoing piece of work. Council staff have been and are expected to continue to cooperate with the Department of Internal Affairs (DIA) requests for information. The requests from DIA to Council are constant, unrelenting, and in-depth information is being asked for in relation to operations and contracts, future capital programs, employment and workforce, financials, and Information Technology services. This is proving to be time consuming. Officers are generally treating the information requests as medium to high priority, in order to meet the deadlines given by the NTU, which compromises resources away from core service delivery functions.

By March 2023, the Financial and Commercial Stream of the NTU expect to have a Settlement Account Plan agreed with Councils, with a schedule of any issues to be worked through and resolved by June 2024.

4.5   The Government has provided a $2.5 billion funding package to support council's transition through the Three Waters Reform. The funding package is made up of two components - $2 billion Better Off support package, and $500 million No Worse Off support package. Stratford District's share of the Better Off funding is $10.27 million, with $2.57 million available this year and $7.7 million available in 2024. The funding has three criteria that each project must meet:

- Supporting communities to transition to a sustainable and low-emissions economy, by building resilience to climate change and natural hazards;
- Delivery of infrastructure and services that enable housing development and growth; and
- Delivery of infrastructure and services that support local place-making and improvements in community well-being.

The No Worse Off component of the package will be allocated directly from the new WSE's and is to ensure that no local authority is in a materially worse position financially as a direct result of the reform. Half of the funding is to be used to assist with the associated costs of stranded overheads (discussed later in this report), and the other half is to be used to address adverse impacts on the financial sustainability of local authorities.

4.6   On 23 November 2022, the Committee of the House began reviewing the proposed Water Services Entities Bill. At this stage, the amendments to the bill include:

- A change to linking the definition of Te Mana o Te Wai (TMoTW) to what is in the National Policy Statement for Freshwater Management (NPS-FM).
- A requirement that the Regional Representative Group (RRG) must hold at least two public meetings per year, and that at least one shareholders meeting must be in public (both subject to LGOIMA grounds for exclusion).
- A requirement that constitutions set out processes for enabling mana whenua to provide TMoTW statements and monitor implementation (there is also a requirement on WSEs to provide funding).
- A provision that the models constitutions must provide for a minimum of 12 and a maximum of 18 people on an RRG.
- Statements of expectations require a section setting out how RRG expects WSEs to respond to advice from the advisory panels.
- Each entities statement of intent, funding plan, asset management plan and annual report must include similar statements, providing accountability feedback to communities.
- In the transition phase (2024), a mixed use asset that is not used primarily to do water services transfers only with agreement of the local government organisation.
- Also in transition, provisions for an interim asset plan and funding plan and that these get reviewed by the Commerce Commission.
- A restoration of the term 'within a reasonable commuting distance' to the employee transfer provisions.
- A specific provision covering what falls in the department's oversight powers – including a list of broad examples.

5. **Consultative Process**

5.1 **Public Consultation - Section 82**

No specific and direct consultation on the Three Waters Reforms has been undertaken with the community as Council is not taking ownership of the government-led reforms, nor do elected members have the opportunity to opt in or out of the reforms. If Councils had been given the opportunity to opt in or out, we would have consulted directly with our community prior to making any decision. Instead, Council encouraged the community to make a submission directly to the government.

Informational communication was carried out leading up to July 2022, including full page newspaper stories in the Stratford Press. The Council website has a webpage dedicated to the reforms https://www.stratford.govt.nz/our-services/water/three-waters-reform#toc-link-3. This page has useful information on the reforms and includes Council's submission, and links on where to get further information.

Consultation was not undertaken with the community on the first tranche of better off funding due to the timing by which the application was to be met. However, the funding will largely be used towards projects that have already been approved in the Long Term Plan. Consultation may be undertaken for the remaining $7.7 million funding available from the Government, however it is currently allocated to the Brecon Road bridge project.

5.2 **Māori Consultation - Section 81**

Although Council acknowledges that the process of consultation and engagement needs to occur between mana whenua and central government, Council initially engaged in a joint meeting with Taranaki Councils and iwi early on in the process, which was primarily focused on providing information to Taranaki iwi on the reforms. Council has reached out to local iwi and offered information on reform progress.

6. **Risk Analysis**

Refer to the Council Risk Register - available on the Council website.

•   Does this report cover any issues that relate to any risks on the Council Risk Register, and if so which risks and what are the impacts and likelihood of eventuating?

•   Does this report cover any issues that may lead to any new risks that are not on the Council Risk Register, and if so, provide some explanation of any new identified risks.

•   Is there a legal opinion needed?

6.1 This report relates broadly to a Council top ten risk: *Risk 78 Government Policy Impacting on Local Government.* This risk is rated as extreme and is being monitored and managed regularly by Council officers.

The financial risks are discussed in section 7.2 of this report.

Incorrect assumptions about cost and efficiencies may lead to negative impacts on the community, more specifically higher than expected costs

Every peer review of the Water Industry Commission for Scotland (WICS) model (on which the proposed four entity model has been developed) has questioned the projected costs and assumed efficiency gains as they apply to New Zealand. The data used to determine cost efficiencies and anticipated customer charges were not based on Stratford data but averaged data from across New Zealand.

To add to this, it is likely that Council will be expected to invoice on behalf of the new WSE, similar to how SDC currently invoices the Taranaki Regional Council rates, and there is the potential that these charges will be assumed to come directly from SDC.

For this to occur, legislative change will be required as the water charges will no longer be a rate.

Lack of integration

The Bill has not considered the need to integrate Three Waters services with other core functions of local authorities such as the future for local government review, civil defence emergency management and land use planning. There is a risk that the resulting legislation is inconsistent with future legislation affecting local government service delivery and compliance.

Loss of decision-making around key community infrastructure

Council will have one share in the new WSE. Each local authority will be allocated one share for each 50,000 population in its district, rounded up. However oversight of the WSEs will be governed by Regional Representative Groups. It is not confirmed that Council will have a representative from SDC on this group.

Workforce/ Resourcing issues

The NTU have committed to a transfer of all staff primarily working in Council's Three Waters operations, directly to the new WSE's. Seven SDC staff have been identified as being eligible to transfer to a role within the new WSE. However, there are some staff that may not be eligible as part of their role also includes other activities. This includes the GIS Officer, Asset Administrator, Projects Manager, Director – Assets.

There is a risk that staff will be required by the new WSE prior to 1 July 2024 on a contractual basis, which will impact on current service delivery.

Additionally, it is likely that council office space will be required, at least temporarily, to house the staff that have transitioned to the new WSE. However, head office locations and future regional bases of operations for the WSE's are yet to be decided.

Reforms do not go ahead

There is potential that a government change in 2023 could results in the reforms not proceeding, or not proceeding in its current proposed form. National and ACT have both pledged to repeal the legislation should they win the next election.

This could mean that some of the financial decisions we are making based on the service delivery and ownership of Three Waters assets being removed from SDC from 1 July 2024 disadvantage Council moving forward. If we decide to lower depreciation, and increase loan funded capital expenditure – two decisions that have been seen as favourable for the Stratford community if the Three Waters Reforms go ahead – Council will be in a worse-off position financially if the services remained, as there is likely to be insufficient reserves for replacement assets, and a higher level of debt. Although there are other positives, such as good quality infrastructure.

There may also be challenges with Council compliance requirements with new drinking water standards and Taumata Arowai regulation. However, the extent of the impact is yet unknown, and all Councils will be in a similar position.

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?	Yes the current LTP includes the Three Waters activities right up to 2031.
What relationship does it have to the communities current and future needs for infrastructure, regulatory functions, or local public services?	Significantly impacts the delivery and pricing of infrastructure services in relation to water, wastewater and stormwater.

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?

Assets

In the 30 years of the Infrastructure Strategy 2021-2051, Council's estimated capital budget was $30 million for Water Supply, $50 million for Wastewater, and $16 million for Stormwater - a total of $96 million over the 30 years.

All new assets are funded by loans, and the replacement of existing assets is funded by the specific targeted rates reserve.

The value of Three Waters assets (expressed in '000's) as at 30 June 2022 is broken down as follows:

	Council	Water	Wastewater	Stormwater	3 Waters
Asset Value (ODRC)	$448,236	$34,552	$12,075	$12,835	$59,462

Three Waters assets make up 13% of total Council assets (Roading Assets make up 73% of total assets).

Note that the value is the optimised depreciated replacement cost (ODRC) based on the most recent independent valuation, plus additions (post-valuation) at cost. Optimised depreciated replacement cost (ODRC) is an estimate of the depreciated cost of the most efficient, lowest-cost combination of assets that could replace existing assets and offer the same utility or level of service. "Depreciated' means that the valuation takes into account the remaining useful life of the asset.

It is expected that these assets – paid for over the years by ratepayers, will be handed over to the WSE, with no compensation. Rather, the new WSE will assume ownership of Council Three Waters debt, and be responsible for future service delivery.

Stranded assets are assets not classified as three water assets and will not be transferred over automatically, but Council has invested in them. These assets have little to no economic / market value, but may have a maintenance cost and risks associated with ownership. Land areas where underground assets have been installed make up the bulk of these assets. However, they also include mixed-use assets, such as Victoria Park lake, which combines a Stormwater function and a recreational asset.

Debt

As at 30 June 2022, gross Council debt (expressed in dollars) was $32,200,000 and broken down by Activity below.

As at 30 June 2022

	Council	Water	Wastewater	Stormwater	3 Waters
Debt - Book Value	$32,200,000	$8,761,610	$1,252,356	$697,051	$10,711,017
Loan funded capex 22/23	$12,418,057	$3,597,920	$967,179	$480,142	$5,045,241
Total	$44,618,057	$12,359,530	$2,219,535	$1,177,193	$15,756,258

Based on the figures above (which is just an indication, as further borrowing and repayments will occur in 2023/24), the removal of Three Waters will reduce Council gross debt by 35% or $16 million, down to $29 million (instead of $45 million as at 30 June 2023.).

Revenue

Annual Revenue (expressed in '000's) is shown below for 2020/21 (actuals) and 2024/25 (forecast):

2021/22 – Actual

	Council	Water	Wastewater	Stormwater	3 Waters
Rates	$14,192	$1,488	$979	$357	$2,824
Other Revenue	$14,738	$420	$57	0	$477
Total	$28,930	$1,908	$1,036	$357	$3,301

2024/25 - Long Term Plan

	Council	Water	Wastewater	Stormwater	3 Waters
Rates	$16,207	$867	$1,107	$429	$2,403
Other Revenue	$5,185	$1,149	$78	0	$1,227
Total	$21,392	$2,016	$1,185	$429	$3,630

It is estimated that Council will lose approximately 18% of its revenue post-reforms. Total revenue is used to calculate the net debt to <u>revenue</u>, and debt servicing to <u>revenue</u> LGFA covenants.

Similarly, rates will reduce by 18-20% post-reforms. There is uncertainty about what this will mean for the community in the overall picture however, as pricing for consumers is yet to be determined by the WSE's.

Council revenue is likely to be supplemented in the initial years post-reforms from the WSE, as it is expected that service agreements will be entered into for the delivery of many support functions, such as office building and staff workspaces, debtor invoicing, debt collection, land leases, IT support etc.

Expenditure

Annual Operating Expenditure (expressed in '000's) is shown below for 2020/21 (actuals) and 2024/25 (forecast):

2021/22 - Actual

	Council	Water	Wastewater	Stormwater	3 Waters
Direct Costs	$15,178	$1,659	$749	$315	$2,723
Overheads	0	$500	$253	$131	$884
Total	15,178	2,159	1,002	446	3,607

2024/25 - Long Term Plan

	Council	Water	Wastewater	Stormwater	3 Waters
Direct Costs	$17,113	$1,500	$924	$293	$2,717
Overheads	0	$543	$275	$143	$961
Total	$17,113	$2,043	$1,199	$436	$3,678

Operating Expenditure for the Three Waters activities includes a portion of Council overheads. Overheads allocated to the Three Waters activities makes up approximately 5% of total Council expenditure and includes support functions such as Information Technology systems and support, the office building, geospatial mapping, Corporate Services costs such as financial administration, printing, stationery, and also senior management, governance, vehicle costs etc.

Overheads may be reduced post-reforms as the reduction in activity reduces expense, for example vehicle usage, specific IT systems and hardware, stationery and printing. In the initial years post-reforms, it is expected that Council is likely to be compensated for some overheads such as debtor invoicing, office leasing, and some IT support. However, it is inevitable that some overheads, such as governance, Human Resources, senior management and other staffing costs, and financial administration costs, will end up having to be reallocated to other council activities. These are known as 'stranded overheads', which is a typical business term used when part of a business is sold off, however costs remain that the business is still obligated to, but do not add any additional value to the business, nor is there a related revenue stream attached to those costs. Council management are aware of this and are ensuring that any contracts entered into, particularly for software licensing, is based on the number of users, or has a variable component based on usage. However, there is further work to do in this area in anticipation of the implementation date.

Conversely, SDC may need to contract out for services such as water treatment expertise for the swimming pool and engineering expertise for stranded assets, as it is unlikely to be economical to resource that skill set in-house.

LGFA Covenants

Council is currently a guarantor of the Local Government Funding Agency (LGFA) and borrows exclusively through this agency, which is fully owned by New Zealand shareholder councils.

As a guarantor, the Council's covenants that it must comply with are listed below. The LGFA uses net debt rather than gross debt (referred to above). Net debt includes (nets off from gross debt) liquid financial investments, which are $13,180,000 and are not expected to change over the long term.

Financial covenants		Current	Post-reforms
Net Debt / Total Revenue	<175%	76%	88%
Net Interest / Total Revenue*	<20%	4%	8%
Net Interest / Annual Rates Income	<25%	9%	11%
Liquidity	>110%	138%	146%

* Note the Interest expense for post-reforms calculation has been forecast at a 6% weighted average rate (compared to the current 2.9% weighted average rate), due to increasing upward pressure on interest rates.

The table above shows that, with no increase in debt or debt repayments in 2023/24 (which is unlikely but difficult to predict), the Council will still be operating well within the LGFA covenants.

However, three out of four of the ratios are expected to worsen, post-reforms, due to multiple factors:

- Revenue is significant this financial year and includes government grants – affecting (lowering) the current year covenant calculation.
- Gross debt for Three Waters is expected to increase this financial year due to significant loan funded capital projects, and this is not factored into current debt to revenue calculation – which will result in a much higher percentage by the end of this financial year.
- There are other capital projects not related to Three Waters that have a significant upwards effect on debt, e.g the Subdivision, Stratford 2035 projects, and various Roading projects.
- Interest rates are expected to double by 1 July 2024.

Fixed Rates (UAGC) - 30% Cap

Section 21 of the Local Government Rating Act places a limit on rates, in that total fixed rates, as a proportion of total rates, must not exceed 30%. In this context, fixed rates includes the UAGC, and any targeted rate that is allocated as a uniform fixed amount per rating unit or SUIP (excluding water or wastewater targeted rates). For SDC, this includes the solid waste (rubbish and recycling) targeted rate, and the community centre targeted rate.

The following calculations show that the cap is unlikely to be affected by a reduction in rates revenue, as the Stormwater activity is fully funded by the UAGC, and would be removed from the fixed rates portion.

	Current	Post-reforms
Fixed Rates	4,415,007	4,091,000
Total Rates	14,845,000	13,804,000
	30%	**30%**

7.3 **Significance**

	Yes/No	Explain
Is the proposal significant according to the Significance Policy in the Long Term Plan?	No	The decisions made from the report today are not significant in themselves, although the issues are. The report may lead to more significant decisions in the future that will affect the LTP.
Is it: • considered a strategic asset; or	Yes	
• above the financial thresholds in the Significance Policy; or	Yes	
• impacting on a CCO stakeholding; or	No	
• a change in level of service; or	Unknown	
• creating a high level of controversy; or	Yes	
• possible that it could have a high impact on the community?	Yes	

In terms of the Council's Significance Policy, is this proposal of high, medium, or low significance?		
High	Medium	Low
	x	

7.4 **Options**

An assessment of costs and benefits for each option must be completed. Use the criteria below in your assessment.

1. What options are available?
2. For **each** option:
    • 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:
    • 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 is being asked to make a decision on whether or not to instruct Council officers to bring a decision report to the Policy and Services Committee on any of the following topics relevant to Three Waters reforms:

i. Continue to prioritise and comply with all DIA requests from the National Transition Unit for information to assist in the transition phase, or put less priority on responding, or not respond at all. Prioritising requests from the NTU demonstrates Council co-operation with government led initiatives, however it means other work is not attended to or addressed in a timely manner. Despite any decision made, information requests are generally covered by the Local Government Official Information Act. However, under this Act, Council is able to charge a fee for time in preparing the request.

ii. Implement a debt reduction programme to shelter Council from the loss of revenue as a result of the reforms. The Council could allocate some of it's No Worse Off Funding (although the amount is unknown at this stage), or increase debt repayments for water supply and wastewater activities from the targeted rate reserves, or initiate a cap on the level of growth and service level capital projects (excluding Three Waters projects) going forward to limit debt increases.

iii. Cease rates funding for Three Waters depreciation in 2023/24 Annual Plan, as in, do not fund depreciation from rates at all (in 2022/23 elected members decided to only fund 90% of depreciation). Generally, not funding depreciation would be in breach of Section 100(2) of the Local Government Act 2002, in not being a prudent financial management decision. However, as the Three Waters assets will not be replaced by Council itself in future (instead, by another entity), there is an argument that deciding not to fund depreciation is not in breach of the prudence legislation. An analysis of the legislation will be required to be undertaken prior to making a decision on this. In 2022/23, the depreciation for Three Waters assets is expected to be $1,359,198, or 9% of total rates.

iv. Stranded assets and overheads – request that staff bring back options for reducing the impact on Council from 1 July 2024. Consider expanding the services or functions that Council delivers in order to diversify council revenue sources. For example, becoming the regional lead for specific shared services, or venturing into new areas under the four well-beings (economic, environmental, cultural, social) – e.g. housing, health, or new business / economic ventures. Alternatively, the Council can instead put more focus on the remaining activities currently delivered by Council.

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.

Financial implications have been covered off in earlier sections of the report.

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?

This topic has been covered off in earlier sections of the report.

7.7 **Legal Issues**

• Is there a legal opinion needed? • Are there legal issues?

At this stage, legislation for the Three Waters Reforms is still being worked through. Some of the issues covered under the options section may have legal implications and would be covered in a separate decision report.

7.8   **Policy Issues - Section 80**

•   Are there any policy issues?
•   Does your recommendation conflict with Council Policies?

There are a number of policy issues to consider, which have been categorised below.

Three Waters policies that will no longer be applicable post-reform:

- Charges for New Wastewater Network Connections Policy
- Trade Waste Policy
- Wastewater Connection Policy
- Water Supply to Rural Properties Policy

Other Council policies that may be impacted or breached by the reforms include:

- Asset Disposal Policy
- Privacy Policy
- Procurement Policy
- Treasury Management Policy

Tiffany Radich
Director – Corporate Services

[Approved by]
Sven Hanne
Chief Executive   **Date** 25 November 2022

Our reference
F19/13/03-D21/40748

Karakia

Kia uruuru mai	I draw in (to my being)
Ā hauora	The reviving essence
Ā haukaha	The strengthening essence
Ā haumāia	The essence of courage
Ki runga, Ki raro	Above, Below
Ki roto, Ki waho	Within, Around
Rire rire hau Paimārire	Let there be peace.