



Our reference
F19/13/03-D21/26182

14 July 2022

Audit and Risk Committee Meeting

Notice is hereby given that the Audit and Risk Committee will be held in the **Council Chambers, Stratford District Council, 63 Miranda Street, Stratford** on **Tuesday 19 July 2022** beginning at **2.00pm**.

At this stage the meetings will be held in the Council Chambers, however should it be required due to the Covid Protection Framework, the meeting may be moved to an alternative venue or held virtually.

Timetable for 19 July 2022 as follows:

1.45pm	Afternoon Tea for Councillors
2.00pm	Audit and Risk Committee Meeting

Yours faithfully

Sven Hanne
Chief Executive

2022 - Audit and Risk - July - Open

19 July 2022 02:00 PM - 04:00 PM



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AGENDA

Audit and Risk Committee



F19/13/05 – D22/24340

Date: Tuesday 19 July 2022 at 2 PM

Venue: Council Chambers, 63 Miranda Street, Stratford

The meeting location may change, or will be held via Audio Visual Link, if required due to current COVID-19 Alert Levels or Government Guidelines.

1. Welcome

1.1 Opening Karakia
D21/40748 Page 8

1.2 Health and Safety Message
D21/26210 Page 9

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 10

Attendance schedule for Audit and Risk Committee meetings.

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.

/
Moved/Seconded

7. Confirmation of Minutes

7.1 Audit and Risk Committee – 17 May 2022
D22/17590 (open) D22/17589 (PE) Page 12

Recommendation

THAT the minutes of the Audit and Risk Meeting of Council, including the public excluded section, held on Tuesday 17 May 2022 be confirmed as a true and accurate record.

/
Moved/Seconded

8. [Matters Outstanding](#)
D18/27474 Page 19

Recommendation

THAT the matters outstanding be received.

/
Moved/Seconded

9. [Information Report – Health and Safety](#)
D22/23693 Page 20

Recommendation

THAT the report be received.

/
Moved/Seconded

10. [Information Report – Capital Works Programme – Key Projects Update](#)
D22/23985 Page 23

Recommendation

THAT the report be received.

Recommended Reason

To present an update on the progress of our key capital projects in the 2021/22 financial year, as requested in the September 2021 Audit and Risk Committee meeting.

/
Moved/Seconded

11. [Information Report – Risk Management](#)
D22/24256 Page 30

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 from the previous quarter.

/
Moved/Seconded

12. Information Report – Civil Defence Progress and Readiness Report
D22/24213 Page 36

Recommendation

THAT the report be received.

Recommended Reason

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

/
Moved/Seconded

13. Decision Report – Internal Audit Plan – 2021/2022
D22/22475 Page 69

Recommendations

1. THAT the report be received.
2. THAT Internal Audit Plan 2021/22 be approved.

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

14. Decision Report – Amend Treasury Management Policy
D22/23658 Page 80

Recommendations

1. THAT the report be received.
2. THAT the Treasury Management Policy be amended to remove the wording "*The maximum investment with any one counterparty will be \$4,000,000. However, this limit may be breached if approval is given by the Chair of the Audit and Risk Committee and one of the Chief Executive or the Mayor (approval may be given retrospectively but notification to the Chair must be given on the same day). The Audit and Risk Committee must be notified of any breaches at their next meeting.*" from the policy.

Recommended Reason

Council has found that over the past few years of regularly breaching this limit, that the risk of doing so has been negligible.

/
Moved/Seconded

15. Decision Report – Financial Budget Modelling Options
D22/23659 Page 93

Recommendations

1. THAT the report be received.
2. THAT the Committee endorses the approach taken by staff to continue to prepare annual and ten-year budgets with a spreadsheet model.

Recommended Reason

There are a number of substantial changes occurring in the Local Government Sector from 1 July 2024, and it is suggested that the outcome of these legislative changes be well understood by staff before investigating and investing in a new budget model.

/
Moved/Seconded

16. Decision Report – Asset Valuation Process for Annual Report 2021/22
D22/22330 Page 100

Recommendations

1. THAT the report be received.
2. THAT the Committee approves the recommendation from the independent valuers that full revaluations are not required for roading, waters, and the land and building assets as at 30 June 2022.

Recommended Reason

Independent valuers have indicated that a full revaluation is not required.

/
Moved/Seconded

17. Correspondence

- Deloitte – Planning Report to Audit and Risk Committee for year 30 June 2022
Page 116

18. General Business

19. Questions

20. Closing karakia

D21/40748 Page 144



Our reference
F19/13/03-D21/40748

Karakia

Kia uruuru mai
Ā hauora
Ā haukaha
Ā haumāia
Ki runga, Ki raro
Ki roto, Ki waho
Rire rire hau Paimārire

I draw in (to my being)
The reviving essence
The strengthening essence
The essence of courage
Above, Below
Within, Around
Let there be peace.



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.

Under the current Pandemic setting visitor access beyond the customer service centre is restricted. Mask wearing is mandatory in all public areas as well as any areas where social distancing cannot be consistently achieved, such as corridors, staff rooms and bathrooms.

We recommend mask wearing for the duration of meetings unless social distancing of a minimum of 1 metre can be consistently achieved.

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

Date	15/03/22	17/05/22	19/07/22	20/09/22	15/11/22
Meeting	A	A	A	A	A
Neil Volzke	✓	✓			
Grant Boyde	✓	✓			
Rick Coplestone					
Peter Dalziel	AV				
Jono Erwood	✓	✓			
Amanda Harris		✓			
Alan Jamieson	AV	✓			
Vaughan Jones					
Min McKay	A	✓			
John Sandford		✓			
Gloria Webby		✓			
Philip Jones (Chair)	AV	✓			

Key	
A	Audit and Risk Meeting
D	Meeting deferred
NC	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)

	Jul-22	Sep-22	Nov-22	Mar-23	May-23	Jul-23	Sep-23	Nov-23	Mar-24	May-24
Standing Items	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review - LTP Capital Projects status update	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review - Audit NZ Matters raised - LTP Capital Projects status update	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review - LTP Capital Projects status update	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review -Financial Report -Audit NZ Matters raised - LTP Capital Projects status update	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review - LTP Capital Projects status update	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review -Audit NZ Matters raised - LTP Capital Projects status update	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review - LTP Capital Projects status update	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review -Audit NZ Matters raised - LTP Capital Projects status update	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review -Financial Report -Audit NZ Matters raised - LTP Capital Projects status update	-Audit NZ Correspondence Received -Health and Safety Report -Risk Management Review -Financial Report -Audit NZ Matters raised - LTP Capital Projects status update
Annual Items	-Civil Defence Readiness - Internal Audit Plan 2022/23	-Annual Report 2021/22 update - Review of Insurances	-Committee Self-Review -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
One-Off Items	- Annual Report 2021/22 Valuation of Assets - Treasury Management Policy - Budget Modelling, risks and opportunities - deep dive	- 3 Waters Reforms: risk identification and management - Section 17a Reviews	- Risk 32 - Lone Worker - deep dive	- Climate Change resilience, strategic risk - deep dive						

MINUTES

Audit and Risk Committee



F19/13/05 – D22/17590 – Open

Date: Tuesday 17 May 2022 at 2pm
Venue: Council Chambers, 63 Miranda Street, Stratford

Present

The District Mayor N C Volzke, P Jones (the Chair), the Deputy Mayor A L Jamieson, Councillor M McKay and Councillor J M S Erwood.

In attendance

Councillors G W Boyde, A K Harris, W J Sandford and G M Webby.

The Chief Executive – Mr Sven Hanne, the Director Assets – Mrs V Araba, the Director Corporate Services – Mrs T Radich, the Administration & Communication Support Officer – Ms R Vanstone, the Health & Safety/Civil Defence Advisor – Mr M Bestall, the Corporate Accountant – Mrs C Craig, the IT Manager – Mr B Coles, the Roding Asset Manager – Mr S Bowden, the Communications Manager – Ms G Gibson and one member of the media (Stratford Press).

Via audio visual link: The Director Environmental Services – Mr B Sutherland, the Director Community Services – Ms K Whareaitu, the Special Projects Manager – Mr S Taylor, the Deloitte Audit Partner – Ms P Thomson.

1. Welcome

- 1.1 The opening karakia 'Kia Uruuru Mai' was led by Councillor M McKay.
- 1.2 The Chair welcomed the District Mayor, Councillors, staff and the media to the meeting. The Chair noted the health and safety message and emergency procedures on page 9 of the agenda.

2. Apologies

Recommendation

THAT an apology be received from Councillor P S Dalziel.

VOLZKE/JONES
Carried
A&R/22/12

3. Announcements

No announcements were made.

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 noted.

6. Programme of Works
D21/42807 Page 11

Recommendation

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

JONES/ERWOOD
Carried
A&R/22/13

The Chair noted the following points:

- That the committee self-review be moved to the September 2022 Audit and Risk Committee meeting prior to local elections.
- That alongside three waters reforms, the Chair will discuss the direction of the RMA reforms and the involvement by local authorities in new planning documents (a public excluded item as not government policy) at the July committee meeting.

7. Confirmation of Minutes

7.1 **Audit and Risk Committee Meeting Minutes – 15 March 2022**
D22/8876 Page 12

Recommendation

THAT the minutes of the Audit and Risk Committee meeting held on Tuesday 15 March 2022 be confirmed as a true and accurate record.

ERWOOD/VOLZKE
Carried
A&R/22/14

8. Matters Outstanding
D18/27474 Page 20

Recommendation

THAT the matters outstanding be received.

McKAY/VOLZKE
Carried
A&R/22/15

The Director Corporate Services noted the following points:

- An audit handover from Audit NZ to Deloitte has taken place and the new Audit Partner has met with the Chief Executive and Director. Deloitte confirm that they will commence the audit in September. It is therefore likely that adoption will be November. The audit plan will be presented to this committee in July.
- A review of Council's contractor management process will form part of the internal audit plan for this year. The plan will come to committee in July and the outcome reported in September.

Questions/Points of clarification:

- It was clarified that the Local Government Commissioner has now finalised the representation review.
- It was clarified that South Taranaki District Council has moved to Deloitte. The Chair noted that other councils had requested a move from Audit NZ but had not received approval to do so. There are

significant resourcing challenges for this years audit completion resulting in extended dates for some councils.

9. Information Report – Health and Safety

D22/15813 Page 21

Recommendation

THAT the report be received.

VOLZKE/JAMIESON
Carried
A&R/22/16

Questions/Points of clarification:

- It was clarified that the bell tower demolition cordon breach by a reporter resulted in a formal complaint to the newspaper concerned and an apology from the newspapers management. Mayor Volzke confirmed that he witnessed the reporter receiving verbal instructions on the day of the incident.
- Mr Bestall clarified that customer aggression toward council staff had lessened. When asked by the Chair for the security strategy, Mr Bestall clarified that personal security cameras are able to be utilised and restrictions to building entry remain in place. With an election pending, the Chair noted the potential for aggressive behaviour to increase. It is expected that there will be a revocation of the rule to disclose residential addresses at the time of nomination for local elections and that this will require a legislative change.

10. Information Report – Capital Works Programme – Key Projects Update

D22/15688 Page 25

Recommendation

THAT the report be received.

Recommended Reason

To present an update on the progress of our key capital projects in the 2021/22 financial year, as requested in the September 2021 Audit and Risk Committee meeting.

McKAY/JONES
Carried
A&R/22/17

The Special Projects Manager reported on the progress of key projects in the capital works programme.

Questions/Points of clarification:

- It was clarified that provision for a dump station is part of the Whangamomona Camping Group Septic Tank installation. Councillor Harris confirmed that a dump station is desirable. Mr Taylor agreed that the NZ Motor Caravan Association would be approached to support the dump station install.
- The Chair sought clarification on supply issues and how these would be expected to affect the programme. Mr Taylor clarified that while supply had been an issue, most projects were proceeding satisfactorily for now. The bigger concern is rising costs. He noted that estimates are seemingly valid for as long as 'the ink takes to dry'.

The Audit Partner joined the meeting at 2.30pm.

The Committee agreed that with the Audit Partner having joined the meeting, the order of the meeting would change and that item 13 – Correspondence would now be discussed.

11. Information Report – Risk Review
D22/16046 Page 32

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 from the previous quarter.

ERWOOD/JONES
Carried
A&R/22/18

The Director Corporate Services noted the following:

- In terms of *risk 64* staff have been able to maintain continuous service delivery over this time, assisted in the last 12 weeks by split shifts. Council will return to the full team working together on 30 May. Moving forward, SLT will monitor staffing levels and the effects of covid-19 and new variants, on a weekly basis.
- Regarding *risk 78*, RMA and three waters reforms are front of mind. Since the last meeting, there has been an announcement that reforms will proceed.
- With elections coming up, the pecuniary interest register is a new addition to the Candidate Information Handbook resulting in changes to information required to be provided by elected members. It is not known whether these new requirements will impact whether people choose to stand. The handbook will be provided to the Policy and Services Committee on 24 May.
- *Risk 47* was reanalysed in terms of risk scoring due to a higher likelihood of occurrence. With unemployment currently below 3 per cent, council is experiencing a high staff turnover rate but this is a common experience. Council's turnover rates were affected by a number of recently retired long-serving staff. The nature of some council roles is that experienced staff exist in a highly competitive market with some councils prepared to employ officers who live outside of the jurisdiction. Exit interviews show a high level of staff satisfaction. The Council has recently engaged Strategic Pay to review salary bands to ensure that Stratford District Council is paying market rates for individual roles.

Questions/Points of clarification:

- The Chair noted one council had over 10 per cent of staff isolating or sick from Covid-19. He is interested to know the percentage of staff with covid since February of this year and how that compares with other councils. Mr Hanne commented that the organisation had peaked about 3 weeks ago in terms of positive cases and so a gentle reintroduction to work was implemented. He predicted a rise in numbers in coming weeks with the full return of the workforce acknowledging that there had been some negative impacts of the split shift system.
- Councillor Boyde thought that the strategy had worked well in terms of service continuity.

12. Information Report – Audit NZ Matters Outstanding
D22/15540 Page 59

Recommendation

THAT the report be received.

Recommended Reason

This report informs the Committee of the issues identified in the final Audit New Zealand Management Report for the 2020/21 Annual Report and Long Term Plan 2021-31, summarising the actions that have or intend to be taken by Council officers to respond to audit recommendations with respect to each issue raised.

VOLZKE /ERWOOD
Carried
A&R/22/19

The Director Corporate Services noted the following:

- Outstanding audit matters may now be refreshed with the arrival of a new auditor.
- There has been a conversation with Deloitte about the financial budget model. The previous Long Term Plan was formulated on one spreadsheet with multiple tabs; similarly, the most recent Annual Plan. The Director acknowledged the opportunity for error in operating a spreadsheet model. A regional group of Corporate Services, including IT, has been started to find a more efficient tool.

Questions/Points of clarification:

- The Chair asked whether, with expected changes to the next Long Term Plan, is the current model fit for purpose and is it worth investing resources into a system that council might only get the benefit of one LTP from? The Chair is keen to see a risk analysis with the current approach and how it is being mitigated. This will be added to matters outstanding for a report back in July.
- The Chair clarified that a new system would need to be implemented into a new annual plan cycle, so next year.

13. Correspondence

Deloitte, Audit Engagement Letter, 4 May 2022
Page 65

The Director Corporate Services introduced the Deloitte Audit Partner, Ms Pamela Thomson and noted the following:

- The auditor is aiming for a more detailing planning document to be available for the committee's review later in the year.

The Deloitte Audit Partner noted the following:

- Having moved to New Zealand from South Africa in 2017, she was promoted to Audit Partner in 2021. She has significant public service experience.
- Deloitte is responsible for 13 council audits.
- Stratford District Council's Audit NZ files were reviewed earlier in the week and no issues were identified (opening balances will remain).
- Areas of focus in the upcoming audit will be management override controls (the journal entry space), valuation of assets, expenditure, procurement, and severance payments. More detail will be providing in the planning document to be submitted to this committee in July.
- The Director noted that a three waters revaluation has now been completed.
- The Chair asked whether changes in value occurring in the last 12 months is a significant risk. Ms Thomson confirmed that this is an area of focus as well as the significant increase in costs.
- The Chair was aware of at least one council that did a formal revaluation last year and was asked to do another one this year, at significant cost. He asked if we are seeing a spike and whether rates could potentially come down or remain where they are for the longer term. The Chair asked that this question be added to matters outstanding.

The Director Audit departed the meeting at 2.48pm.

The Committee returned to item 11 in the order of the agenda.

14. General Business ...

No general business was discussed.

15. Questions

No questions were asked.

The media left the meeting at 3.08pm.

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
Cyber security	The withholding of the information is necessary to prevent improper gain or advantage.	The withholding of the information is necessary prevent the disclosure or use of official information for improper gain or improper advantage. Section 7(2)j of the Local Government Official Information and Meetings Act 1987.

McKAY/JAMIESON
Carried
A&R/22/20

17. Public Excluded Item

Recommendation

THAT the open meeting resume.

ERWOOD/McKAY
Carried
A&R/22/22

The Chief Executive recognised that this would be Ms Vanstone’s last Audit and Risk meeting as minute-taker as she is moving on. On behalf of the committee Mr Hanne expressed his gratitude.

18. Closing karakia

D21/40748 Page 232

The closing karakia ‘Kia Uruuru Mai’ was led by the Administration and Communication Support Officer.

The meeting closed at 3.46pm.

P Jones
Chairman

Confirmed this 19th day of July 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		Internal Audit Plan – July 2022 Audit and Risk meeting Internal Audit Report – September 2022 Audit and Risk meeting
Risk Analysis – current financial budget model	17 May 2022	Tiffany Radich		
Risk Analysis – effect of revaluations on rates movement over short and long term.	17 May 2022	Tiffany Radich		
Review counter party limit in Treasury Management Policy	Policy & Services Committee meeting 24 May 2022	Tiffany Radich	Complete	Item 14 – Amend Treasury Management Policy

INFORMATION REPORT



F19/13/04 – D22/23693

To: Audit and Risk Committee
 From: Health and Safety/Emergency Management Advisor
 Date: 19 July 2022
 Subject: Health and Safety Report

Recommendation

THAT the report be received.

 Moved/Seconded

1. Purpose of Report

- 1.1 This report presents a summary of a three monthly progress and any highlights for the main areas of activity within for the period to 30 June 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 June.
- 2.2 Results of data analysed since 1 May show that there has been a total of 22 events logged in Vault. This incorporates 11 pool events that are now being logged in Vault. There was also one positive observation noted.

3. Incidents

3.1 30 April-22 - 30 June –2022

	Period 30 April 22- 30 June 2022	Running YTD Balance (1 July 2021 – 30 June 2022)
Events	22	76
<i>Of which:</i>		
Injury	-	1
ACC Claims	1	2
Notifiable	-	-
Near Miss	-	5
Observations	1	5
Other	20	63
Type of Incident		
Slips/Trips/Falls (no injury)	1	2
Sprains/Strains	1	6
Cuts/Abrasions/ Bleeding nose	6	10
Bruising	-	5
Near Miss		5
Aggressive/Abusive Customer	2	11
Trespass		6
Vehicle Damage	2	6
Insect Stings	-	-
Plant/Equipment	4	9
Other	6	16

	Period 30 April 22- 30 June 2022	Running YTD Balance (1 July2021 – 30 June 2022)
Level of Treatment		
No Treatment	14	33
First Aid	7	23
Medical Centre/ DR	1	1
Hospital	-	-
Level of Investigation		
No Investigation	16	60
Formal Investigation	6	16
WorkSafe Investigation	-	-
Health and Wellbeing		
Workstation Assessments	2	9
EAP Referrals	-	4
Health Monitoring Assessments	0	28
Health and Safety Committee Meeting	1	3
Site Reviews	4	12

3.2 The reported number of events reported was well up on the same period last year with only 12 events logged in that period. This was expected with the resumption of activities and work as staff returned back to work under the “Orange Traffic Light “ setting.

Of the 22 events logged in Vault, here are some of the more varied ones:

- Chlorine alarm was activated at the pool but was false alarm.
- A parent took their child into the men’s changing room to get changed whilst other patrons were inside. The family room was not considered.
- Another small Fluoride leak at the water treatment plant resulting in pipes/plant around the leak area being replaced, a large extraction fan being installed and tests conducted on staff.
- A member of public upset at the state of their road placed a large rock on customer service desk demanding to see someone from the roading team.
- A customer became upset at the transfer station when they were stopped from disposing of more rubbish as they had not settled a previous bill.
- There were three separate incidents of misplaced children at the recent Matariki celebrations all of whom were quickly reunited with their families.

3.3 Matters Outstanding

The review of the Health and Safety Framework will be undertaken as part of the overall Health and Safety Manual review for which work has begun.

4. Civil Defence

- 4.1 Training of staff has remained stagnant with courses being postponed to due lack of attendance through the Covid outbreak but it is anticipated that normal numbers will be able to return.
- 4.2 Council has again signed up for the New Zealand Shakeout. This is the national earthquake drill and tsunami hikoi. It’s taking place on Thursday 27 October 2022 at 9:30am.

5. Contractors

- 5.1 There has been no contractor events.

6. Site reviews

6.1 Four site reviews have been conducted over the period with minor non-conformances noted and corrective actions issued.

7. EAP Referrals

7.1 There have been no new EAP requests reported in the portal for the period.

8. Lone Worker Solution

8.1 Direct Safety will be on site 25th/ 26th July to dispatch devices and provide onsite training

9. Well Being

9.1 A Flexible Working policy has been distributed to staff members with the intention of providing staff with a positive working environment that supports a balance between work, family and personal life while still driving productivity.

This is a new policy that is built on a foundation of trust and effective communication. The key rule is that staff still need to be able to meet the customer needs and it cannot negatively impact colleagues.

9.3 The Wellbeing Committee have also been active with promotions ranging from the “baby competition” to more serious webinars on boosting your resilience and overwhelming stress.

10. Training

10.1 Approximately 10 frontline staff will be undertaking a Psychosocial First Aid (PFA) course (facilitated by NZ Red Cross). PFA is a simple, yet powerful way of helping someone in distress, so they feel calm and supported in coping with their challenges, whether it's personal, work related or affects the whole community and of course builds our organisational resilience plus allows the capacity to respond well to traumatic events in the workplace or community.

10.2 Fire warden training has been completed as part of corrective action from incident earlier this year.



M Bestall
Health and Safety/Civil Defence Advisor



[Approved by]
Sven Hanne
Chief Executive

Date: 11 July 2022

INFORMATION REPORT



F19/13/04 – D22/23985

To: Audit and Risk Committee
From: Projects Manager
Date: 7 July 2022
Subject: Capital Works Programme – Key Projects Update – July 2022

Recommendation

THAT the report be received.

Recommended Reason

To present an update on the progress of our key capital projects in the 2021/22 financial year, as requested in the September 2021 Audit and Risk Committee meeting.

/
 Moved/Seconded

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 2021/22 financial year.
- 1.2 The intent is to track these projects and provide confidence both to the Council and our ratepayers that 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 \$28,535,000 for the delivery of capital expenditure for the 2021/22 financial year and 11,764,000 for the 2022/23 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 September 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 1 projects have been completed or are in progress.

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 are finished. Installation of CCTV cameras and additional landscaping will complete this project. Expected to be completed in August / September 2022.

5.3.2 Stratford Aquatic Centre

Construction is 90% complete and work onsite is continuing to progress well. Externally, the building envelope is completely enclosed. Internally, backfilling of the concourse around the main pools is complete along with the foundations for the toddlers' pool and the splash pad. Dry side, the plastering is near completed with painters following on. Mechanical services and pool water trades are well into their respective first fixes in the plantroom spaces. The contractor remains confident of meeting completion ahead of the scheduled date notwithstanding some material supply issues being encountered and is aiming for the first pool water fill and test in July.

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 Two. The Project Team carried out due diligence on the pricing from Fulton Hogan to determine the rates were still competitive.

Stage One – **Hunt Road to Pembroke Road/Brecon Road intersection** – 99% complete with minor reinstatement still required.

Stage Two – **Patea Bridge Section** – Construction is underway - 20% complete. This section was expected to be completed in August 2022, but weather delays and Covid-19 staffing issues has pushed the expected completion to September 2022.

Stage Three – **Connection to the Water Treatment Plant** – Construction is underway - 80% complete. Due to weather delays and Covid-19 staffing issues, completion is expected in September 2022.

Overall, this project has been delayed due to Covid-19 lockdown restrictions, resulting in delays in negotiations with landowners regarding easements over their properties and supply of materials due to the international supply chain network. Project cost estimates have increased due to increase and availability of materials and contractor market demand during the Covid-19 pandemic. Original estimates completed in 2017-2018 financial year are proving to be a hard target to meet. Costs for materials and labour have increased significantly since March 2017 as a result of inflation and intensified with Covid-19 restrictions and supply shortages.

Fulton Hogan is receiving materials constantly and is happy with the supply and condition of materials as the contract has progressed.

5.3.4 Whangamomona Camping Ground Septic Tank

After initial investigations from staff, it is likely a resource consent is required for a full wastewater treatment system. The project has been split into two stages:

Stage 1: Site investigation, engineering comparison of two 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.

Stage 2: Full design of installation of a wastewater system on site.

Our consultant for the project is working on Stage 1 and is in discussions with Horizons Regional Council. A report is expected in July / August 2022 to confirm if Option 1 is acceptable. If this option is acceptable, installation is expected by the end of 2022.

5.3.5 **Economic Development Strategy & Town Centre Plans**

Business Economic Research Limited (BERL) and Design Group Stapleton Elliot (DGSE) have been contracted to support the community development team to refresh and develop a series of plans and strategies which includes the town centre plans for Stratford and Whangamomona.

BERL and DGSE has issued a second draft of these plans that are currently being reviews before being finalised and presented for discussion. Staff with support from Venture Taranaki reviewed the first draft and provided feedback which was incorporated into the draft plans.

5.3.6 **Stratford Schools Safety Projects**

A Safety improvements Contract for Stratford High School has been awarded and construction will start in July.

Staff attended a TRAFFINZ Conference to learn about the trials for variable speed limits around schools and what Waka Kotahi's expectations are. It was determined that permanent speed limits are the preferred option due to:

- Less initial cost of infrastructure and ongoing reliability and maintenance due to not having Variable Speed Signs.
- Less confusion for motorists knowing what the speed limit is at that location.

Targeted consultation was carried out in June 2022 for the following schools and speed limits:

- Avon School (30 km/hr)
- Makahu School (60 km/hr)
- Midhirst School (30 km/hr)
- Pembroke School (60 km/hr)
- St Joseph's Catholic School (30 km/hr)
- Stratford High School (30 km/hr)
- Stratford Primary School (30 km/hr)

Taranaki Diocesan for Girls (Pembroke Road) was added late in June 2022 and consultation will be held in July before consultation with the entire district for all schools listed in August / September 2022.

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 currently underway.

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

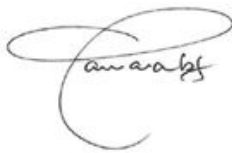
The report is consistent with Council policies relating to service delivery.

Attachment:

Appendix 1 - Capital Work Projects Update



Steve Taylor
Projects Manager



Victoria Araba
Director – Assets



[Approved by]
Sven Hanne
Chief Executive

Date: 11 July 2022

Appendix 1

	Budget - Y1	Actual Spent	Budget LTP	Project Status	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Recreation and Facilities																						
Chade	482,500	-	4,664,082																			
	Stratford 2035 Projects																					
	75,000			NZTA have declined proposed location, further investigation on other locations underway A second location has not been found due to new NZTA requirements. Exploring options of how we can optimise the existing screen at the northern entrance. Unspent funds will be carried over.		35,000		40,000														
	* LED Screen (southern entrance)																					
Mel	12,000			Completed December 2021			11,225															
	* Installation of giant photoframes (Victoria and King Edward Park)																					
	15,000			Glücksenspiels signs installed. Discovery Trail signs designed and waiting on manufacturing timeframe confirmation. Officers to prepare an Options Assessment report to Council for a decision to progress the preferred option				15,000														
	* Discovery Trail (signage, glockenspiel upgrades, new features)																					
Sara	385,500			Quotes are being sought to reinstate the former garden area with Bark or Chipseal. CCTV camera from the Bell Tower installed on the Percy Thompson Building with power sourced from the toilets section of the building.				385,500														
	* Purchase of land - Prospero Place																					
Sara	30,000		30,000	Bell Tower demolition complete.	15,000		34,500	34,500														
	Demolish Bell Tower																					
Sara	70,000		70,000	Construction underway. Delay in construction due to delay in materials, weather, and Covid-19				50,000	20,000													
	Replace Storage Shed																					
Mel/Chade	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 Request that these funds be carried over to support the Broadway and Prospero Place work as part of the town centre plan development.				60,000														
	Upgrade Broadway Roundabout																					
Mel/Sara	47,000		47,000	WSP is investigating two options: 1. Increasing the size of the holding tank with associated repairs to the connecting pipework. 2. Installation of an onsite wastewater treatment system to comply with Horizons Regional Council consents and determine if there are other planning requirements (Stratford District Plan, Reserves Act etc.)				47,000														
	Whangamomona Camp - septic tank																					
Mel	35,000		35,000	Pathways cleared, wooden framing for the new path complete. Final conversations with Iwi underway regarding signage wording.	20,000	15,000																
	Trees of significance - access																					
Neil	16,700,000	9,135,861	17,212,500	Construction underway and progressing in accordance with agreed timeline	1,564,139	2,000,000	2,000,000	2,000,000														
	New Swimming Pool																					
Neil	484,168	353,049	484,168	All physical works 99% complete. Installation of CCTV cameras and some additional landscaping expected in August / September 2022.	30,000	30,000	30,000	43,119														
	Victoria Park Bike Park																					
Community Development																						
Neil	1,200,000	6,025	3,274,000	Negotiating with land owner on Flint Road for purchase of land				1,193,975														
	Council Subdivision																					
Neil	53,000	54,192	53,000	Completed																		
	Install in-shed Feed system - farm																					
Environmental Services																						
Blair	-	-	1,500,000	Not required in this financial year, while the Government decides what the future of District Plan is.																		
	Review District Plan																					
Roading																						
Steve/Steve	350,000	-	3,823,700	The Council share will be used to construct a shared cycleway/footpath on the northern side of Fenton Street as part of the Stratford High School Safety project. This is a key route that has been identified in the draft Walking and Cycling Strategy. In discussions with eight schools regarding the location of speed zones outside their school.		50,000	50,000	36,000														
	Walking and Cycling improvements																					
Steve B	-	-	13,022,683	Engaging a consultant as well as the development of the business case to Waiwa Kotahi					30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000						
	Brecon Road Bridge																					
Steve B	-	-	530,900	Upgrade works are programmed for 2023/24 year (year 3)																		75,000
	Whangamomona Rd Upgrade																					
Wastewater																						
John C	500,000	30,735	500,000	Wastewater sampling has commenced, chemical and algal compositions supplied to consultants as the results are received. Section of road to be laid by 1 June 2022	15,000	30,000	30,000	30,000	15,000	10,000	10,000	10,000	30,000	30,000	30,000	30,000	30,000	30,000	10,000	10,000	10,000	
	Diatomix to enhance algae growth																					
John C	-	-	51,700	Year 2 of LTP; Proposal being drafted and will go to DHI New Zealand, Watershed, Beqa and BTW as an offer to submit a Proposal.					20,000	20,000	10,000											
	Modelling																					
John C	150,000	-	1,187,000	BTW engaged to undertake flow monitoring of an infiltration zone catchment within the network. Specialist contractor unable to commence sleeving of wastewater pipes until 1 July 2022 due to prior commitments. Contract being drafted and is due to be tendered in June 2022.	20,000	30,000	30,000	70,000														
	Inflow and infiltration programme																					
Water Supply																						
John C	349,500	40,421	2,195,000	Electronic meters purchased. Replacement of 200 existing mechanical meters planned for 2022/23 financial year.	40,000	100,000	100,000	69,079														
	Universal water metering implement																					
John C/Steve Taylor	1,400,000	873,798	2,911,100	Stage 1 99% complete. Stage 2 (20%) and 3 (80%) underway. Delays due to weather and Covid-19 has pushed completion to September 2022	226,202	100,000	100,000	100,000														
	Second water trunk main																					
John C	100,000	6,460	309,700	Ongoing. Ecological Assessment and Hydrological Assessment Reports produced; Iwi Liaison continues; Awaiting Iwi to commission a Cultural Impact Assessment (CIA). Application lodged with the TRC, with processing pending the completion of the CIA	23,540	20,000	20,000	30,000														
	Midhurst Resource Consent																					
John C	-	-	134,500	Not required this year, Year 2 of LTP																		
	Toko Bore																					

2022 - Audit and Risk - July - Open - Information Report - Capital Works Programme - Key Projects Update

John C Membranes

Budget - Y1	Actual Spent	Budget LTP	Project Status	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
150,000	86,000	150,000	Replacement membranes have been delivered and are being installed as required. Further membranes are being procured.	86,000		64,000															

INFORMATION REPORT



F19/13/04 – D22/24256

To: Audit and Risk Committee
From: Chief Executive
Date: 19 July 2022
Subject: Risk Management

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 from the previous quarter.

/_____
Moved/Seconded

1. Purpose of Report

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

2. Executive Summary

- 2.1 The key risks to Council that have required active management by the Senior Leadership Team are *Risk 64 – Infectious Disease Outbreak / Pandemic*, *Risk 47 – Attracting and Retaining Staff*, *Risk 78 – Government Policy Impacting on Local Government* and *Risk 72 – Elected Member Decision Making*.
- 2.2 There have been no new risks identified by the Senior Leadership Team since the last Audit and Risk Committee meeting. The top ten risk register remained unchanged.

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 wellbeings in some way.

Social	Economic	Environmental	Cultural
✓	✓	✓	✓

- 3.1 Risk Management aims to protect all areas of Council operations.

4. Background

- 4.1 The Council maintains a full risk register, which currently has 90 risks. All risks are monitored by the Senior Leadership Team and the top 10 in terms of likelihood and consequence are reported to the Audit and Risk Committee. Which risks for the Top 10 is regularly reviewed.
- 4.2 In August 2021, the Risk Management Policy was updated and one of the changes to the previous reporting system was that only high-level risks would feature in this regular report to the Audit and Risk Committee.
- 4.3 The risk register includes a description of the risk, and evaluates the risk in terms of likelihood and consequence without any controls in place. Controls (risk reduction methods and mitigations) that 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 64 – Infectious Disease Outbreak / Pandemic*
 After a downturn of Covid-19 case numbers they are back on the rise nationally and regionally. Contrary to national and regional trend, staff Covid occurrences have not picked back up yet - flu and other winter ailments are more noticeable at the moment.

 Council had implemented a broad suite of safeguards to ensure the organisation's ability to continue to deliver services to the community. Most of these have been scaled back of the past months. Mask wearing inside the building is one of the last visible controls within the non-customer facing areas and is currently under review.

 While these measures are on a downward trend, we are continuing to monitor sickness trends within and outside the organisation and will adjust measures should circumstances require it.
- 5.2 *Risk 47 – Attracting and Retaining Staff*
 A lot of media attention is being given to “the great resignation” nationally and internationally. Our own staff turnover numbers have increased recently but this coincided with the retirement of a number of very long serving staff, skewing the statistics. We have been actively working on staff wellbeing and engagement for a number of years and report annually on this to this committee. The most recent measure was an organisation-wide salary review to ensure remuneration aligns with job descriptions, particularly regarding roles that haven't gone to the market for some time. The review was undertaken by Strategic Pay, market leaders in the area of local and central government remuneration. Failure to remunerate positions appropriately will otherwise lead to staff taking advantage of opportunities elsewhere in a very active recruitment market and inability to fill vacancies.
- 5.3 *Risk 72 – Elected Member Decision Making.*
 This risk is triggered by the recent adoption of the Annual Plan alongside associated policies. Particularly in light of the introduction of a differential to the roading targeted rate to address damage from forestry operations, this poses additional risk to council. This has been mitigated as much as possible by incorporating learnings from other regions who have undertaken these steps before us as well as legal review and advice from appropriate law firms.
- 5.4 *Risk 78 – Government Policy impacting on Local Government*
 The previous Risk Management report to this committee extensively covered the impacts of Three Waters and the Resource Management Reforms. The Department of Internal Affairs is currently asking for submissions on the most recent phase of these reforms and council is envisaging making a submission. In parallel council will provide a summary of the Three Waters Reforms and council's response to the

community and encourage anyone who would like to make their own submission directly to central government as the initiator of these reforms.

6. Strategic Alignment

6.1 **Direction**

Not applicable.

6.2 **Annual Plan and Long Term Plan**

Not applicable.

6.3 **District Plan**

Not applicable.

6.4 **Legal Implications**

Not applicable.

6.5 **Policy Implications**

This report is in line with the Risk Management Policy.

Attachments:

Appendix 1 - Top Ten Risk Register



Sven Hanne
Chief Executive

Date: 11 July 2022

APPENDIX 1

Top Ten Risk Register

Risk Alert Number	Risk Category	Risk Subject	Risk Description	Risk Score Raw	Control Description	Residual Risk Score
51	Operational	Natural Disaster or Fire - Response preparedness	IF a Natural Disaster or Fire causes significant damage to infrastructure and buildings THEN community welfare may be severely compromised, putting peoples lives at risk, and staff may be unable to access systems to carry out their day to day duties and functions.	15 Very High	Civil Defence Emergency Management plans are in place. Procedures following an emergency event are widely known by a number of staff due to Civil Defence Foundational training being rolled out to majority of council staff. Business Continuity Plans need to be in place and practiced regularly for all activities - Directors responsible for having a plan in place for each of their departments to ensure core functions can continue to be delivered.	12 Very High
64	Operational	Infectious Disease Outbreak / Pandemic	IF an infectious human disease outbreak / pandemic threatened NZ and reached the district, THEN this could impact staff availability, local services could temporarily close down, and the community access to healthcare is limited potentially resulting in population decline.	15 Very High	Health and Safety Advisor to keep aware of any public health notifications of disease outbreaks. Ensure there is a plan to respond to any notifications. Civil Defence covers infectious human disease pandemics and will take responsibility for local management. Follow Ministry of Health's NZ Influenza Pandemic Action Plan.	8 High
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.	6 High

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
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

INFORMATION REPORT



F1913/04 – D22/24213

To: Audit and Risk Committee
From: Chief Executive
Date: 19 July 2022
Subject: Civil Defence Progress and Readiness Report

Recommendation

THAT the report be received.

Recommended Reason

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

 /
 Moved/Seconded

1. Purpose of Report

To update the Audit and Risk Committee on the current state of Stratford District Council's ("SDC") Civil Defence activity and progress made by Council since the adoption of the 'Morris Report' by the Taranaki Civil Defence Group in 2017/18, which fundamentally changed the responsibilities of the individual agencies operating in Taranaki in terms of Civil Defence, as well as delivery against recently revised national targets.

2. Executive Summary

Longer Term Background – How did we get here:

- 2.1 Up until 2017, the three Taranaki Local Authorities ("TLA's") effectively operated an outsourced model for Civil Defence with the vast majority of related services provided by the Taranaki Regional Council ("TRC") via the Taranaki Emergency Management Office ("TEMO").
- 2.2 Following a review undertaken by Brendan Morris in 2017 (known as the 'Morris Report'), it was acknowledged that the operational model was not appropriately aligned with the Councils' responsibilities under the act and the recommendations of the report were adopted by the group.
- 2.3 The regional group office ("TEMO") as well as the TRC and the three TLA's have been working through the required changes since the adoption of the report in 2017/18.
- 2.4 Since the adoption of the Morris Report, SDC has undergone three external assessments, carried out by TEMO staff for regional consistency, regarding readiness under the new model. While each of these assessments has shown growth and improvement from the previous year, 2 years of pandemic and other significant work load challenges in the local government sector have negatively impacted sustained capability and readiness improvements.

Past 12 months – recent achievements:

- 2.5 At the time of writing the previous report (12 months ago), the regional Civil Defence capability had just been put to the test in its response to the COVID-19 pandemic. At the same time, responsibility for the response to the COVID pandemic also moved away from Civil Defence to a variety of central government departments, allowing Civil Defence to start focusing on the broader range of risks faced by the region rather than being all-absorbed by the ongoing response.

- 2.6 The past 12 months have seen Civil Defence activity slowly return to normal. Despite to official hand-over to central government, this still required local support through a number of roles. We have seen significant burn-out of those staff members involved heavily in the original response and are trying to address this as well as possible.
- 2.7 The combination of burn-out and Civil-Defence-tiredness of staff in key Civil Defence roles, combined with all areas of council under heightened work-load at the same time has led to less Civil Defence training having been undertaken. This was further exacerbated by significantly reduced availability of Civil Defence training due to the same factors as described above experienced by all councils within the region – affecting the availability of trainees and trainers.
- 2.8 Seismic assessments for TET Stadium as well as the War Memorial Centre have been undertaken and will inform business cases at the next budget round. The current thinking is to only formally assign the War Memorial Centre as a Civil Defence Facility (EOC), rather than both due to the seismic strengthening obligations and associated costs inherent in that definition. Council has an obligation to at least have a dedicated Emergency Operations Centre (EOC). A welfare facility would be desirable but can be identified post event.
- 2.9 The TET multisport stadium will still be available as a civil defence facility following an event, depending on the nature of the event and any damage incurred. The seismic assessment of the TET multisport stadium also identified some defects and design elements no longer deemed appropriate that will require addressing in the future irrespective of whether it is being used for Civil Defence purposes or not – this will be brought to council as a separate matter at the appropriate time.

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, Civil Defence supports all 4 wellbeings to different levels depending on the nature of an event.	
Social	Economic	Environmental	Cultural
✓	✓	✓	✓

4. Background

- 4.1 In Taranaki, Civil Defence responsibilities are split between the regional Group Office, TEMO, the TRC and the three TLA’s with the separation of responsibilities set out in the group’s constituting agreement.

Performance and ongoing improvements of the group and each TLA as well as the TRC are reported in the quarterly performance reports to the Taranaki CDEM Coordinating Executive Group. The most recent one is attached to this report for further information.

The following progress has been reported for SDC over the past 12 months. It is structured along the 4Rs of Civil Defence:

Reduction

- SDC participated in high level regional lifelines assessments via regional coordination, although of limited benefit as community size by default limits significance assessment.
- Our own criticality assessments as per Asset Management Plans form the basis of understanding of vulnerability of our lifelines. The most significant risk item being water trunk main for Stratford. Duplication is currently under way to mitigate risk. Resilience and where appropriate redundancy are standard design criteria for council infrastructure, specifically critical and lifelines assets.

Readiness

- Staff numbers in key positions currently remain lower than desirable with further training required. While pre-pandemic SDC had been building its volunteer base internally and externally, its current volunteer base of 39, down from 47 a year ago, including SDC staff and community volunteers. This is less than what would be required during even a medium sized event. The reduction in numbers is a combination of staff migration and loss of individual volunteers due to other reasons.
- The Chief Executive holds the roles of Regional Controller and would therefore be the default Local Controller in a localised event. The CEO also chairs the regional Civil Defence Coordinating Executive Group (CEG).
- The Director Environmental Services is Council's alternative controller.
- SDC's Community Development Manager is the Alternate Group Welfare Manager for the Region.
- The Director Assets chairs the Regional Risk Reduction Advisory Group.
- SDC is represented on all of the working groups and committees and is working well with the regional EMO and TEMO staff.
- The most recent EOC assessment has been completed following a successful trial activation. The current score is 77.6, up from 73.4 (measured out of 100 – but 100 is an unlikely target for SDC, it is more a theoretically achievable number). It is important to note that this is not simply a point-scoring exercise but needs to be focused on sensibly growing the operational capability of the EOC.
- SDC Business Continuity Plans had been updated prior to COVID-19 and have been re-assessed as part of their implementation. A further review will naturally occur on conclusion of the current Civil Defence Emergency to maximise the learnings from an actual event.

Response and recovery

- SDC has been successful in a number of COVID-19 recovery fund applications with a number of projects under way, creating economic stimulus in the region.
- SDC has also maintained its own spending profile to ensure employment is retained.
- SDC is participating in the Mayors' Taskforce for Jobs. A coordinator has been employed. This programme has just been extended for another year. The focus group for this programme is changing and this is most likely the last time it will be reported on withing the Civil Defence context.

Lifeline utility responsibilities

- In attendance of Lifelines meetings.
- SDC continues to incorporate resilience and maintainability principles into its infrastructure design and provision.
- SDC is currently duplicating its trunk main connecting the water treatment plant with town, mitigating a major supply risk by addressing a single point of failure that could result in an immediate water outage for the Stratford water supply.
- SDC has made significant investment in additional valving in the water supply network to allow for smaller areas of the reticulation to be isolated in the event of failure and more opportunities for routing of water around problems, retaining supply to large parts of the population under most scenarios.
- The impact of the Three Waters reform programme on lifelines has been raised but not discussed in detail as Entity B not yet operational. It is anticipated that engagement will be similar as Power, Gas and Telecommunications providers going forward.

5. Information Summary

- 5.1 Council is making good progress in terms of facilities, equipment and practising of activations BUT a combination of fatigue following significant engagement during the pandemic and a lack of training opportunities (coupled with natural staff migration) has seen the number of staff appropriately trained to readily fill roles during an event contract by approximately 20%.
- 5.2 Mutual support across the region is strong and would be required by any of the three councils in the event of a local event.

6. Strategic Alignment

6.1 Direction

Civil Defence meets the definition of a local public service.

6.2 Annual Plan and Long Term Plan

Civil Defence is reflected in Council's annual and long term plans and above mentioned local capability improvements and physical requirements of EOC and Welfare Centre will form part of the next LTP discussion.

6.3 District Plan

There is no direct link between the Civil Defence activity and the District Plan.

6.4 Legal Implications

Council has a statutory obligation to resource and undertake the Civil Defence activity.

There are a range of legal implications inherent within the Civil Defence activity, which are best mitigated through appropriate funding, resourcing and training of staff. Support provided by TEMO and MCDEM and insurance cover through the Taranaki Council's insurance scheme further help to mitigate these implications.

6.5 Policy Implications

There are no policy issues.

While not policy, the Morris Report (together with relevant legislation and other guidance provided by MCDEM) is the guiding document until the Taranaki Civil Defence group has completed the required transition identified in the Morris Report.

Attachment

Appendix 1 TEMO Performance Report

A handwritten signature in blue ink, appearing to read 'Sven Hanne', is centered on the page. The signature is fluid and cursive, with a long horizontal stroke at the end.

Sven Hanne
Chief Executive

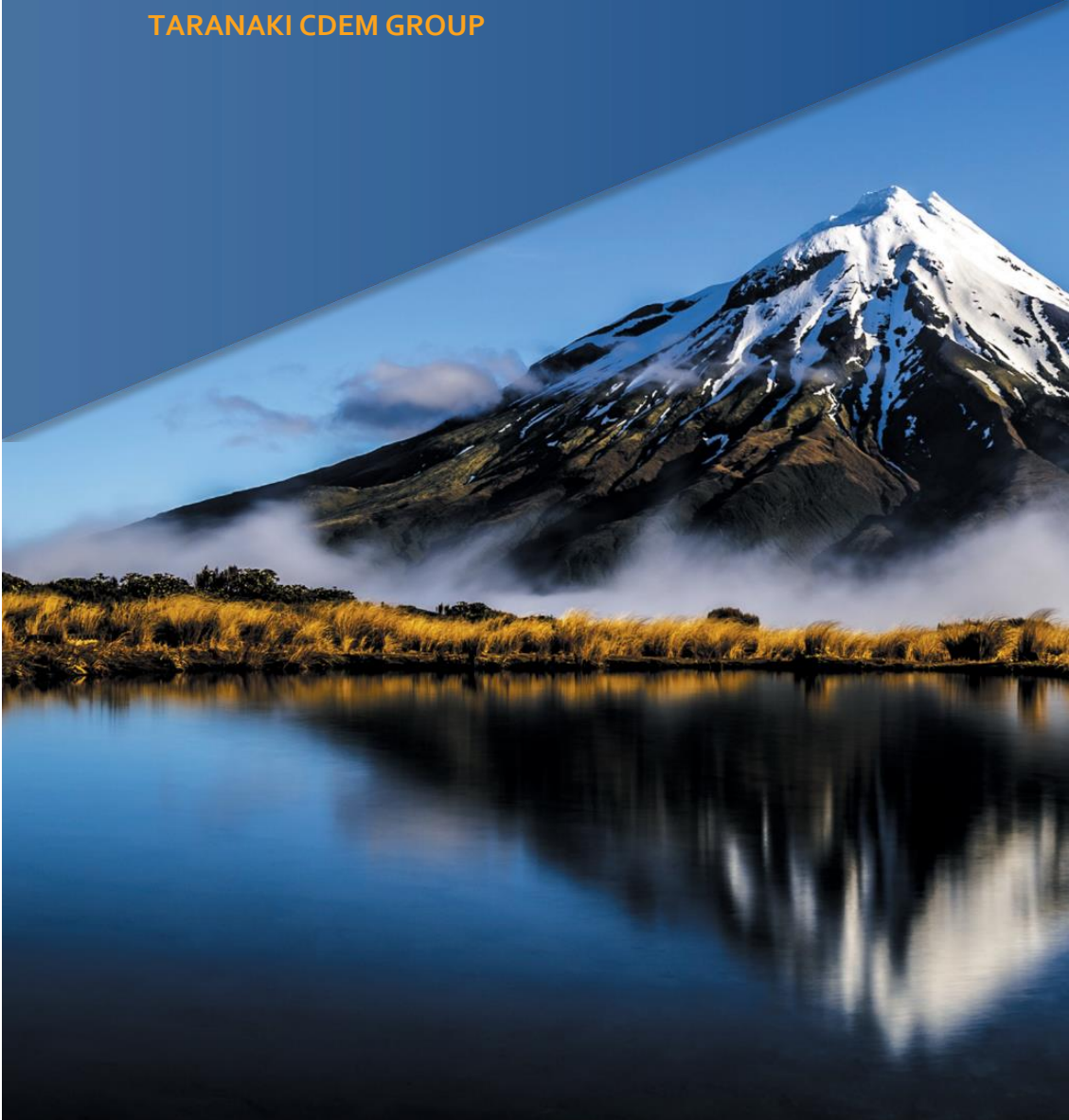
Date 11 July 2022



DRAFT Performance Report

Quarterly Report Q3
For Financial Year 2021/22

TARANAKI CDEM GROUP



Document management

Author Leadership Team comprising.
Todd Velvin – Group Manager
Suzanna Adair – Operations Lead
Kaz Lawson – Community Resilience Lead

Date April 2022

Reviewer Todd Velvin

Title CDEM Regional Manager

Date April 2022

Endorsed by Taranaki Coordinating Executive Group

Date May 2022

Authoriser Taranaki CDEM Group Joint Committee

Date 2022

Version control

VERSION	CHANGES	DATE
vo.1	Original Draft, submitted to CEG for endorsement	05 May 2022

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Taranaki CDEM Group Vision 2025



Where we're going

Our Taranaki community shows resilience through periods of disaster, crisis and change



Why we exist

We deliver professional disaster risk and emergency management for Taranaki



What we stand for

Collective responsibility: Shared between National, Group and District level

Unified approach: CDEM partners work for the overall benefit of the Taranaki Community

Organisational resilience: Any part of the system can lend support seamlessly

Strong relationships: Strong effective coordination and integration

Strategic goals

The fulfilment of our vision is underpinned by delivering on our six strategic goals, under the leadership and accountability of the CDEM Joint Committee

	Goal		Strategic measures	Responsibility
1	Governance	Our expectations from CDEM partners is clear and met through strong governance arrangements and accountability for delivery	Performance monitoring	CDEM Joint Committee Coordinating Executive Group
2	Disaster risk reduction	The risks from hazards, their likelihood and impacts, are understood and managed to reduce our risk exposure	Risk priorities and reduction activities	Group Office Local Councils
3	Organisational resilience <i>Readiness</i>	We build resilience into organisations and plan for the impacts from disaster and ensure our systems and arrangements are fit for purpose	Capability assessment	Group Office Local Councils CDEM Partners
4	Community resilience <i>Readiness</i>	Community resilience is strengthened so that the impacts from disasters are reduced	Community engagement	Group Office Local Councils Community
5	Capability development <i>Readiness, response and recovery</i>	We develop the capability of staff and volunteers to effectively carry out their roles in a disaster	Training completion	Group Office Local Councils
6	Response and recovery	We enable well managed effective responses, and we support the community's journey of moving on from the impacts of disasters	Activity performance	Group Office Local Councils Emergency Services Community

Note:

The vision of the Taranaki CDEM Group reflects the importance of integrated effort, partnership and cooperation within the CDEM sector agencies, so that we can work together with resilience and function at a high level during a disaster or emergency. The term 'resilience' means literally to 'spring back'. In the Civil Defence and Emergency Management sector resilience is described as the capacity to withstand and recover from the occurrence of a hazardous event

Executive Summary

This is the third instalment of performance reporting of the 2021-2022 financial year for the Taranaki Emergency Management Office (TEMO), as outlined in the Annual Plan 2021-2022 and for the Taranaki Emergency Management Group as outlined in the Group Plan 2018 – 2023.

Highlights of Quarter Three

COVID-19 has disrupted the TEMO work programme over recent years. This continues to do so due to increased community transmission, leading to co-horting of work-groups, periods of virtual working relationships and staff and partner agency sickness.

In Taranaki the COVID response is led by Taranaki District Health Board and Ministry of Social Development with TEMO providing support to both partners and other organisations.

The Taranaki CDEM Group has implemented a restructure, increasing the leadership team with two new team leads, responsible for the Operations Team and the Community Resilience team. The expansion provides for clear lines of communication and efficient organisation of workplans. It includes one new structural position, Systems and Technology Advisor, responsible for implementation of the GIS Strategy and other Systems ownership.

Welfare support has been provided to Taranaki communities impacted by Covid through the 'Care in the Community' program, over the preceding quarter.

A hazard infographic series was developed for the region with the help of GNS Science. These are available to the public as a poster series.

Financial reporting

Financial reporting is included in Section 2 and Appendix B.

Section 1 | Strategic Goals and Objectives






The CDEM Group Plan is a statutory document under the Civil Defence Emergency Management Act (2002) and is a high-level strategic document that sets out our vision, goals, principles, and objectives for action over the next five years.

Local Authorities enable implementation of the Group Plan through providing resources and funding for CDEM activities via their Long-Term Plans

Forty-three objectives were identified in 2018-2023 Group Plan, these are listed in Appendix A.

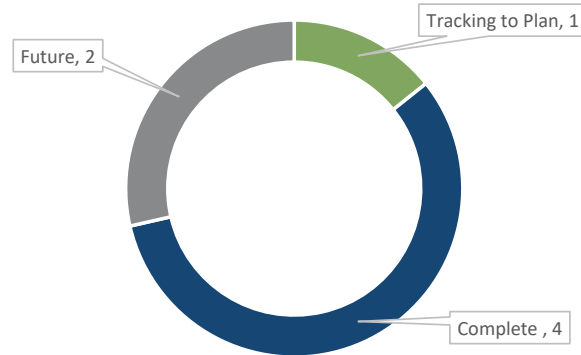
A summary of the Taranaki Group progress on those objectives is provided below

Key

	Completed
	Tracking to Plan
	Concerns - mitigations in place
	Concerns – no mitigations in place
	Future work

1.1 Governance

Our expectations from CDEM partners is clear and met through strong governance arrangements.



Progress this quarter

- Gov 3 – Advisory Groups established. Terms of reference for RARAG and RRAG being reviewed.

Completed

- Gov 1 – performance monitoring and evaluation framework for the CDEM Group established
- Gov 2 – Financial policy arrangements established
- Gov 6 – Performance measures in place and reported on quarterly
- Gov 7 – Governance arrangements regarding the involvement and representation of Māori has been completed and approved¹

Tracking to plan

- Gov 3 – Advisory Groups established. Terms of reference for RARAG and RRAG being reviewed

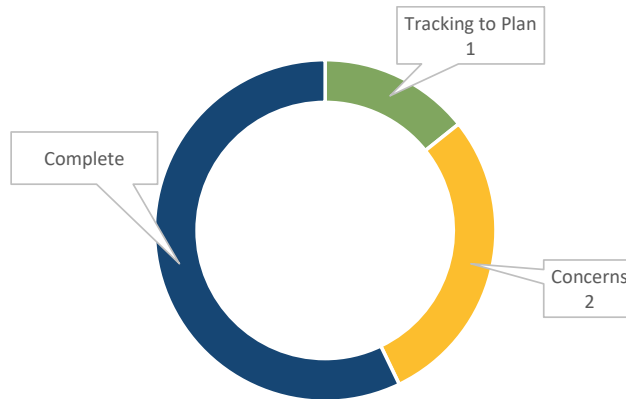
Future work

- Gov 4 – Group Plan Review (scheduled to begin September 2022 after Trifecta)
- Gov 5 – Constituting Agreement Review (scheduled to begin 2022)

¹ Work is ongoing to implement the approved arrangement.

1.2 Disaster Risk Reduction

The risks from hazards, their likelihood, and impacts, are understood and managed to reduce our risk exposure.



Progress this quarter

- DRR 4 – Hazard infographic series developed for the region with GNS Science.
- DRR 5 – New Systems and Information Technology advisor appointed as part of Group restructure.

Completed

- DRR 2 - Risk Reduction Advisory Group established (May 2018)
- DRR 5 – GIS strategy completed and approved by CEG - New Systems and Information Technology advisor appointed as part of restructure
- DRR 6 - Promotion of the integration of activities and a consistent CDEM risk reduction approach
- DRR 7 - Regional Lifeline vulnerability study undertaken (December 2018).

Tracking to plan

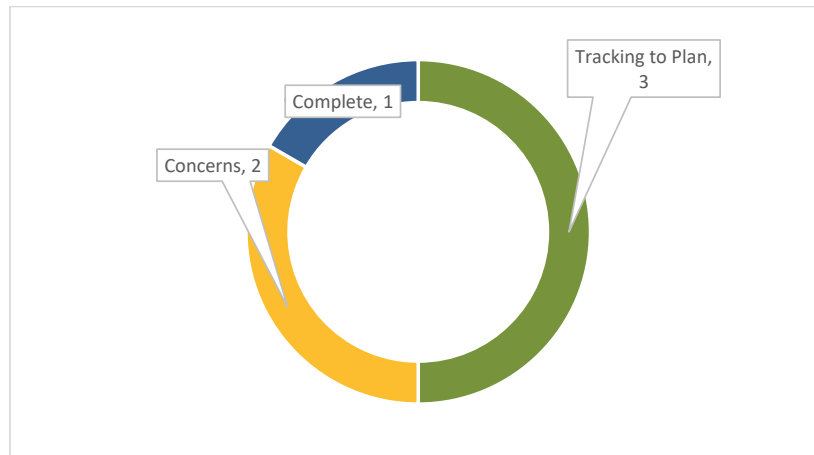
- DRR 4 - The CDEM Group will seek out and encourage applied hazard science research to benefit risk reduction planning.

Concerns – mitigations in place

- DRR 1 – Survey of current risk and hazard documents
- DRR 3 – Disaster Risk Reduction strategy developed

1.3 Organisational resilience (readiness)

We build resilience into organisations and plan for the impacts from disaster and ensure our systems and arrangements are fit for purpose.



Progress this quarter

- OR 1 – MS Teams Implemented.

Completed

- OR 1 – Implementation of an information management system

Tracking to plan

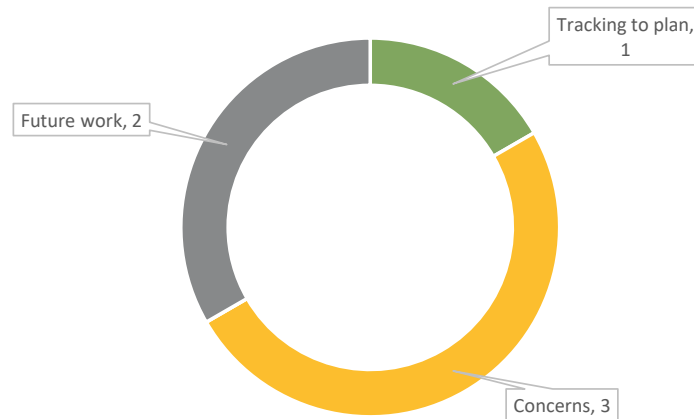
- OR 2 – ECC, NP EOC Audits conducted. Audits for STDC and STC EOC's planned.
- OR 5 – Recovery Programme Performance Measures - implementation delayed due Covid
- OR 6 - Corrective action planning currently in review.

Concerns – mitigations in place

- OR 3 - Capability development plan due for review. Implementation limited due TA work programs need alignment.
- OR 4 - CDEM Group partner business continuity plans need review

1.4 Community resilience (readiness)

Community resilience is strengthened so that the impacts from disasters are reduced, and communities are equipped to adapt to change.



Progress this quarter

- CR 4 – Hazard infographic series developed for the region/public with GNS Science.

Tracking to plan

- CR 4 – Development of a public education and community engagement strategy - Disruption due to recruitment required of new staff member - new communications advisor employed.

Concerns – mitigations in place

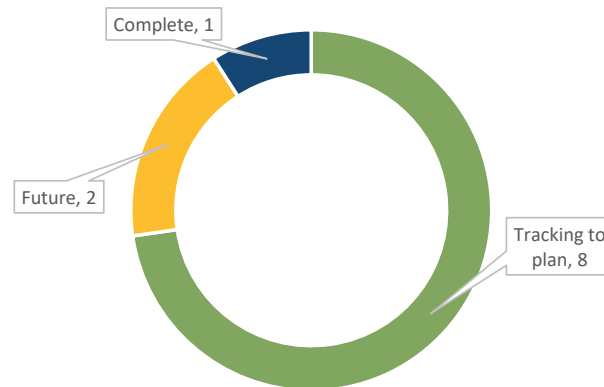
- CR 1 – Volunteer Management Strategy - Strategy being updated but requires integration with TA workplans.
- CR 2 – NPDC EMO role not currently filled. No current agreed workplans for other EMO's in other TA's.
- CR 5 - Review due on benchmarking requirements as part of volunteer engagement strategy - requires alignment with TA workplans.

Future work

- CR 3 – Community Resilience Strategy – Document does not currently exist.
- CR 6 - 10 Community Emergency Plans objective to be reviewed.

1.5 Capability development (readiness, response, and recovery)

We develop the capability of staff and volunteers to effectively carry out their roles in readiness, response, and recovery.



Progress this quarter

- CD 5 – Ongoing delivery of CIMS4, ITF foundation/ intermediate and development of function specific courses, some delays, and postponements this quarter due to COVID-19

Tracking to plan

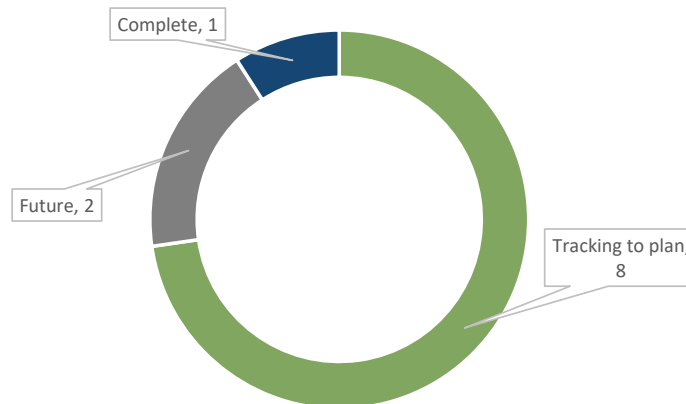
- CD 1 – NEMA Capability Development fund accessed for ongoing training
- CD 3 – Exercise schedule constructed. Planning in place for delivery.

Concerns – mitigations in place

- CD 2 – National LMS (Takatu) is due for update (not currently user friendly) - delayed due to Covid.
- CD 4 – Proposed 2020 National Tier 4 Exercise (Alpine Fault) delayed due to COVID-19
- CD 5 – 500 centre staff trained to Integrated Training Framework (ITF) Intermediate - Delivery under strain due to HR resourcing in ongoing Covid Pandemic and TA work programs not aligned - Review of this objective required for next group plan.
- CD 6 – Ongoing delays in the delivery of national CIMS function training. No ITF course exists for Recovery, Operations and Safety. Delivery of remaining CIMS courses under strain due to HR resourcing in ongoing Covid Pandemic and TA work programs not aligned.

1.6 Response and recovery

We enable well managed effective responses, and we support the community’s journey of moving on from the impacts of disasters.



Progress this quarter

- RR 4 – Document control SOP developed and adopted. Duty Officer Manual reviewed, consolidated, and adopted. Earthquake response plan out for external consultation. Taranaki compendium checklist (response aide memoire) developed and adopted. Response common systems plan developed and adopted.

Complete

- RR 3 - Three district based EOCs and one regional ECC established

Tracking to plan

- RR 1 – Readiness and Response Advisory Group Established – Review of terms of reference due.
- RR 2 – All controllers complete the national training programme.
- RR 4 – Review of all Response Plans and Standard Operating Procedures
- RR 5 - Standard Operating Procedures established – Document control SOP and 6 monthly audit process adopted.
- RR6a – Significant progress on the recovery programme of work has been made with the appointment of a dedicated Recovery resource
- RR 7 – Hazard specific recovery planning in hazard contingency plans. Ongoing delays due to COVID-19 Responses and associated work.
- RR 8 – Recovery framework under development

Future

- RR6b – Engagement with priority communities
- RR6c – Identifying and addressing gaps in recovery preparedness

Section 2 | Budget Performance

Operational and Capital budget performance is reported for TEMO, funded under apportionment arrangements by the four Taranaki Councils as follows:

Taranaki Council	Percentage
Taranaki Regional Council	34%
New Plymouth District Council	40%
South Taranaki District Council	18%
Stratford District Council	8%

2.1 YTD Budget performance

The quarter three financial report ending 31 March 2022 (attached in Appendix B) shows a variance of \$87,393.

2.2 CDEM Reserve

The TEMO 2020/21 year-end result resulted in a surplus of \$194,611.

At the August 2021 Co-ordinating Executive Group meeting it was agreed that up to \$150,000 of this surplus would be spent on implementing the Geospatial Strategy, in particular the appointment of GIS specialist for 2-year fixed term contract.

This leaves \$40,000 plus in the reserve.

Section 3 | Personnel

The Taranaki Group office has completed its restructure with two new lead roles finalised. Kaz Lawson now leads the Community Resilience Team and Suzanna Adair leads the Operations Team. This restructure addresses a growing team and body of work that requires clear communication and work structure programs to ensure efficient and effective delivery of Emergency Management across the region.

In August 2021 the Joint Committee approved the funding and appointment of GIS specialist for 2-year fixed term contract. This role now sits within the Operation Team. Recruitment for this position has been successful, with Valerie De Feo, an experienced GIS specialist accepting this role.

Alister Newton has vacated the Communications Advisor role. Recruitment for this role has been successful with Lisa Gregory accepting this position.

Section 4 | Work Programme

This report documents progress of Taranaki Emergency Management Office against Annual Business Plan 2021/22, which was approved by the Joint Committee at their November 2021 meeting.

COVID 19 continues to be an ongoing challenge. Health remains the lead agency for the COVID-19 Response and the Ministry for Social Development (MSD) took over the lead in the welfare space late last year. Care in the Community is the model that has been adopted nationally with a range of regionally adapted hybrids. TEMO has been supporting both the DHB and MSD as a connector, providing advice and resourcing as well as practically coordinating the delivery of kai packs, pulse oximeters, prescription delivery and door knocks. This has been achieved with the cooperation of the three councils, volunteers as well as staff from corrections and the Department of Conservation. The Taranaki model has been singled out nationally by the MOH in its Care in the Community Local Hub Request for Information Summary Document '*Stand out DHBs were Taranaki and Tairāwhiti DHBs for their community, iwi and DHB partnership approach. They have a mature relationship model that is rooted in local knowledge and community support. There were 54 Care in the Community Hubs identified across the motu.*' Over the past two months TEMO has been supporting the access and distribution of RATS with a staff member on secondment to set up the distribution centre, connecting the DHB with distribution and access points and into isolated, vulnerable communities.

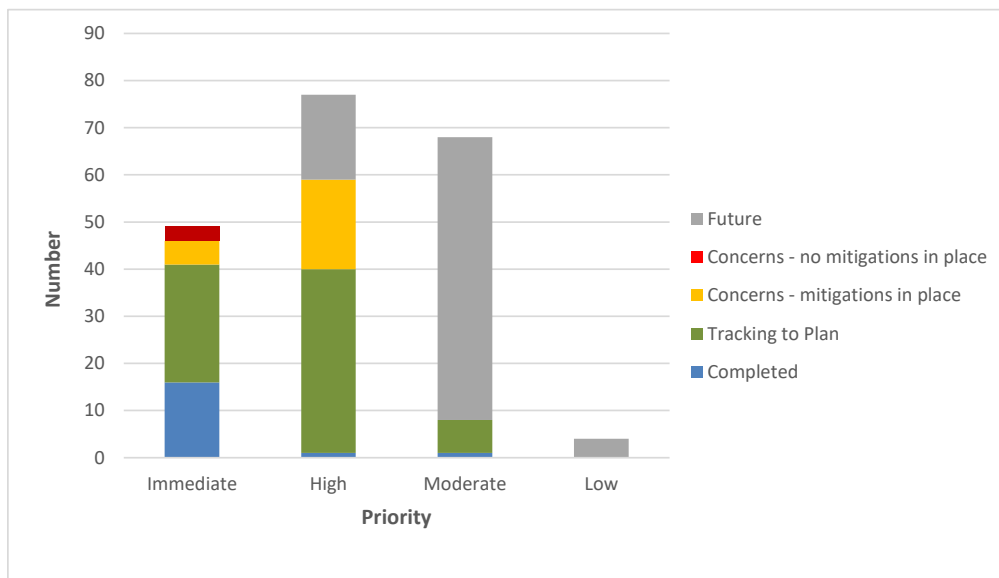
Going forward we are looking to transition this mahi to community organisations who can absorb this into BAU.

Function	Key Deliverable	Status
Capability Development	Deliver training as per the Capability and Development Plan 2020-2021	Courses delivered this quarter were <ul style="list-style-type: none"> • Foundation Courses (6th April online) • LUC (12th April)
	Deliver a continuous improvement of the CIMS Function Checklist	The Response Common Systems Plan has been completed Response Actions Plan for each specific function is almost complete.
	Deliver a continuous improvement of Standard Operating Procedures (SoP)	Document Control SOP has been completed
	Update and maintain the Duty Officer documentation	Duty Officer Manual is complete and signed off by Group Manger.
	Establish D4H Live as a means of creating a Common Operating Picture	D4H Live continues to be our incident management software of choice. D4h Live enhancements continue, and the development of a user guide and super user guide are in progress.
	Ensure ECC is operational	Monthly checks completed
Communications and Marketing	Upgrade the TEMO website	Under review. Looking to streamline and possibly outsource.
	Deliver the 2020 Communications and Marketing Plan Increased engagement with communities	Recruitment of Comms Manager successful. Staff member in seat 16 th May. Ongoing support of the national campaigns including Shakeout and COVID-19 response.
Contingency Planning	Develop and adopt the Earthquake Response Plan	Out for external consultation
	Develop and adopt the Tsunami Response Plan	Drafting of an update to the existing plan is underway
	Support the Transitioning Taranaki to a Volcanic Future – He Mouna Puia project Implement the GIS Strategy 2021-26	Ongoing support provided; Development of the Volcanic Infographic Information poster series is complete. GIS specialist has been appointed and will commence work with TEMO May 2022.
Recovery	Deliver the Strategic Recovery Plan	Plan consultation & development in process

Function	Key Deliverable	Status
		Priority actions identified
Welfare and Resilience	Update the Welfare and subfunction plans	Feedback delivered to MPI January for Animal Welfare Plan – this is a matter of urgency. Psychosocial Plan under review by TDHB – disruption due to change in staff, back on track. Accommodation & Household Goods and Services Plans about to commence.
	Support the council EMOs in delivery of resilience programme	Awaiting details of EMO work programs and recruitment of EMO NPDC
Governance	Support the Coordinating Executive Group and Joint Committee	The following meetings were held this quarter: <ul style="list-style-type: none"> • Coordinating Executive Group (10 February 2022) • Joint Committee (24 February 2022)
	Hold regular Advisory Group meetings	The following meetings were held this quarter: <ul style="list-style-type: none"> • Readiness & Response Advisory Group on 2 March 2022 • Lifelines Advisory Group 1 February 2022
	Hold regular meetings of the CIMS Function Groups	The following meetings were held this quarter: <ul style="list-style-type: none"> •
	Continue building relationships across the sector	Our focus this quarter has been Welfare and Iwi, with a focus on COVID-19
	Group Duty System	TEMO maintains an 24/7 duty officer roster with a duty Group Controller also rostered on. <ul style="list-style-type: none"> • A watching brief maintained • TEMO staff member sits on the TDHB’s IMT as CDEM liaison
	Continue to support the COVID Response	<ul style="list-style-type: none"> • Ongoing engagement and support of welfare agencies and care in the community coordination • Work has continued on concurrent event planning with a Covid controls overlay plan developed (All Hazards Overlay Plan)

Section 5 | Significant Projects

A significant project is defined as one that, alone or in combination with other concurrent projects, is anticipated to cause sustained work impacts that are greater than what is considered tolerable for delivery within existing TEMO resource.



Robe St Facility Improvements

Contributes to: Disaster Risk Reduction

Status

On track

Two additional improvements to the Robe Street Facility have been identified and included in the 2021/22 work programme:

- ECC Radio Room Upgrade**
 Ongoing waiting for contractor who is based outside of Taranaki to complete final tidy up jobs. Room is fully operational.

- **Radio replacement Programme**
Ongoing and currently reviewing assets and locations across Taranaki.

Corrective Action Programme

Contributes to: Organisational Resilience

Status

On Track

The Corrective Actions identified in the Monitoring and Evaluation Review and the COVID-19 Debrief have been combined into a single plan with a total of 199 actions.

A review of completed actions is underway alongside identification of specific team responsibility assignment and task development. There are some Corrective Actions which require a measurable action to be assigned to them, as these will be presented in quarter 4.

Implementation of the Trifecta Programme

Status

Some Delays

In 2021 the EMSR programme was replaced in 2021 by the NEMA led Regulatory Framework Review ("Trifecta") Programme to bring together three projects that have significant alignment. The projects are:

- developing a new Emergency Management Act (the Act);
- review of the National Civil Defence Emergency Management Plan Order (the Plan Order) 2015 and the accompanying Guide to the National CDEM Plan (the Guide) 2015.
- development of the National Disaster Resilience Strategy (NDRS) Roadmap.

NEMA will provide regular updates to the CEG and Joint Committee, through the Regional Emergency Management Advisor and letters to the CEG Chairs in the first instance.

These reforms will impact the Taranaki CDEM Group and TEMO as feedback will be sought during the reforms. The national focus this quarter has been the response to a number of flood events in the South Island and Auckland as well as the ongoing COVID-19 Delta outbreak.

First round of feedback has gone out to stakeholders and close on the 11th of Feb 2022.

Taranaki Unrest Response and Recovery North Island Plan (TURRNIP), Initial Phase (Resilience Funding)

Contributes to: Disaster Risk Reduction

Status

COMPLETE

In January 2021 TEMO submitted an application to the Resilience Fund for the initial phase of the Taranaki Unrest Response and Recovery North Island Plan (TURRNIP); this is a shortened version of the 2019 bid which was not processed due to the review of the Resilience Fund. The focus of this shortened project is science communication and will support planning and outreach work.

On 31 March we were advised that we had been successful in our bid and have been awarded \$70,000. The project is being led by Teresa Gordon, CDEM Analyst with delivery scheduled for November 2021.

We entered into a contract with GNS Science to deliver the public hazard mapping component of this funding. A data governance group was established to provide oversight to mapping and information about Taranaki Volcanic Hazards. Initial user workshops were held with member of the public providing input into information requirements. Initial drafts of the hazard information sheets were produced and circulated to stakeholders for feedback. Delivery of the final versions was delayed due to the ongoing Auckland lockdown which prevented our contractor from returning to Taranaki and completing sign off meetings with key stakeholders. The infographic posters were released on 26 January 2022.

This project has been underspent by \$40,000 as TEMO have managed the project rather than contracting a project manager and combined the written document with the mapping project. TEMO applied to retain \$10,000 money for publication and distribution of the infographic posters, but this variation was declined by NEMA. Other funding sources have since been secured to enable printing to go ahead.

TEMO have made it clear in our funding bid and ongoing engagement with NEMA that this is the initial part of a multiyear project.

Welfare Registration and Need Assessment (Resilience Funding)

Contributes to: Response & Recovery

Status

Some Delays

In March 2021, at the NEMA's request, TEMO submitted a second application to the Resilience Fund for the development of a Welfare Registration and Needs Assessment with integrated coordination and management capability investigation and development.

After an initial review of current 'off the shelf' or bespoke systems being utilised by other groups NPDC advised that they would undertake an improvement project for the current RANA. Project Management undertaken by NPDC Business Technology Group in consultation with TEMO staff (users) with the work outsourced to a contractor. A like for like system to be delivered with several improvements.

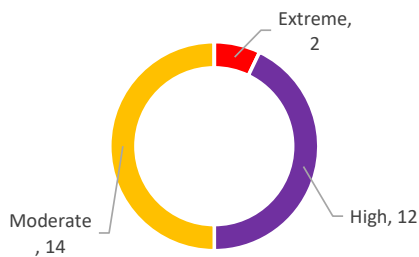
Initial delivery of the system occurred two days prior to the weather event in February. Several flaws were identified upon deployment with a major omission identified – no ability to collect data offline. This is the subject of ongoing discussions between TEMO and NPDC BTG.

System was presented to NEMA Resilience fund manager, Social and Community Resilience staff by NPDC BTG and TEMO staff in February.

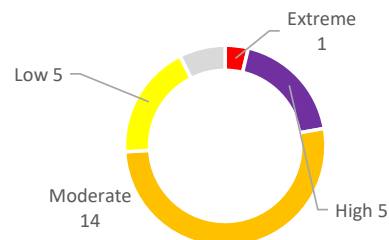
Section 6 | Risks

The Group Office is committed to managing risks that may impact on the delivery of the Taranaki CDEM Group activities and services, and/or the ability to meet its legal obligations.

1) Pre Controls



2) Post Controls



Risk Rating	Risk Rating
E	Extreme
H	High
M	Moderate
L	Low
I	Insignificant

Extreme risk

- Capability of newly appointed statutory roles holders (Controllers and Recovery Managers), required to manage effective response and recovery. Includes certification of competency for statutory position holders occurring through Response and Recovery national programme or another approved pathway.

Section 7 | Appendices

Appendix A: Group Plan Objectives

Strategic Goal	No.	Objective
Governance	Gov 1	A performance monitoring and evaluation framework for the CDEM Group (based on this Group Plan and other planning documents) will be established and implemented to ensure that the work of the Group remains on track to achieve the strategic goals outlined in this Plan, and to identify risks and issues that emerge over the course of the Plan that will need to be addressed.
	Gov 2	CDEM Group Financial Policy arrangements implemented to ensure accountability for delivery.
	Gov 3	Advisory Group work plans and priorities are established, implemented, and contribute towards the 4 Rs
	Gov 4	Group Plan and annex documents review commenced 12 months prior to expiry to comply with legislative requirements.
	Gov 5	Review the Constituting Agreement within five years to ensure governance and delivery arrangements are fit for purpose.
	Gov 6	An annual report will be submitted by member councils to CEG and the CDEM Joint committee regarding actions undertaken to improve their preparedness and readiness to respond to and recover from emergencies.
	Gov 7	Governance arrangements across the full range of Taranaki CDEM activities will be reviewed by 1 July 2020 regarding the involvement and representation of Māori.
Disaster Risk Reduction	DRR 1	A survey of all current risk and hazard documents completed to create a better understanding of the hazardscape for Taranaki.
	DRR 2	Disaster Risk Reduction Advisory Group established to create a focal point for ensuring the implementation of risk reduction measures across the region.
	DRR 3	Disaster Risk Reduction priorities developed into a Disaster Risk Reduction Strategy to address priority hazards.
	DRR 4	The CDEM Group will seek out and encourage applied hazard science research to benefit risk reduction planning.
	DRR 5	Regional GIS (Geospatial Information System) system established for the CDEM Group to improve the understanding of risk exposure and to enable better situational awareness during a response and recovery.
	DRR 6	The CDEM Group will promote the integration of activities and a consistent CDEM risk reduction approach within work programmes such as Councils' Long-Term Plans, Resource Management Plans, and other stakeholder agency work plans, to ensure they are informed by the likely post-event consequences on communities.
	DRR 7	Regional Lifeline vulnerability study undertaken to improve the understanding of lifeline utility exposure to natural hazards and to create a basis for a work programme for risk reduction measures.

Strategic Goal	No.	Objective
Organisational resilience (readiness)	OR 1	Implement EMIS (Emergency Management Information System), or another suitable CDEM Group information system to improve the communications and record keeping of decisions made during emergency activations.
	OR 2	Audits of existing and proposed EOCs/ECC conducted to assess their capacity for response.
	OR 3	Training capability development plan developed and implemented to increase the number and capability of civil defence emergency management staff and volunteers.
	OR 4	CDEM Group partner business continuity plans tested based on hazardscape and likely impact scenarios to improve the capacity and capability of organisations to cope with and recover from emergencies
	OR 5	Development and implementation of performance measures by 2020 to monitor the progress against the recovery programme of work, and ensure the actions are achieving the required outcomes.
	OR 6	Continuous improvement practices are adopted, and corrective action planning established and implemented following exercises and activations.
Community Resilience	CR 1	Develop and commence delivery of a Volunteer Management Strategy to increase the numbers and capability of volunteers.
	CR 2	Review and rationalise Civil Defence Centres to ensure they are fit for purpose.
	CR 3	Refine and continue delivery of our Community Resilience Strategy to ensure that its objectives of engaged, connected, resource and empowered communities is being achieved.
	CR 4	Develop and implement a public education and community engagement strategy focused on improving community preparedness to act in a coordinated and collaborative way during an emergency, and to strengthen their ability to adapt to change following an emergency.
	CR 5	500 community volunteers registered and trained in CIMS and other relevant topics to improve the level of skills in the sector.
	CR 6	10 Community Emergency Plans (including marae based) established and functioning to create local groups of prepared and skilled community volunteers to support communities to respond to and recover from emergencies.

Strategic Goal	No.	Objective
Capability development (readiness, response and recovery)	CD 1	Adult Community Education (ACE) funds and other funding sources for volunteer training investigated and accessed to increase the number of people able to be trained.
	CD 2	Training records managed to record staff and volunteer training for both currency and proficiency to create better knowledge about the community's capacity to respond to and recover from emergencies.
	CD 3	Plan and run at least one Tier 2 Exercise (whole of Group) to test and increase the capacity and capability of staff and volunteers.
	CD 4	Participate in all Tier 4 national exercises to test and increase the capacity and capability of staff and volunteers.
	CD 5	500 CDEM centre staff trained to Integrated Training Framework (ITF) Intermediate CIMS to provide a sufficient pool of trained staff within the region.
	CD 6	85% of CIMS function leads trained in relevant ITF Function Lead courses to ensure a sufficient skill level of critical staff.
Response and Recovery	RR 1	A Readiness and Response Advisory Group will be established (fulfilling Section 8 Guide to the National Plan requirement for and emergency services coordination committee) to improve the quality of communication and cooperation both between first responders and with Civil Defence Emergency Management.
	RR 2	All Group and Local Controllers complete National Controller Training Programme to improve decision making and emergency management skills.
	RR 3	Three district based EOCs and one regional ECC established to increase the capacity for response at a local level.
	RR 4	The accuracy and currency of all response plans and Standard Operating Procedures is assessed (and takes into account the response principles in this plan) and a programme for review developed.
	RR 5	Standard Operating Procedures established and kept up to date to ensure consistency of decision making and actions in an emergency.
	RR 6	<p>The Recovery programme of work to be completed by 2020 will guide the activities of the Group to prepare for recovery ahead of an emergency and enable the Group and partner agencies to achieve the recovery principles and policies. This work will include (but is not limited to):</p> <p>Engagement with priority communities likely to be affected by specific hazards to understand their values and priorities, the likely consequences and the support needed. This will allow the necessary capabilities, processes, and arrangements to be identified.</p> <p>Identification of key recovery partners needed to support recovery activities, including across local, regional, and central government, non-government organisations, private sector, and within communities.</p> <p>Identification and prioritisation of actions to address gaps in recovery preparedness</p>
	RR 7	Hazard specific strategic recovery planning will be undertaken at the same time as hazard response contingency planning for the 15 Group Plan priority hazards over the life of this Group Plan to enable comprehensive emergency management.
	RR 8	A framework for the coordination of recovery activities and collaboration post emergency will be established by 2021.

Appendix B: TEMO 2021/22 Financial Report

Profit and Loss Summary Report to 31 March 2022

	TEMO		
	22GENA	22GENR	
	Actual YTD March	Budget YTD March	Variance YTD March
Revenue			
Other revenue			
160 - User fees and charges	75	0	(75)
169 - Other Operating incl Rebates & Recoveries	(21,280)	(165,000)	(143,720)
Total Other revenue	(21,205)	(165,000)	(143,795)
Subsidies and grants			
180 - Operating Grants & Subsidies	(1,145,692)	(1,107,434)	38,257
Total Subsidies and grants	(1,145,692)	(1,107,434)	38,257
Total Revenue	(1,166,896)	(1,272,434)	(105,538)
Expenses			
Personnel costs			
220 - Salaries and wages - Payroll Only	626,222	602,067	(24,155)
223 - Other employee benefits - Payroll Only	10,679	25,029	14,351
224 - Employee Development & Education	21,160	17,810	(3,350)
225 - Employer contributions - Payroll Only	18,497	16,216	(2,281)
226 - Recruitment costs	489	0	(489)
229 - Other personnel costs	40,461	93,750	53,289
Total Personnel costs	717,507	754,872	37,365
General operating expenditure			
231 - Insurances	3,726	6,132	2,406
232 - Legal and professional fees	24,258	12,264	(11,993)
233 - Occupancy and utilities	16,651	17,862	1,211
234 - Property Maintenance	14,379	0	(14,379)
235 - Communications	7,281	0	(7,281)
236 - Advertising and Marketing	12,025	29,208	17,184
238 - Travel and accommodation	4,289	0	(4,289)
245 - Other general costs	29,987	18,275	(11,712)
Total General operating expenditure	112,595	83,742	(28,854)

Direct costs of activities			
250 - Contracts	2,232	193,244	191,011
252 - Plant and equipment hire	246	0	(246)
253 - Services	4,541	0	(4,541)
254 - Materials	492	0	(492)
255 - Fleet & Plant Consumables & Maintenance	6,107	6,825	719
Total Direct costs of activities	13,618	200,069	186,451
10 - Depreciation - operational assets	45,521	25,182	(20,339)
Total Expenses	889,241	1,063,865	174,623
EXTERNAL OPERATING (PROFIT)/LOSS	(277,655)	(208,570)	69,085
INTERNAL CHARGES			
300 - Pass thru from Shared Services expense	475	0	(475)
310 - Labour allocation expense	0	3,750	3,750
315 - Fixed Amount Charge of Shared Services	97,107	96,585	(522)
320 - On-charges expense	13,191	30,665	17,474
330 - Interest allocation expense	26,503	0	(26,503)
INTERNAL RECOVERIES			
APPROPRIATIONS			
391 - Depreciation funding/ (unfunded)	(49,717)	(25,134)	24,583
395 - Capital Appropriations	0	0	0
TOTAL NET RESULT	(190,096)	(102,704)	87,393

DECISION REPORT



F19/13/04 – D22/22475

To: Audit and Risk Committee
From: Corporate Accountant
Date: 19 July 2022
Subject: Internal Audit Plan – 2021/2022

Recommendations

1. THAT the report be received.
2. THAT Internal Audit Plan 2021/22 be approved.

Recommended Reason

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

/
Moved/Seconded

1. Purpose of Report

The purpose of this report is to present the proposed internal audit programme for 2021/22 for approval by the Audit and Risk Committee. Following the audit, a further report will be presented to this Committee with the audit findings and recommendations.

2. Executive Summary

The Audit and Risk Committee have in its Terms of Reference, adopted in February 2020, an obligation to “Agree the internal audit programme, review the findings of internal audits, and to monitor management response and implementation of their recommendations.”

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

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
	✓		

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 Internal Audit Plan 2021/2022

A plan has been prepared for approval by the Audit and Risk Committee. The plan is attached to this report, Appendix 1, for the Committee review and approval, subject to any amendments.

The 2019/20 and 2020/21 internal audits were also completed in-house, by staff, rather than external consultants. All efforts have been made to ensure that the staff member auditing each risk is not involved in any way with the management of the risk. This method is beneficial for two reasons. Firstly, it increases staff awareness of different areas of council, and can potentially assist in better identifying improvements in processes and documentation. Secondly, it will achieve cost savings from not having to outsource the services of an internal auditor. Thirdly, it proved very beneficial for the staff undertaking the audit, to give them a better understanding of other areas in council.

The risks proposed to be reviewed are as follows:

- Risk 16 – Unapproved online platforms - IF unapproved online platforms are used for Council business, THEN Council sensitive information and individual private details could be hacked and made available publicly.
- Risk 36 – 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.
- Risk 44 – 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.
- Risk 50 – 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.
- Risk 53 – 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.
- Risk 57 – 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.
- Risk 63 – 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.
- Risk 67 – 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.
- Risk 71 – 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.
- Risk 75 – 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.

Procedures have been developed for each risk being audited, to focus on a specific aspect of the risk – refer to the attached Internal Audit Plan in **Appendix 1**.

4.2 Other work to be undertaken

In addition to the main internal audit the following two will also be undertaken:

4.2.1 *Review of contractor management*

Stratford District Council (SDC) has 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 will include 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 recently hired Deloitte 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.

The work that will be covered in this section is listed in **Appendix 2**.

4.2.2 *Swimming Pool Stocktake*

Given the pending move to the new pool complex, SDC needs to ensure that the stock currently held on the shelves for resale matches exactly with what is held in the electronic stock register.

The stock take will be performed manually, overseen by finance staff, then compared to the register.

Should there be a discrepancy, staff will ascertain why, and then look at processes going forward to ensure that the stock and records always align. This will also assist staff in the re-order process, and know stock availability at all times.

5. Consultative Process

5.1 Public Consultation - Section 82

Public consultation is not required.

5.2 Māori Consultation - Section 81

As Māori are not directly or separately affected, consultation is not considered necessary

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 directly relates to Council's Risk Register, to ensure that risks are relevant and appropriate, and sufficient mitigating factors are in place to reduce any potential risk to council.

Potential internal audit risks:

- The auditors are not independent of the processes they are auditing.
- The auditors are not competent enough to perform the audit.
- Audit work does not appropriately reflect the risks of an organisation.

The internal audit plan addresses these risks by ensuring that there is an independent auditor from another part of the organisation conducting the audit. Ten risks have been selected from the council risk register that are considered topical at present.

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?	No
What relationship does it have to the communities current and future needs for infrastructure, regulatory functions, or local public services?	Ensuring protection of Council financial, infrastructure, and people assets

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?

Refer to the attached Internal Audit Plan.

7.3 Significance

	Yes/No	Explain
Is the proposal significant according to the Significance Policy in the Long Term Plan?	No	
Is it:	No	
• considered a strategic asset; or	No	
• above the financial thresholds in the Significance Policy; or	No	
• impacting on a CCO stake holding; or	No	
• a change in level of service; or	No	
• creating a high level of controversy; or	No	
• possible that it could have a high impact on the community?	No	

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

7.4 Options

- 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 has the following three options for consideration:

Option 1: Approve Internal Audit Plan 2021/22.

Option 2: Approve Internal Audit Plan 2021/22 with amendments.

Option 3: Recommend council staff not proceed with the Internal Audit 2021/22.

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? e.g. rates, reserves, grants etc.

As this audit is undertaken by existing staff, there is no additional cost

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?

There are no prioritisation or trade-off issues.

7.7 **Legal Issues**

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

There are no legal issues.

7.8 **Policy Issues - Section 80**

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

There are no policy issues.

Attachments:

Appendix 1 Internal Audit Plan 2021/22 of risks to be reviewed

Appendix 2 Review of Contractor Management

Appendix 3 Internal Audit Plan – Purpose, Objective, Framework, Expected Outcomes and Timeframe



Christine Craig
Corporate Accountant



Tiffany Radich
Director – Corporate Services



Approved by:
Sven Hanne
Chief Executive

DATE: 11 July 2022

Appendix 1

INTERNAL AUDIT PLAN - RISKS TO BE REVIEWED

	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	<ul style="list-style-type: none"> - 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.	<ul style="list-style-type: none"> - 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.	<ul style="list-style-type: none"> - 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 	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.	<ul style="list-style-type: none"> - 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

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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, as per the legislation.	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	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	- 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	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 that there is a record held of 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

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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
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APPENDIX 2

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 Deloitte 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 an 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 been 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 3

Stratford District Council Internal Audit Plan 2021/22

1. Purpose

The purpose of this Internal Audit Plan is to give effect to the Internal Audit for the 2021/22 financial year and establish a framework for the audit.

2. Objective

Regular internal audits ensure that the Council has procedures in place to manage its risks effectively and that Council staff are following those procedures. The audit will be carried out by existing staff, independent of the risk to be reviewed.

3. Framework

The internal audit will be based around the Council's Risk Register in Vault¹ which comprises Health and Safety, Legislation and Compliance, Financial, Operational, and Reputational risks. There are currently over 70 individual risks in Vault that have been identified by Council staff and approved by the Audit and Risk Committee.

It would be costly and ineffective to review all risks in one internal audit - rather a random selection of two risks from the top in the register in addition to a review of other risks, including two ad hoc risks identified. The Corporate Accountant has selected the risks to be audited randomly and has taken them to the Senior Leadership Team meeting for approval. The risks to be audited are to be presented to the July 2022 Audit and Risk Committee meeting for final approval.

4. Expected Outcomes

The internal auditors will be presented with details of their respective risk² to be audited, and develop and conduct specific audit tests. They will also be asked to provide feedback on each of the areas below:

1. How effective is the treatment option (risk mitigation strategy),
2. Are the treatment options being regularly observed by Council staff, and
3. What other risks have been identified during the audit that should be brought to management attention.

5. Timeframe

It is proposed that the audit work commence in July 2022 and results are finalised by 31 August 2022 and presented to the Audit and Risk Committee in November 2021.

¹ Stratford District Council's online risk management software platform.

² Including what the risk is, the effect it would have on Stratford District Council, Council's assumption of impact and likelihood and treatment options to mitigate the effects of the risk.

DECISION REPORT



F19/13 – D22/23658

To: Audit and Risk Committee
From: Director – Corporate Services
Date: 19 July 2022
Subject: Amend Treasury Management Policy

Recommendations

1. THAT the report be received.
2. THAT the Treasury Management Policy be amended to remove the wording “*The maximum investment with any one counterparty will be \$4,000,000. However, this limit may be breached if approval is given by the Chair of the Audit and Risk Committee and one of the Chief Executive or the Mayor (approval may be given retrospectively but notification to the Chair must be given on the same day). The Audit and Risk Committee must be notified of any breaches at their next meeting.*” from the policy.

Recommended Reason

Council has found that over the past few years of regularly breaching this limit, that the risk of doing so has been negligible.

/
Moved/Seconded

1. Purpose of Report

- 1.1 To remove the financial investment limit of having a maximum investment with any counterparty to \$4,000,000, from the Treasury Management Policy.

2. Executive Summary

- 2.1 The Treasury Management Policy is a requirement by legislation. The limits set in the policy restrict Council staff from exposing Council to unnecessary risk. As this policy is concerned with financial risk management, any amendments to the Policy should be approved by the Audit and Risk Committee.
- 2.2 Council staff are proposing to remove the maximum limit for financial investments with any one counterparty altogether from the policy. The alternative recommendation is to increase the limit to \$10,000,000, and keep the existing wording but amend the financial limit amount.
- 2.3 The preferred option is sought as Council from time to time holds surplus cash, either from government grant funding, or from borrowing in advance, and the most revenue enhancing option is to invest these surplus funds with the registered bank that is willing to pay Council the highest interest rate.

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:		Not directly	
Social	Economic	Environmental	Cultural

This policy is a matter of addressing financial risk, which ultimately will have an impact on Council's agreed delivery on its Community Outcomes which have an effect on the four wellbeings.

4. Background

- 4.1 The Treasury Management Policy is a legislative requirement and has been prepared to take account of Stratford District Council's unique financial circumstances to minimise Council exposure to unnecessary financial risk. The policy was last amended in January 2021 to increase the financial investment in counterparty limit from \$3,000,000 to \$4,000,000.
- 4.2 The limit of \$4,000,000 has been regularly breached since that time, with the approval of the Mayor and Audit and Risk Committee chair. The majority of investments have been with the same registered bank (Westpac) for a number of years, due to the interest rates they offer being significantly higher than all other registered banks.
- 4.3 Despite the breaches of the limit in the policy, Council has not suffered any loss from investing in this way. Registered banks must uphold strict requirements to operate prudentially, and it is considered highly unlikely that the main bank Council invests with will default on repaying Council funds upon maturity, which is usually no more than 120 days. Therefore, the risk is considered negligible.
- 4.4 The removal of the limit will save Council staff administration time in obtaining the necessary approvals before investing any funds, which requires a short turnaround from when the rate is offered till when the investment commences (less than a few hours usually). It also requires regular reporting to the Policy and Services Committee of the breaches. The cost of this limitation in the process appears to outweigh any benefits gained. Council will still receive a monthly report of all financial investments and who each investment is with, for overall financial risk management purposes.

5. Consultative Process

5.1 Public Consultation - Section 82

Consultation is not required for this amendment, and it is not considered in the public interest to do so.

5.2 Māori Consultation - Section 81

Consultation is not required for this amendment, and it is not considered in the public interest to do so.

6. Risk Analysis

<p>Refer to the Council Risk Register - available on the Council website.</p> <ul style="list-style-type: none"> 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 decision relates to Risk 85 on Council's Risk Register – Failure of a significant financial investment. The risk control includes adhering to the requirements of the Treasury Management Policy at all times. However, the current limit in the policy is regularly breached and places extra work on those involved in the approval process on a regular basis. Additionally, the risk of failure of the registered bank to repay Council's term deposits is extremely unlikely.

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 – any limits will need to be considered in preparing the Long Term Plan.
What relationship does it have to the communities current and future needs for infrastructure, regulatory functions, or local public services?	Minimal in terms of removing the limit.

7.2 Data

<ul style="list-style-type: none"> 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?
--

Since Council last updated the policy in January 2021, the limit was breached in 15 of the 18 months. The difference in investment rates can vary considerably, e.g., in April 2022 Westpac offered 2.25% for 120 days, and the next highest was 1.40% for the same period. Based on \$6m invested for a full year, this is a gain for Council of \$51,000.

Currently, all of Council's term deposit investments are with Westpac (\$8m). Westpac New Zealand has a credit rating from Fitch currently of A+ with a stable outlook, which is the same as most other registered banks in New Zealand. The only two banks with higher credit ratings are Kiwibank (AA) and HSBC (AA-). This credit rating is seen as extremely safe.

7.3 Significance

	Yes/No	Explain
Is the proposal significant according to the Significance Policy in the Long Term Plan?	No	Internal policy matter
Is it:		
• considered a strategic asset; or		
• above the financial thresholds in the Significance Policy; or		
• impacting on a CCO stakeholding; or		
• a change in level of service; or		
• creating a high level of controversy; or		
• possible that it could have a high impact on the community?		

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

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.

Option 1 Remove the wording as suggested in the report recommendation from the Treasury Management Policy.

Option 2 Increase the financial counterparty investment limit to \$10,000,000.

Option 3 Retain the status quo – no changes.

Option 1 is the preferred option.

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? e.g. rates, reserves, grants etc.

Financial risks have been discussed earlier, in addition to the cost of Council resources being used on a process that does little to minimise risk, and could be saved or used elsewhere if option one is approved.

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?

N/A

7.7 **Legal Issues**

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

There are no legal issues to consider.

7.8 **Policy Issues - Section 80**

- | |
|---|
| <ul style="list-style-type: none">• Are there any policy issues?• Does your recommendation conflict with Council Policies? |
|---|

There is no conflict with other Council policies, only this policy is affected.

Attachments:

Appendix 1 Amended Treasury Management Policy (with track changes)



Tiffany Radich
Director – Corporate Services



[Approved by]
Sven Hanne
Chief Executive

Date 11 July 2022

POLICY

Appendix 1



Policy:	Treasury Management
Department:	Corporate Services
Approved by:	26 January 2021
Effective date:	January 2021
Next review date:	January 2024
Document Number:	D21/3182

Introduction

A Liability Management Policy and an Investment Policy must be adopted by all local authorities, in accordance with Section 102 of the Local Government Act 2002. Stratford District Council (“Council”) has incorporated the two policies into one Treasury Management Policy.

Council has an obligation to manage its affairs prudently and in the interests of the Stratford community. Council is a risk averse entity, and does not wish to seek risk from its treasury activities. This policy establishes limits for council officers to operate within, to ensure prudent management of council’s treasury risk.

Purpose

The purpose of this policy is to ensure investments and liabilities are managed in a prudent manner, and in compliance with legislation and covenant obligations. The objectives are:

- To achieve the lowest possible net interest costs obtainable within the policy parameters, by proactively managing funding and interest rate exposures.
- To limit council exposure to liquidity risk, interest rate risk, and credit risk.
- To ensure that adequate provision is made for the funding requirements of Stratford District, as identified in the Long Term Plan (“LTP”) and Annual Plans.
- To ensure mechanisms are in place to enable staff and elected members to monitor, report, and evaluate treasury performance and compliance.

Part One – Liability Management Policy

1. Section 104 of the Local Government Act 2002

The Liability Management Policy must state the Council’s policies, in respect of the management of borrowings and other liabilities, including:

- Interest Rate Exposure;
- Liquidity;
- Credit Exposure; and
- Debt Repayment

In line with good practice, this Policy also covers funding risk and foreign exchange risk.

2. Liability Management Framework

The council has a large number of infrastructure assets which have a long life and provide long term benefits. Council sees the use of debt as an appropriate and efficient mechanism for upholding intergenerational equity between current and future ratepayers.

The council will borrow for infrastructure asset capital expenditure relating to service level improvements, ie. New assets or significant improvements or upgrades to existing assets, and Council may borrow for growth related infrastructure if Financial Contributions are insufficient to cover the full capital expenditure.

Capital renewals and replacement of existing assets will be funded from the appropriate reserves. However, where an *emergency event* occurs and an asset requires replacement and the reserve is insufficient to fund the asset replacement, borrowing may be used after exhausting all other options – including insurance claims, and the contingency reserve.

Gross external debt is approved by council during the LTP and Annual Plan processes. Projected debt levels are determined from cash flow forecasts prepared during the preparation of the LTP and/or Annual Plan.

3. Interest Rate Exposure (Section 104 (a))

Interest rate risk is the risk that net interest costs will materially exceed the budget in the LTP or Annual Plan due to adverse movements in market interest rates. Council is exposed to interest rate fluctuations on floating debt, when fixed interest rates mature, and when debt needs to be refinanced.

Council will minimise interest rate risk by managing its floating and fixed interest rate exposures as per the following control limits.

Fixed/Floating Interest Rate Risk Control Limits

Minimum - Fixed Rate	Maximum - Fixed Rate
60%	100%

The percentages are calculated on the gross external debt, as calculated by the Director Corporate Services. Debt is regarded as fixed, where the interest rate is protected, through a fixed rate or through hedging, for more than 6 months on a continuous rolling basis. Floating rate is defined as an interest rate re-pricing within 6 months.

Fixed Interest Rate Maturity Profile Limit

Period	Minimum Cover	Maximum Cover
1 to 3 years	10%	60%
3 to 5 years	10%	60%
5 to 10 years	5%	60%
10 years plus	Council Approval	Council Approval

The following interest rate risk management instruments may be used to protect interest costs and to improve the interest rate profile:

- Fixing through physical borrowing instruments - loan stock, debentures, and bank term loan.
- Floating through physical borrowing instruments - short term revolving stock, bank borrowing, and short-term borrowing programme.
- Forward rate agreements.
- Interest rate swaps.
- Forward start swaps (start date no more than 5 years).

Any other financial instrument must be separately approved by Council on a case-by-case basis.

4. Liquidity (Section 104 (b))

Liquidity risk is the risk that there are insufficient funds to meet obligations as they fall due. Liquidity risk increases when unanticipated obligations arise and when anticipated receipts do not eventuate. The Council must put in place measures to ensure that there is access to a sufficient level of funds in order to respond to an unanticipated event.

Liquidity Ratio

External debt + committed debt facilities + cash > 110% of external debt.

Debt Maturity Limit

The below limits are designed to avoid concentration of debt at the time of reissue/rollover, and the potential risk of being unable to refinance.

Period	Minimum Cover	Maximum Cover
1 to 3 years	10%	60%
3 to 5 years	10%	60%
5 to 10 years	10%	60%
10 years plus	Council Approval	Council Approval

Cash management (cash receipts and disbursements) activities will be undertaken to ensure that cash surpluses will be invested on a call account or in short term deposits to:

- Achieve a targeted optimal daily balance of zero for Council net bank balance; and to
- Ensure Council's debt facilities are only used in exceptional circumstances.

5. Credit Exposure (Section 104 (c))

Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong financial standing, and manage its relationships with its investors, the LGFA, and financial institutions/brokers. Although Council does not have a credit rating currently, it may obtain a Standard & Poors or Fitch credit rating if elected members approve, taking into consideration any proposal to increase debt that would result in a breach of LGFA net debt to revenue covenants, and the cost effectiveness of interest savings vs the cost of a credit rating.

Credit exposure will be managed by:

- Compliance with all treasury management limits in this policy.
- Compliance with all obligations under the Local Government (Rating) Act 2002.
- Maintaining an unqualified annual audit with Audit NZ.

6. Debt Repayment (Sections 104 (d))

The accounting for debt repayments will be in accordance with the LTP and Annual Plans. Generally, debt repayments are scheduled over the life cycle of the particular asset, with a maximum of 25 years, and funded from reserves. Additional repayments may be made from surplus funds generated by asset sales or operating surpluses.

All term loans will be repaid as they fall due in accordance with the applicable borrowing arrangement. Subject to approval and compliance with debt limits, a loan may be rolled over or re-negotiated. The Council will manage debt on a net portfolio basis.

7. Funding Risk

Funding Risk management centres on the ability to refinance or raise new debt at a future time at the same pricing (base rate plus margin) and maturity terms of existing loans and facilities. Several risk factors can lead to increased funding risk:

- Local government is priced to a higher fee and margin level.
- Council's financial strength as a borrower deteriorates.
- A large individual lender to council experiences financial difficulties resulting in Council not being able to refinance.
- The failure of a significant Council debtor/investee.

The council will manage this risk by:

- Ensuring access to a committed facility through a registered bank that does not have more than 50% of Council's lending,
- Adhering to the liquidity and maturity profile limits within this policy, and
- Exercising financial constraint and spending within budget.
- Actively monitoring all outstanding debtor accounts and investments.

8. Borrowing Limits (Sections 101A(3)(b)(i))

In managing debt, Council will adhere to the following limits:

Borrowing costs as a percentage of <i>Annual Operating Revenue</i>	<10%
<i>Net External Debt</i> as a percentage of <i>Annual Operating Revenue</i>	<130%

9. Foreign Exchange Risk

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated plant and equipment. Foreign exchange risk arises when the NZD cost increases as a result of a deterioration in the NZD, between the time of the commitment/order/contract/invoice and the time payment is made.

The use of *foreign exchange contracts* are to be considered for all expenditure over \$100,000 that is denominated in foreign currency where there is a time delay in payment. All potential *foreign exchange contracts* must first be approved by the Director – Corporate Services.

It is unlawful for Council to borrow money within or outside New Zealand in a currency other than the New Zealand dollar.

10. Security (Sections 101A(3)(c))

Council's ability to borrow is directly related to rates revenue. Council has granted security over its rates revenue under the Debenture Trust Deed, and Trustee Executors is appointed as the professional trustee. Council recognises that using rates revenue as security lowers the risk involved for lenders and, therefore, will lower the cost of borrowing to Council.

Council may also choose to secure certain borrowings by a charge over assets. This will only occur when;

- there is a direct relationship between the debt and the asset purchase or construction cost, and
- Council considers a pledge of the physical assets to be a more appropriate mechanism than the general charge over rates.

Any pledging of physical assets must meet the terms and conditions of the Debenture Trust Deed and the Local Government Act 2002 (which prevents water service assets from being used as security for any purpose).

11. Community Loan Guarantees:

Council may act as a guarantor to financial institutions on loans, or enter into incidental arrangements for organisations, clubs, or trusts, when the purposes of the loan are in line with Council's strategic objectives, subject to the conditions below:

- The organisation must have a Strategic Plan / Business Plan in place.
- The capital expenditure to which the loan relates is reviewed and approved by the Director - Assets.
- The production of a certificate from an independent Chartered Accountant which confirms the ability of the group or organisation to repay the loan sought (with supporting documentation as required by the Director – Corporate Services).
- The production of annual audited accounts, including a report from the Auditor as to his/her opinion of the solvency of the organisation.
- The term of any loan and guarantee is not to exceed 10 years.
- Council to be notified immediately by the bank of any default in relation to servicing the debt.
- Council representatives be given the right to attend club meetings, including the Annual General Meeting, and are notified accordingly of all meetings.
- Subject to appropriate legal and professional advice, the transfer to the Council of assets of the group or organisation to the value of any amount outstanding in the event of default in respect of any guarantee granted.

The exception to the conditions above is where Council determines that a loan to the community organisation is an investment, where interest plus an additional margin is charged, and security is taken covering the full amount of the loan. In this case, the terms of any loan or loan guarantee will be assessed on a case by case basis.

12. NZ Local Government Funding Agency Limited

Council may borrow from the NZ Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, enter into the following related transactions to the extent it considers necessary or desirable:

- contribute a portion of its borrowing back to the LGFA as an equity contribution (“borrower’s note”) to the LGFA;
- provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
- commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- subscribe for shares and uncalled capital in the LGFA; and
- secure its borrowing from the LGFA, and the performance of other obligations to the LGFA or its creditors with a charge over the Council’s rates and rates revenue.

Part 2 – Investment Policy

13. Objectives (Section 101A(3)(d))

Council will seek to:

- Invest surplus cash in liquid and creditworthy investments.
- Implement a programme for managing reserve funds that reduces liquidity risk.
- Achieve the Community Outcomes of the Council through strategic investment.

Council recognises that as a responsible public authority any investment that it holds should be low risk and managed prudently, in a manner that promotes the current and future interests of the community (Section 101 of the Local Government Act 2002).

All non-financial investments must be approved by Council resolution.

14. Investment Mix and Associated Specific Objectives (Section 105 (b))

Council’s portfolio of investments may include:

a) *Property*

Council’s objective is to only own property that is necessary to achieve its strategic objectives under one of Council’s four Community Outcomes. These strategic objectives may include enabling growth, responding to a community need, and reducing the rates requirement.

Farm assets are held to provide mitigation to rates increases. It is considered an investment, and financial results are monitored and reported to the Farm and Aerodrome Committee quarterly.

Property purchases must be supported by registered valuations, and a full *business case* analysis. Council will not purchase properties purely for speculative reasons.

b) *Financial*

The primary objective of financial investing is to protect the value of investment capital funds. Financial investments typically include registered bank term deposits and NZ fixed interest securities, but may include loans to third parties.

Excess cash may be used for internal borrowing. Funds borrowed by a Council Activity internally will be allocated interest equivalent to the Council’s weighted average interest rate incurred on gross external borrowings.

Investments and maturities must be maintained at a prudent level of liquidity and flexibility to meet both planned and unforeseen cash requirements.

c) *Community Loans*

The Council may consider applications from Community Groups for loans for capital purposes where there is clear social or community benefit to be achieved from the lending. Interest on the loans is to be determined by Council at the time of the application and may be at significantly discounted or nil interest rates. Community Loans granted will be subject to the same conditions referred to above with respect to Community Loan Guarantees.

d) *Equity*

Council may from time to time own shareholdings in other entities to fulfil strategic, economic development or financial objectives outlined in the LTP. Equity investments may be held where Council considers there to be strategic community value.

e) *New Zealand Local Government Funding Agency Limited (LGFA)*

The Council may invest in shares and other financial instruments of the LGFA, and may borrow to fund that investment, despite section 16 of this policy.

The Council's objective in making any such investment will be to:

- Obtain a return on the investment.
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

Because of these dual objectives, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments. Council is currently a guarantor to the LGFA.

15. Council Controlled Organisations (CCO's)

The Percy Thomson Trust is the sole CCO of Stratford District Council. The Council has established the charitable trust for the objects set out in the Trust Deed. The Council is responsible for the following in relation to the Trust:

- Appointing new Trustees
- Approving any amendments to the Trust Deed
- Authorise entering into any Major Transactions (or authorise Business Plan)
- Adopt Statement of Intent, Half-yearly report, Annual Report
- Approve winding up of the Trust
- Approve the removal of a Trustee

The Trust maintains its own Investment Policy which allows for investments in:

- Bank deposits, bank accepted bills and bank issued certificates of deposit
- Short term Promissory Notes issued by companies and Local Authorities
- Stocks and bonds issued by Government, SOE's, Local Authorities and suitably rated Corporate entities
- Shares in listed public companies
- Real Estate
- Professionally managed portfolios of investments, either by direct investment or through Unit Trusts including:
 - Equities both New Zealand and overseas domiciled
 - Fixed interest both New Zealand and overseas domiciled
 - Short term cash
 - Real estate

Accordingly, the Council's Treasury Management Policy does not apply to the Trust.

16. Acquisition of New Investments (Section 105 (c))

The Council will not borrow to acquire new investments unless the borrowing is specifically approved by Council (excludes LGFA borrower notes, required for all new borrowing with LGFA).

All acquisitions and disposals of property and farm assets (land, buildings and shares) are to be approved by Council, either through the LTP, Annual Plan, or on a case by case basis. Where significant, public consultation may be required. All property activities are managed by the Assets Department.

17. Assessment and Management of risks associated with Financial Investments (Section 105 (e))

The Council will limit financial investments to registered banks and the LGFA, unless specifically approved by Council on a case by case basis. ~~The maximum investment with any one counterparty will be \$4,000,000. However, this limit may be breached if approval is given by the Chair of the Audit and Risk Committee and one of the Chief Executive or the Mayor (approval may be given retrospectively but notification to the Chair must be given on the same day). The Audit and Risk Committee must be notified of any breaches at their next meeting.~~

All financial investments and interest rate risk management instruments are to be undertaken with institutions that are of high quality credit (credit rating at least A-), to reduce the risk of a counterparty defaulting and the loss to Council of principal, anticipated interest payments, and non-payment of any other contractual financial obligations. Exceptions must be approved by Council on a case by case basis.

Part Three – Administration of Policy and Other Matters

18. Management and Reporting Procedure for Investments and Borrowing (Section 105 (d))

The Policy and Services Committee will, at least on a quarterly basis, discuss the debt and investment activity for the previous quarter together with likely activity for the coming months. Council is responsible for approving any treasury activity that is outside the limits of this policy.

A monthly report to the Policy and Services Committee will incorporate the following sections:

- Treasury Report including non-compliance with limits in this policy
- Statement of Public Debt including any community loan guarantees
- Investment and Share Statement including any community loans
- Cashflow Forecast – Rolling 12 month

The Farm financial and non-financial results will be reported quarterly to the Farm and Aerodrome Committee.

19. Relevant Delegations

The treasury function operates within, and is administered by, the Corporate Services department. A maturity profile that is outside the limits in this policy, but self corrects within 125-days is not in breach of this Policy. However, maintaining a non-compliant maturity profile beyond 125-days requires specific approval by Council.

Activity	Delegated to:
Approve policy document	Council
Amending policy following staff review	Council
Acquisition and disposition of non-cash or equity investments and new borrowings to fund purchase	Council
Approval of borrowing programme for the year as set out in the AP/LTP	Council
Approval for charging assets as security over borrowing	Council
Approve interest rate risk management instruments outside policy limits	Council or Audit and Risk Committee
Approve borrowing and interest rate positions outside policy limits	Council
Approve new financial investments with <i>counterparties</i> other than registered banks or LGFA	Council
Approve <i>counterparty</i> limit exposures outside policy limits	Council
Approve Community Loan applications	Council
Approve Community Loan Guarantee applications	Council
Open/close bank accounts	Chief Executive
Approve authorised cheque/electronic signatories	Chief Executive
Transfer of stock/shares, register new debt issues	Seal register signatories
Refinance debt, rollover debt, re-negotiate existing debt on more favourable terms	Chief Executive or Director – Corporate Services
Invest surplus funds in Term Deposits or rollover existing investments	Chief Executive Director – Corporate Services Accountant (up to \$1m)
Implement Treasury Management Policy, the borrowing programme, and monitor Treasury risks	Director – Corporate Services
Approve Foreign Exchange hedging contract	Director – Corporate Services
Manage compliance with policy	Director – Corporate Services
Review policy (three-yearly or earlier if required)	Director – Corporate Services

20. Glossary: Definitions

Annual Operating Revenue includes rates revenue, government grants and subsidies, user charges, interest and other revenue (excluding vested assets and financial contributions).

Business Case is required to be prepared and approved prior to significant investment.

Emergency Event – An event, most likely declared by Civil Defence, that is significant enough to cause damage to Council infrastructure, and that is recognised as such by the Chief Executive.

Net External Debt is defined as total external debt less liquid financial assets/investments.

Net Portfolio Basis is a centralised method of managing net funding (borrowings less cash instruments) and is Council's preferred method.

Counterparties are contracting parties to a financial transaction or financial instrument.

Counterparty *Credit Risk* is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial instrument where the Council is a party.

A *Foreign Exchange Contract* is an agreement to buy or sell one currency for another, for a specified future delivery, at a specified rate.

Forward Rate Agreements ("FRA") is an obligation to buy or sell a given asset on a specified future date at a price agreed at the time of transaction. Generally, the council, as buyer of an FRA is attempting to protect against a future rise in interest rates.

Interest Rate Swaps is an agreement between two counterparties to exchange interest rate obligations from a fixed or floating rate basis. The interest payments and receipts under the swap contract being offsetting, equal and opposite to the underlying physical debt.

Stock/Debentures is the debt issued to third parties by a company

DECISION REPORT



F19/13 – D22/23659

To: Audit and Risk Committee
From: Director – Corporate Services
Date: 19 July 2022
Subject: Financial Budget Modelling Options

Recommendations

1. THAT the report be received.
2. THAT the Committee endorses the approach taken by staff to continue to prepare annual and ten-year budgets with a spreadsheet model.

Recommended Reason

There are a number of substantial changes occurring in the Local Government Sector from 1 July 2024, and it is suggested that the outcome of these legislative changes be well understood by staff before investigating and investing in a new budget model.

/
Moved/Seconded

1. Purpose of Report

- 1.1 To consider and understand the risks associated with the current budget preparation process using a spreadsheet based model, and approve that this approach be used for the Annual Plan 2023/24, and Long Term Plan 2024-34.

2. Executive Summary

- 2.1 At the May 2022 Audit and Risk Committee meeting, a request was made by the Committee to review the budgeting process and associated risks with using a basic spreadsheet model to prepare the Annual Plan and Long Term Plan financial budgets. This came out of the auditor recommendations from the external audit of the Long Term Plan. Staff recommendation is that Council staff continue to use this budget model, and review alternatives to the existing process again prior to 1 July 2024, which aligns with the proposed date for the transfer of the three waters activities from Councils to the new water entities.
- 2.2 The current spreadsheet model has been used for several years in the financial budgeting process. The main risks identified by Audit New Zealand in previous audits with the budget model have been risk of human error, formula error, and key person risk. These are discussed later in the report.
- 2.3 A review of the existing Enterprise Resource Planning (ERP) system is planned for Year 4 of the Long Term Plan 2021-31. In previous years, the latest being 2019, various budgeting software programmes were investigated and presented to Council staff. However, all options were lacking in being able to completely eliminate manual manipulation of the data to develop the necessary financial tables required by legislation for the Annual Plan and Long Term Plans.

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:			No
Social	Economic	Environmental	Cultural

This report does not directly meet the purpose of the four well-beings. Rather, it addresses the requirement of the Local Government Act 2002 to undertake an annual budgeting process. Indirectly, it provides Council with the financial capacity to be able to deliver on the four well-beings.

4. Background

- 4.1 This issue is currently an outstanding audit recommendation raised by Audit New Zealand in the audit of the Long Term Plan 2021-31.
- 4.2 The current spreadsheet model was created several years ago by staff and with an external consultant. It consists of approximately 60 tabs, some of which are purely input sheets, and some which are purely output sheets with data that gets loaded directly into the Annual Plan and Long Term Plan documents, that feeds through from the input sheets. Auditors have never identified any major problems with the spreadsheet model, however they have raised the issue of using a spreadsheet for financial budgeting in past year audits.
- 4.3 In the audit of the Long Term Plan 2018-28, Audit New Zealand advised in its management report:

The District Council’s current financial model is entirely spreadsheet based with numerous formulas throughout. There is therefore an increased risk of error as spreadsheets can be easily changed and may lack certain control features. Some of the typical errors that occur in spreadsheets include:

- *input errors – errors that arise from flawed data entry, inaccurate referencing, or other simple cut-and-paste functions;*
- *logic errors – errors in which inappropriate formulae are created and generate improper results or where a formula is accidentally overwritten by a number;*
- *interface errors – errors from the import or export of data from/to other systems; and*
- *other errors – errors such as inappropriate definition of cell ranges, inappropriately referenced cells, or improperly linked spreadsheets.*

The increased inherent risk from using a spreadsheet model required the audit team to complete more substantive tests over the forecast numbers within the model as there were no controls we could rely on. This testing identified that there are numerous tabs that make up the financial model with some tabs not being relevant anymore. Our testing of the model does not guarantee that there are no errors within the spreadsheet and this risk rests with the District Council. The risk with the forecasts being wrong within the model can have an impact on the total rates collections by the District Council.

With the final audit recommendation being that Council considers an alternative financial model that relies less on spreadsheets and has appropriate controls.

- 4.4 Three years later, in the audit of the Long Term Plan 2021-31, Audit New Zealand again advised that:

In assessing the financial forecast we focused on the integrity of the financial model, the reliability of the source data and whether the outputs of the model have appropriately flowed through to the underlying information (including the Financial Strategy, Infrastructure Strategy and financial forecasts).

In doing this we adopted a substantive approach undertaking a variety of data logic, metric, integrity, analytical review, spreadsheet and data flow testing. The District Council's current financial model is entirely spreadsheet based with numerous formulas throughout. There is therefore an increased risk of error as spreadsheets can be easily changed and may lack certain control features.

Some of the typical errors that occur in spreadsheets include:

- input errors – errors that arise from flawed data entry, inaccurate referencing, or other simple cut-and-paste functions;*
- logic errors – errors in which inappropriate formulae are created and generate improper results or where a formula is accidentally overwritten by a number;*
- interface errors – errors from the import or export of data from/to other systems; and*
- other errors – errors such as inappropriate definition of cell ranges, inappropriately referenced cells, or improperly linked spreadsheets.*

The increased inherent risk from using a spreadsheet model required the audit team to complete more substantive tests over the forecast numbers within the model as there were no controls we could rely on. This testing identified that there are numerous tabs that make up the financial model with some tabs not being relevant anymore.

Our testing of the model does not guarantee that there are no errors within the spreadsheet and this risk rests with the District Council. The risk with the forecasts being wrong within the model can have an impact on the total rates collections by the District Council.

During our substantive testing of the financial model, we found that the formulas used in calculating the interest were pulling through the wrong interest rates from the assumptions tab. Due to changes in the interest rate assumptions between the prior LTP and the current LTP being different, the formulas were then pulling through the wrong information.

We also noted several people have access to the model. The Corporate Accountant and Director are the only ones who are assigned to make changes to the model. To avoid any accidental changes to the model only those who are responsible for making changes to the model be given access to the Master version of the model.

We recommend that management consider an alternative financial model that relies less on spreadsheets and has appropriate controls.

We recommend that to avoid any accidental changes to the model, access to the Master version only be given to those who are responsible for making changes to the model.

We recommend consideration is given to increasing internal review and QA processes. A review of the spreadsheet financial model should be done to ensure formulas are pulling through correctly and that the model is fit for purpose. Integrity checks should be implemented to confirm the model is operating effectively.

5. Consultative Process

5.1 Public Consultation - Section 82

Public consultation is not required, this is an internal control risk that should be managed in-house. However, as this was a matter raised by Audit New Zealand, it is a decision that is being referred to the Audit and Risk Committee.

5.2 **Māori Consultation - Section 81**

Refer above, similar thinking applies that this specific decision is an internal matter and not a decision that is considered of any interest to the public or to the Māori community.

6. **Risk Analysis**

<p>Refer to the Council Risk Register - available on the Council website.</p> <ul style="list-style-type: none"> • 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 addresses *Risk 19 – Internal Financial Controls*.

If the financial budgeting process lacks sufficient controls, particularly around accuracy of the input data and the budget model itself, there is a high risk of an outcome where Council has not allowed for a sufficient level of funding, or alternatively that the rates are set unnecessarily high.

There is also a risk of other non-desirable events occurring such as a negative audit opinion which may affect Council reputation, or significant rework of the budgets which affects Council resourcing, amongst other risks.

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?	There is a strong direct link to Council's Long Term Plan and its development.
What relationship does it have to the communities current and future needs for infrastructure, regulatory functions, or local public services?	Refer above.

7.2 **Data**

<ul style="list-style-type: none"> • 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?
--

The spreadsheet model

The model currently has over 60 tabs, of which 8 are pure input sheets, a quarter are a hybrid of input and linking tabs, and the remainder are pure output sheets to be uploaded to the final budget documents (Annual Plan and Long Term Plan).

As the model is entirely spreadsheet based, it has numerous formulas and links throughout. There is therefore an increased risk of error as spreadsheets can be easily changed and lack certain control features that are available with budgeting software.

Once the draft annual and/or ten year budgets are approved by Council, a number of tables are imported to the Annual Plan / Long Term Plan word document directly from the spreadsheet budget model. These tables are specifically prescribed by legislation and accounting standards in terms of information presented and display format.

When investigating alternative budgeting software processes, one of the major negatives was that none of the products were able to prepare the tables required directly from the software. Instead, data had to be extracted from the software and manipulated to manually prepare required tables each time.

The price range for initial implementation of the budgeting software was approximately \$50,000 with ongoing licencing fees between \$2,000 to \$3,000 annually. This is compared to no additional financial cost of using excel.

Auditors concerns

Errors – There is a high risk using excel, as opposed to budgeting software, that there will be errors in the model. Every year, slight changes are made to the tables in the input tabs, e.g. new lines are added for new cost types within an Activity. Often when this is done, multiple tabs may need to be updated. There are checks in place to ensure this is done. The model itself rarely needs changing as the legislation has been the same for some time. However, it is expected that with the transfer from Council of the three waters activities, there would be significant change required to the model. Therefore, a review of the budgeting process should be undertaken prior to this.

Input errors will still be a risk using budgeting software, and possibly even more of a risk as most budgeting software rely on the managers themselves inputting their own budgets directly to the software.

Controls – Access to the model is limited to some IT staff, and Executive Assistant, in addition to the Corporate Accountant and Director – Corporate Services who are the only staff who actively update the spreadsheet. The other staff who have access are required to as part of their role of either fixing errors, or preparing the Annual Plan document.

7.3 **Significance**

	Yes/No	Explain
Is the proposal significant according to the Significance Policy in the Long Term Plan?	No	
Is it:	No	
• considered a strategic asset; or	No	
• above the financial thresholds in the Significance Policy; or	No	
• impacting on a CCO stakeholding; or	No	
• a change in level of service; or	No	
• creating a high level of controversy; or	No	
• possible that it could have a high impact on the community?	Yes	Incorrect rates could be struck if there are significant errors in the model

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

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.

Option 1 Continue on with the existing method, then review after the implementation of various changes that will be occurring in the Local Government Sector. **This is Council's recommended option.**

Option 2 Purchase a new software package now, at a considerable cost in both dollars and staff resources, that will replace the existing model, that still requires an element of spreadsheet manipulation to create reports required by current legislation.

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.

There is no financial cost to continue with the existing approach.

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?

Council is still able to deliver a Long Term Plan and Annual Plan using the current method. If the recommendation is not approved, there will be a considerable cost to council, with little or no short term benefit.

7.7 Legal Issues

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

There are not considered to be any legal issues with the content of this report.

7.8 Policy Issues - Section 80

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

There are not considered to be any policy issues with the content of this report.

A handwritten signature in black ink that reads "Radich".

Tiffany Radich
Director – Corporate Services

A handwritten signature in blue ink that reads "S Hanne".

[Approved by]
Sven Hanne
Chief Executive

Date 11 July 2022

DECISION REPORT



F19/13 – D22/22330

To: Audit and Risk Committee
From: Director – Corporate Services
Date: 19 July 2022
Subject: Asset Valuation Process for Annual Report 2021/22

Recommendations

1. THAT the report be received.
2. THAT the Committee approves the recommendation from the independent valuers that full revaluations are not required for roading, waters, and the land and building assets as at 30 June 2022.

Recommended Reason

Independent valuers have indicated that a full revaluation is not required.

/
Moved/Seconded

1. Purpose of Report

- 1.1 Council staff are seeking approval to leave the current values of the roading, waters, and land and buildings assets in the 2021/22 annual report, rather than go through a revaluation, based on advice received by independent valuers.

2. Executive Summary

- 2.1 The roading, water supply, stormwater, wastewater, and land and buildings assets will be recorded in the annual report at their current carrying amount, as the independent valuers have indicated that a full revaluation is not required as a result of the fair value assessments undertaken. Further information is provided in the appendices attached. A summary of projected movements is provided in a table in 7.2 Data below.

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
✓	✓	✓	

Council assets support the service delivery to the community which help to achieve the Social, Economic, and Environmental well beings.

4. Background

- 4.1 The relevant accounting standard which requires assets to be valued at fair value is PBE IPSAS 17, which states the following:

“After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date”

PBE IPSAS 17 uses the concept of Fair Value, which it defines as *“the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction”*.

- 4.2 Although there has been some market movement in these asset classes over the past year, independent advice has indicated that any change in values is not material.
- 4.3 Council is relying on the outcome of the fair value assessment done by Beca and Telfer Young to assess the asset values as at 30 June 2022.

5. Consultative Process

5.1 Public Consultation - Section 82

This decision is an internal matter that requires approval from this Committee to satisfy auditors.

5.2 Māori Consultation - Section 81

No Māori consultation is necessary.

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 decision relates to Risk 74 – Inadequate Financial Provision to Fund Asset Replacement. If assets are not carried in Council’s balance sheet at the correct value, then the depreciation to replace those assets in the future may not be adequate.
- 6.2 Risk 8 also applies, relating to the adoption and publication of an annual report. If asset values are not recorded correctly, a risk is that Council receive a modified audit opinion, or the annual report is not adopted by the 31 December 2022 deadline, in accordance with Section 98 of the Local Government Act 2002.
- 6.3 Council staff have assessed these risks and consider that the processes described in this report will ensure that there is no impact of cost increases on council.

7. Decision Making Process – Section 79

7.1 Direction

	Explain
Is there a strong link to Council's strategic direction, Long Term Plan/District Plan?	The assets are expected to be revalued during the 2022/23 financial year only, so nil.
What relationship does it have to the communities current and future needs for infrastructure, regulatory functions, or local public services?	It may impact on the provision for adequate asset replacement, as discussed in 6.1 above.

7.2 Data

<ul style="list-style-type: none"> 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?
--

Council have relied on the data provided in the Beca and Telfer Young reports, attached in the appendices. Below is a summary of projected movements for each asset class:

Roading	
Projected road construction index	9.79%
Projected Optimised Replacement Cost increase	8.43%
Projected Optimised Depreciated Replacement Cost increase	8.02%
Buildings	
Projected overall fair value increase	4.40%
Land	
Projected overall movement	4%-9%
Three Waters	
Projected Optimised Replacement Cost increase	6.07%

7.3 Significance

	Yes/No	Explain
Is the proposal significant according to the Significance Policy in the Long Term Plan?	No	
Is it:	No	
• considered a strategic asset; or	No	
• above the financial thresholds in the Significance Policy; or	No	
• impacting on a CCO stakeholding; or	No	
• a change in level of service; or	No	
• creating a high level of controversy; or	No	
• possible that it could have a high impact on the community?	No	

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

7.4 Options

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.

Option 1 Do nothing, and so no revaluations be performed, based on independent advice from external valuers. **This is Officer's recommended option.**

Option 2 Conduct a desk top revaluation for the roading assets only, based on an agreed cost fluctuation rate, which will result in additional cost to council, with only marginal benefit.

Option 3 Conduct a desk top revaluation for the roading, water, and land and buildings assets, based on agreed cost fluctuation rates, which will result in additional cost to council, with only marginal benefit.

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? e.g. rates, reserves, grants etc.

There is an impact on both funding for asset replacement, and a direct financial impact from the cost of the decision if full asset revaluations are to occur.

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?

The decision cannot be deferred, and will influence the outcome of auditor's recommendations for the Annual Report 2021/22.

7.7 Legal Issues

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

No legal opinion required as this is not a legal issue, although it does involve the application of relevant accounting standards.

7.8 **Policy Issues - Section 80**

- | |
|---|
| <ul style="list-style-type: none">• Are there any policy issues?• Does your recommendation conflict with Council Policies? |
|---|

This report is not inconsistent with accounting policies and comply with financial reporting and accounting standards.

Attachments

- Appendix 1** Cover email from Beca
Appendix 2 Letter from Beca for roading assets
Appendix 3 Letter from Beca for three waters assets
Appendix 4 Letter from Telfer Young for land and buildings



Christine Craig
Corporate Accountant



[Endorsed by]
Tiffany Radich
Director – Corporate Services



[Approved by]
Sven Hanne
Chief Executive

Date 11 July 2022

APPENDIX 1

Christine Craig

From: Marvin Clough <marvin.clough@beca.com>
Sent: Friday, 8 July 2022 1:54 p.m.
To: Victoria Araba
Cc: Christine Craig; Andrew Liew; Kevin Dunn; Stephen Bowden; Tiffany Radich
Subject: RE: 2022 - Beca market movement assessment
Attachments: SDC - Roading Market Movement Assessment 2022.pdf; SDC - 3Waters Market Movement Assessment 2022.pdf

Hello Victoria,

Please see attached the two reports for market movement assessment for roading are 3waters.

The reports outline the approach taken, and overall there is a circa 8% increase for roading and 6.5% increase for 3waters. Based on this it indicates a full revaluation is not required, although this should be a decision that is ultimately made by Council.

Please call if you wish to discuss.

Regards
Marvin

Marvin Clough
Technical Director - Valuations
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[www.Linkedin.com/company/Beca](https://www.linkedin.com/company/beca)



Appendix 2



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Stratford District Council
63 Miranda Street
Stratford 4332

8 July 2022

Attention: Victoria Araba

Dear Victoria

Stratford District Council Market Movement Assessment of Roading Infrastructure Assets 2022

Introduction

Beca Projects NZ Limited (Beca) has been commissioned to undertake a desktop market movement assessment of Stratford District Council's (SDC) roading infrastructure assets as at 30 June 2022. This exercise has been completed by assessing movements in asset values since the 2021 valuation conducted by Beca.

Methodology

The following step by step process was applied to the overall valuation results:

- The 2022 rates have been increased according with the Road Construction Index (RCI). The indexes used were June 2021 to June 2022, which was an increase from a RCI of 2031 to 2230. As data was only available for the quarter ending December 2021, trendlines were created to forecast RCI as at 30 June 2022. This represents an overall increase of 9.79% across all asset class replacement costs.
- The movements in indices described above were applied to the 2021 valuation figures to provide new estimated replacement costs as at 30 June 2022, with the exception of land under roads component which has been retained the 2016 values as per previous valuations.
- An additional year's depreciation was not applied.
- Percentage movements for assets constructed or disposed post the 2021 valuation were not considered as part of this assessment. It is understood this will be completed by SDC.

Indices Trends

Costs associated with horizontal infrastructure are experiencing increasing costs driven by skilled labour shortages, material availability, increased material costs (i.e. oil/bitumen) and increased transportation cost.

The RCI was used as part of this fair value assessment to adjust the 2021 values, which is consistent with the indices used in the full valuation in 2021. This adjustment was applied across all asset classes.

**make
everyday
better.**

As the published indices at the time of completing this assessment were only available to the quarter ending December 2021, a trend line was created to project the indices values as at 30 June 2022.

Figure 1 outlines the change in RCI over time as well as the projected value as at 30 June 2022.

Figure 1: RCI

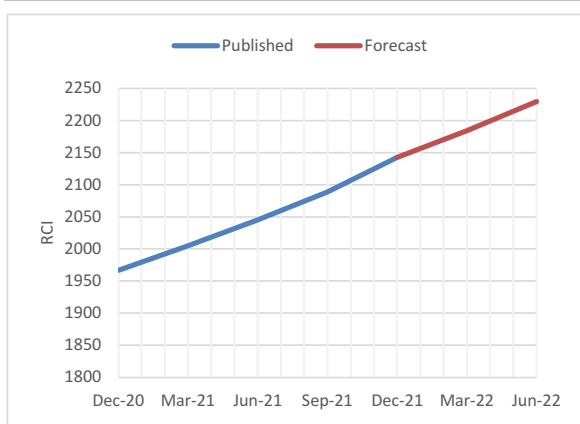


Figure 3.1 illustrates that the RCI is projected to reach 2230 in June 2022. This represents a **9.79%** increase on the (previously forecasted) June 2021 values. This factor has been applied to increase the replacement costs of all assets.

The RCI increase has been compared to the increase in the Network Outcomes Index, Reseals Index, Structures Index and Construction Index published by Waka Kotahi for the same period. These are shown in the table 1. The latest published Waka Kotahi indices available at the time of this assessment were to March 2022. We have forecast the June 2022 values based on a projection of recent reported periods.

Table 1: Increase in RCI compared to published Waka Kotahi indices

	RCI	Network Outcomes*	Reseals*	Structures*	Construction*
Increase from June 2021 to June 2022 (forecasted)	9.79%	8.23%	8.30%	12.52%	10.05%

*forecast from March 2022 to June 2022 and costs excluding bitumen

As the increase is consistent across both the RCI and the Infrastructures Cost Indexes, RCI has been used.

Covid-19 Impact

There is a risk that infrastructure costs may fluctuate as a result of the impact of Covid-19 on the economy. It is expected that the impact of Covid-19 will be minimal on the value of horizontal assets. Based on this we estimate the level of risk when assessing the valuation of roading assets is low. It is possible that replacement cost rates may be subject to short-term changes due to shortages of materials or specialist labour. Beca are comfortable that the valuation is a reasonable estimate of the roading infrastructure asset values.

Results

The results of the desktop fair value assessment of SDC's roading assets are shown in Table 2 below.

Table 2: Fair Value Assessment Summary Comparison

Year	Optimised Replacement Cost (ORC)	Optimised Depreciated Replacement Cost (ODRC)
2022 Estimate	\$416,224,898	\$319,341,147
2021 Valuation	\$383,878,582	\$295,637,831
Percent Change	8.43%	8.02%

From the above table it is evident that the estimated Optimised Replacement Cost has increased by 8.43% from June 2021 to June 2022. The depreciated replacement cost has also increased over the same period. This is lower than the 9.79% index applied due to retaining the land under roads component at the 2016 values reported in 2021.

The above values do not include new or disposed assets since the 2021 valuation, or an extra year's depreciation of existing assets.

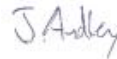
This assessment should not be relied on upon on as a full valuation and should only be used for assisting with material change considerations with regards to financial reporting.

Yours sincerely



Marvin Clough

Technical Director – Valuations



Jesse Audley

Asset Engineer

on behalf of

Beca Projects NZ Limited

Phone Number: +6467595752

Email: marvin.clough@beca.com

sitivity: General



Appendix 3

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4340, New Zealand

T: +64 6 758 8191 // F: +64 6 758 9785

Stratford District Council
PO Box 320
Stratford 4352
New Zealand

8 July 2022

Attention: Victoria Araba

Dear Victoria,

Stratford District Council – Three Waters Market Movement Assessment 2022

Assignment

Beca Projects NZ Ltd (Beca) has been instructed by Stratford District Council (SDC) to complete a market movements review relating to the three waters infrastructure assets since the previous financial reporting valuation as at 30 June 2021.

Scope

The scope of service included estimating the market movements for the period 30 June 2021 to 30 June 2022 for the specific assets relating to three water infrastructure assets owned by SDC and considered in Beca's previous valuation.

Beca understands that this will be used as a basis for assessing material change (if any) in the fair value of the assets last valued as at 30 June 2021.

Basis of assessment

The market movement assessment was completed in accordance with the International Valuation Standards, effective 31 January 2022 (IVS) and Property Institute of New Zealand "Guidance Papers for Valuers & Property Professionals".

Under the Public Benefit Entity International Public Sector Accounting Standard 17 Property, Plant and Equipment (PBE IPSAS 17), which applies to the financial reports of Government departments, Crown entities and local authorities, "the frequency of revaluation of property, plant and equipment requires entities that adopt the revaluation model to measure assets at a revaluated amount that does not differ significantly from that which would be determined using fair value at the reporting date.

PBE IPSAS 17 defines property, plant and equipment as tangible assets which:

- Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- Are expected to be used during more than one reporting period.

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sitivity: General

PBE IPSAS 17 allows for property, plant, and equipment to be valued on a revaluation model and describes the process as:

“After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.”

PBE IPSAS 17 uses the concept of Fair Value, which it defines as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction”. The PBE IPSAS 17 Application Guidance provides guidance on the estimation of fair value using the depreciated replacement cost method.

PBE IPSAS 17 uses the concept of highest and best use, which is described as the highest, legally permitted, physically possible, financially feasible, and most probable use of the asset. It requires values to be based on the asset itself, independent of its actual use.

Beca used the valuation of the three water infrastructure assets as at 30 June 2021 for financial reporting purposes as a basis for this assessment.

Effective Date

The effective date of this assessment is 30 June 2022.

Exclusions

The following are excluded from the assessment:

- Land and buildings
- Leased plant & equipment
- Vehicles and mobile plant registered for road use
- Intangible Assets
- Stock or raw materials
- Furniture, fitout and office equipment
- Works of art
- Works in progress
- Employee’s personal effects

Methodology

In conducting the plant & infrastructure market movements review, the Valuer:

- Reviewed the CGPI indices for various infrastructure based on the latest CGPI data available from Statistics NZ (March 2022)
- Reviewed the high-level summary of large current capital projects and construction rates
- Reviewed information from contracts and market data.
- Assessed market trends of construction and asset costs, for the period from June 2021 to June 2022
- Forecasted the change in market trends to June 2022 based on projecting forward normalised trends derived from the past 24 months
- As requested, this has been completed as a desktop exercise only. No site visits have been completed. In completing this assessment, we have relied on information collected during previous valuations.

sitivity: General

Findings

The majority of the SDC's assets are classified according to their functional use and have different factors influencing their cost cycles. For the purposes of analysing Stratford District Council's infrastructure assets, we have compiled a synopsis of CGPI trends and infrastructure construction market observations to interpret cost trends.

Our findings outlined as follows:

CGPI

The most recent CGPI figures were published by Statistics for March 2022. In line with common industry practice, Beca used a simple linear regression over the preceding four, six, eight, and ten quarters to forecast CGPI values in assessing unpublished indices for June 2022.

The linear regression analysis used to forecast future CGPI values will smooth temporary price fluctuation and will reflect the dominant price trend over the preceding quarters. Consequently, the CGPI forecast algorithm may not accurately predict significant price changes which occur from one quarter to the next.

The CGPI has shown increases throughout all key and minor asset classes used by SDC consistent with Beca's observations of procurement trends. Measuring, testing and navigating instruments(S2482) and Electricity distribution and control apparatus(S2462) had the lowest increase of 4.00% and 4.05% respectively. Irrigation and land drainage has shown the largest increase at 8.21%.

Pipeline (S2CB) and Civil Construction (S2GC) which makes up a majority of Stratford District Council's assets have shown approximately 7.01% and 6.21% increase since June 2021.

It should be noted that the CGPI is a national index, it reflects average trends in prices nationally, and therefore may not accurately reflect trends in local market.

Infrastructure Construction Market Observations

The construction industry has continued and is forecasted to grow despite a temporary delay in construction activity due to Covid-19 restrictions. However, it is challenged by industry-wide issues including supply chain, commodity price trends, and resourcing skilled labour.

There are reports of delays in material supply at major ports in New Zealand coupled with a spike in construction activity, which is causing projects to be delayed and costs to increase. Whilst delays in supply of basic materials including plumbing, electrical and glass was evident earlier in 2021, delays are now apparent with supply of steel and timber framing having an impact on the wider construction market.

The government continues to support the infrastructure and construction market with increased spending on projects which is adding strain to the demand on resources. In addition, imposed post lockdown Covid-19 restrictions and New Zealand wide labour shortages has resulted in increasing labour costs.

Specialised construction cost increases based on specialist assets including water treatment plants, pump stations, reservoirs, water services, water supply and sewer mains differ from non-residential building class cost indices noting the varying impact on skilled labour cost drivers and limited contractor skill and competition. Global manufacturing continues to expand causing prices to rise at one of the fastest rates in a decade. This is expected to pick up further when supply shortages and bottlenecks free up.

We note the market is still volatile, which is evidenced by pipe suppliers who were not prepared to provide us with current pipe rate costs.

Based on estimates from our Cost management team they have indicated a 5% to 8% increase in project pipe costs over the past 12 months.

sitivity: General

Conclusions

Stratford District Council infrastructure assets portfolio consists of specific specialist assets with limited alternate uses. Therefore, forecasting of the future construction costs is based on our specialist knowledge and projections from the CGPI indices. These projections are inherently uncertain because they predict future circumstances, which cannot be assured.

The forecast is attributed to a combination of factors including increased transportation, material costs higher preliminaries and general (P&G) costs in the broader construction industry.

Our independent advice is that the CGPI and forecast does not reflect our observations of construction cost trends for Stratford District Council assets. The material and projected changes for the various asset groups have been assessed as follows:

Asset Group	ORC Forecast Escalation from 30/06/2021 to 30/06/2022
Resource Consents	6.30%
Stormwater Line	6.20%
Stormwater Point	6.39%
Wastewater Line	6.41%
Wastewater Point	6.41%
Wastewater Treatment	4.31%
Water Point of Supply	6.41%
Water Reticulation Plant	6.25%
Water Line	6.41%
Water Point	6.41%
Water Treatment	5.53%
Overall Three Waters Assets	6.07%

sitivity: General

Limitations

While this assessment is current at the date of effect, the market movement estimates assessed herein may change significantly and unexpectedly over a relatively short period of time because of factors that are outside of the valuer's control. We recommend that the user(s) of this report review this assessment periodically. We are unable to accept responsibility or liability for any losses arising from subsequent changes in value in the future.

Construction costs are expected to be impacted differently depending on the forms of construction. It is expected that due to the impacts on business and decrease in consumer sentiment, increase competition from construction businesses will result in reductions of construction costs for residential and non-specialised commercial assets. The opposite is expected in the complex and specialised construction projects including multi-level construction where costs are expected to increase due to the lack of materials and specialised labour forces. The timeframe and extent of these changes will be largely dependent on international responses to the pandemic and associated recovery time for increasing economic activity and trade

This assessment should not be relied on upon on as a full valuation and should only be used for assisting with material change considerations with regards to financial reporting.

Thank you for your instructions. If you have any questions, please do not hesitate to contact the undersigned.

Yours faithfully,



Andrew Liew

Registered Plant and Machinery Valuer, MPINZ

on behalf of

Beca Projects NZ Limited

Phone Number: +64 9 300 9000
Email: andrew.liew@beca.com



Marvin Clough

Technical Director

6 July 2022

Stratford District Council
PO Box 320
Stratford 4350

Attention: Christine Craig

**FAIR VALUE ASSESSMENT
STRATFORD DISTRICT COUNCIL ASSETS, STRATFORD DISTRICT**

TelferYoung (Taranaki) Limited last undertook a full valuation on the Stratford District Council land and building assets as at 1 January 2020. We have now been asked to provide a letter with commentary and an indication of value and cost movements between 1 January 2020 and 30 June 2022.

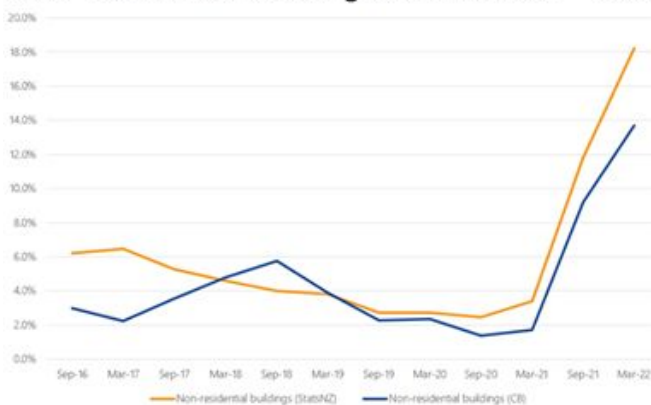
As you are aware, the Council has a large number of building assets and even greater number of land assets. Because of the volume, we have based this exercise on a sample of properties only.

The process followed for building assets adapts reasonably well to the sample format in that the values adopted are based on depreciated replacement cost. Taking a sample across the different build type provides a reasonable reflection on the likely change to the whole portfolio.

Inflation is well above the Reserve Bank’s target range of 1.0% to 3.0% per annum. Strong inflation growth has been driven by higher oil prices, rising transport costs, and supply shortfalls. These pressures have resulted in more generalised price rises, especially given the current domestic capacity constraints.

Since 1 January 2020, building construction costs continue to show increases, and as shown on the below graph, there has been significant increases since March 2021. Construction costs jumped by more than 10% in 2021, and similar increases are forecast for 2022. The increase represents the most rapid growth in prices since the Global Financial Crisis. Depending upon construction type, some properties show greater increases than others and as such each property requires individually reviewing, both in terms of overall construction cost and component allocations.

Non-Residential building cost inflation – Yearly



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T +64 6 757 5753

Our analysis of changes in the building construction costs, is based on a sample of buildings and shows an increase in overall replacement cost of 22.7% from 1 January 2020 and 30 June 2022. With Fair Value impacted by depreciation, this translates to a much lower increase in overall value of 4.4% over the same period.

Changes in land values are harder to quantify. Land parcels are usually 'spot' valued based on market evidence because each has its own individual set of considerations. For example, not only location and site size but also land status and zoning can impact on underlying land value. For instance, a block of land on the edge of town that has the status of reserve and a zoning of open space, may be closer to a rural underlying land value than either a farmlet or residential block value. That is, its potential for alternative use or subdivision could be quite impeded by its status or zoning.

The various market or land segments are performing differently. Rural land values have been largely static for a number of years with fringe rural or lifestyle blocks showing some increase; this partially influenced by a lift in residential land values. Continued demand for residential sections has seen a significant increase in values for these types of property, depending on location of between 50%-60%. Block land that is suitable for residential development has seen value levels flattening over the last 12-18 months; this due to increases in the actual development costs, tightening on lending criteria meaning less availability to funding and also a less optimistic outlook for continued demand for residential sections. Commercial/industrial land has also seen a lift in values of a similar amount to residential sections of between 30%-45%.

We note that the majority of the Stratford District Council is either rural or esplanade reserves and therefore we estimate the likely overall land value increase to fall within 4.0% to 9.0%.

Component	Building Cost Movement	Fair Value Movement
	1 January 2020 - 30 June 2022	1 January 2020 - 30 June 2022
Buildings & Improvements	22.7%	4.4%
Residential & Commercial Land Values	N/A	50% - 60%
Rural & Esplanade Land Values	N/A	0% - 5%
Overall Land Value Movement	N/A	4% - 9%

Due to the relatively low Fair Value movement between 1 January 2020 and 30 June 2022, we believe a full revaluation is not required, especially when taking into consideration that a full revaluation is due 1 January 2023.

I trust that the correspondence shown above is all that you need at this point. Any greater level of detail would involve a larger time input and cost.

Yours faithfully



Mike Drew

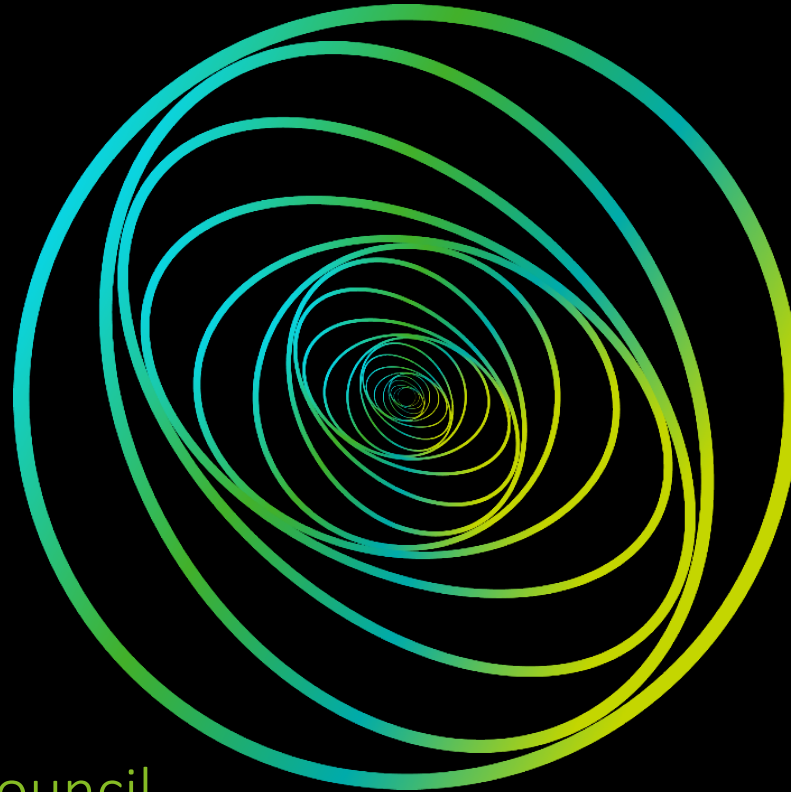
BBS (VPM), ANZIV, MPINZ

Registered Valuer

Director

E mike.drew@telferyoung.com

Deloitte.



Stratford District Council

**Planning report to the Audit & Risk Committee
For the year ending 30 June 2022**

6 July 2022

Purpose of report

This report has been prepared for Stratford District Council's (the "Council") Audit & Risk Committee (the "Committee") and is part of our ongoing discussions as auditor in accordance with our engagement letter dated 4 May 2022 and audit proposal letter dated 11 May 2022 and as required by auditing standards issued by the Auditor-General that incorporate New Zealand auditing standards.

This plan is intended for the Committee (and other Councillors) and should not be distributed further. We do not accept any responsibility for reliance that a third party might place on this report should they obtain a copy without our consent.

This report includes only those matters that have come to our attention as a result of performing our audit procedures to date and which we believe are appropriate to communicate to the Committee. The ultimate responsibility for the preparation of the financial statements and performance information ('financial statements') rests with the Councillors.

Responsibility statement

We are responsible for conducting the audits of Stratford District Council (the "Council") and the Percy Thomson Trust (hereafter collectively referred to the "Group") for the year ending 30 June 2022 in accordance with New Zealand auditing standards issued by the Auditor-General that incorporate New Zealand auditing standards issued by the NZ Auditing and Assurance Standards Board. We will issue an opinion on both the consolidated financial statements of the Group which includes the Council and Percy Thomson Trust (the "Trust") as well as the Trust.

Our audits are performed pursuant to the requirements of the Public Audit Act 2001, the Crown Entities Act 2004 and the Financial Reporting Act 2013, with the objective of forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Councillors. The audits of the financial statements does not relieve management or the Councillors of their responsibilities.

Our audits are not designed to provide assurance as to the overall effectiveness of the Council's controls but we will provide you with any recommendations on controls that we may identify during the course of our audit work.

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- E. Our team

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- B. Independence and fees

4. Financial reporting and other developments

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- B. Controlling sensitive expenditure
- C. Climate-related financial disclosures and TCFD recommendations



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1. Executive summary

Thank you for the opportunity to present our audit plan for the financial statement audit of Stratford District Council and its controlled entities (the 'Group') for the year ending 30 June 2022.

This report is designed to outline our respective responsibilities in relation to the audit, to present our audit plan and to facilitate a two-way discussion on the plan presented. Our report includes:

- Our audit plan, including key areas of audit focus and our planned procedures; and
- Key accounting, regulatory and corporate governance updates, relevant to you.

We have an evolving audit plan that is established with input from management. The audit plan is tailored to the Council's environment and revised throughout the year to adjust for business developments, additional relevant matters arising, changes in circumstances and findings from activities performed.

This plan is intended for the Committee (and other Councillors) and should not be distributed further.

We appreciate the opportunity to serve the Council. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our plan.



Pam Thompson
 Partner
 for Deloitte Limited
 Appointed Auditor
 on behalf of the Auditor-General
 Wellington | 6 July 2022



Key areas of audit focus

Our current assessment of the key areas of audit focus are as follows:

Valuation of assets

Management override of controls

Revenue recognition

Government reviews and proposals

Public sector specific procedures

Impact of COVID-19

Statement of Service Performance

Climate change and natural hazards

We comment further on these key areas of audit focus in Part 2C of this report.



Items for consideration

We look forward to discussing our audit plan with you and are interested in your views on the following matters:

- Any concerns regarding internal controls, including completeness over related parties;
- Any risk matters, including fraud, affecting the financial statements;
- Your assessment of materiality; and
- Any other matters that should be brought to our attention.



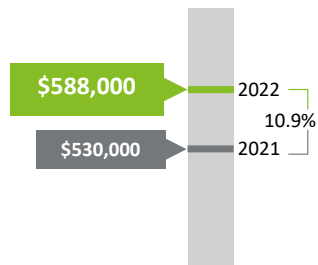
1. Executive summary (cont.)



Council planning materiality

Based on expected results of the Council, our quantitative planning materiality for the 2022 audit is as follows:

The planning materiality was determined based on a percentage of total budgeted expenses and consideration of other factors using our professional judgement.



Based on our planning materiality, we will report to you all misstatements found in excess of \$29,400. This is based on 5% of our materiality level. We will report to you misstatements below this threshold if we consider them to be qualitatively material in nature.

We comment further on our determination of materiality, including materiality for the Group and the Trust in Part 2B of this report.



Fees

The proposed audit fee for the 2022 audit is outlined Part 3B of this report.

As agreed with management and the Office of the Auditor General, Deloitte Limited took on the existing contract that you had with Audit New Zealand which set out the proposed hours and fees for the financial year ending 30 June 2022. The hours and costs incurred as part of this year’s audit will form the basis of setting the fee in subsequent years.



Quality and Independence

We take our independence and the quality of the audit work we perform very seriously. We confirm that we have maintained our independence in accordance with Professional and Ethical Standards including the Auditor-General standards. There are no non-audit services or relationships which may reasonably be thought to bear on our independence.



Transition update

As part of the audit transition, we met with management to in March to define the principles that will guide the way we work together as the foundation for a successful audit.

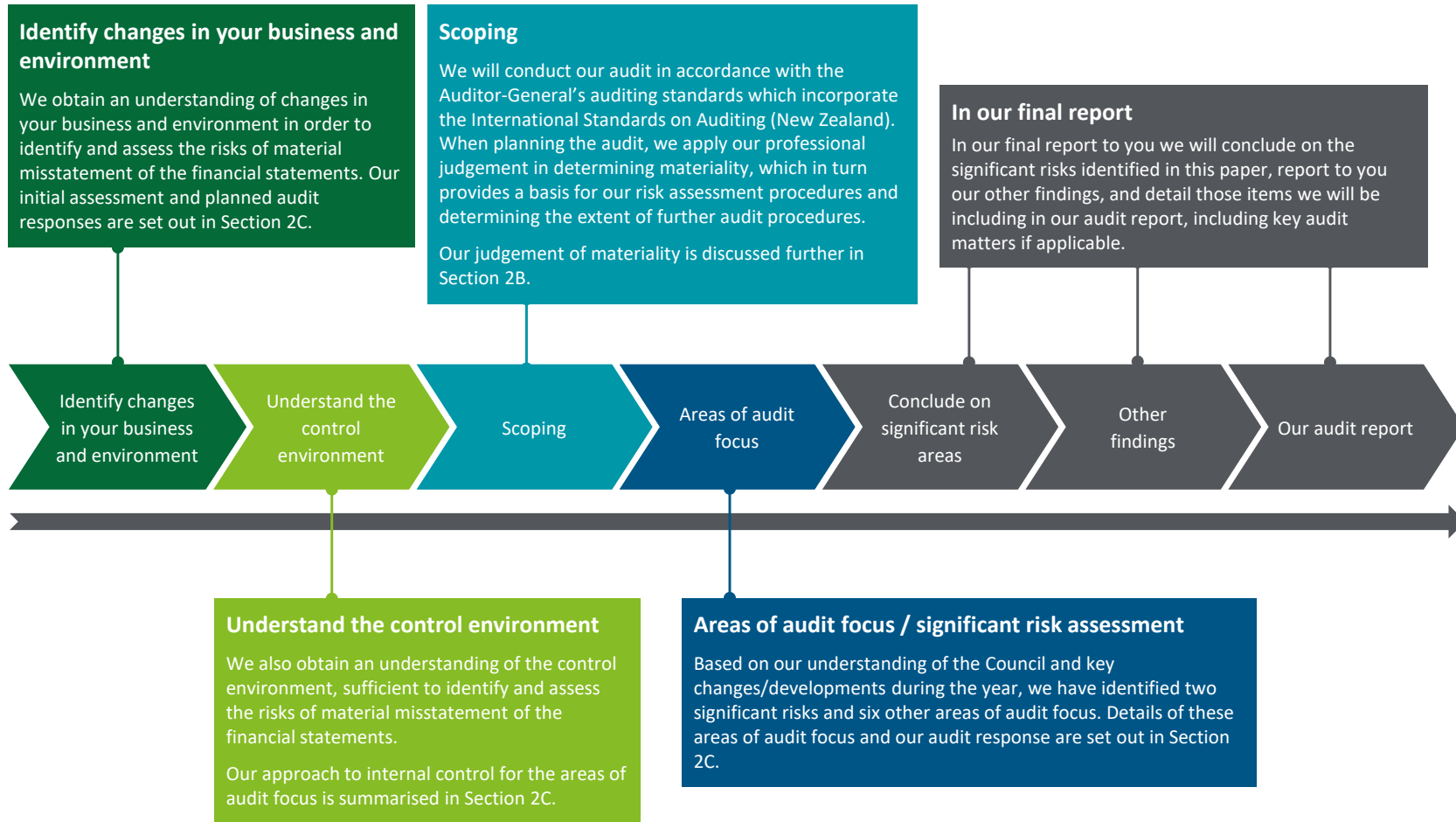
In order to gain comfort over the opening balances, we performed a review of the predecessor auditor’s working papers. No issues were identified.



2. Our audit



2A. Our audit explained – a tailored approach



2B. Identifying the areas of audit focus

Identification of audit risks

Our audit approach is underpinned by the identification of relevant audit risks and tailoring appropriate audit responses to address those risks. We consider a number of factors when deciding on the significant areas of audit focus, such as:

- the risk assessment process undertaken during the planning phase of our engagement;
- our understanding of the business risks faced by the Council;
- discussions with management during the course of our audit;
- the significant risks and uncertainties previously reported in the financial statements, including any PBE IPSAS 1 critical accounting estimates or judgements;
- our assessment of materiality; and
- any changes in the business and the environment it operates in since the last annual report and financial statements.

The next page summarises the significant risks and other areas that we will focus on during our audit.

We continually update our risk assessment as we perform our audit procedures, so our areas of audit focus may change. We will report to you on any significant changes to our assessment as part of our final report to the Committee.

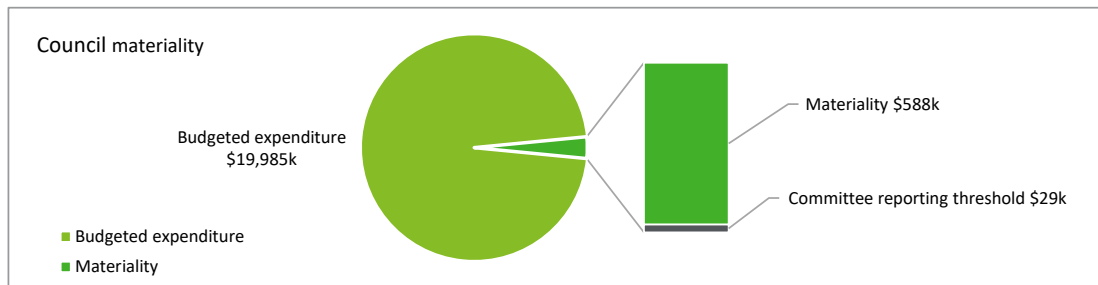
Determining materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

The extent of our procedures is not based on materiality alone but also on local considerations, the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Our quantitative planning materiality for the Council for the 2022 audit as shown below is based on expenditure as this is deemed to be a key driver of business value, is a critical component of the financial statements and is a focus for users of those statements. We have used budgeted expenditure to determine planning materiality. We will assess budgeted expenditure against actual expenditure at year end and notify the Committee in our final report if materiality has changed as a result.

Our quantitative materiality for Percy Thomson Trust and the consolidated Group will be determined as part of the year end audit and will be communicated to the Committee in our final report.



Although materiality is the judgement of the audit partner, the Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.



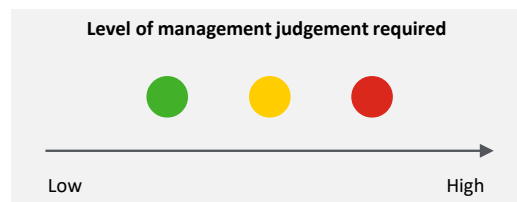
2C. Areas of audit focus - dashboard

Area of audit focus	Significant risk	Fraud risk	Planned controls testing approach	Level of management judgement required
Valuation of assets	✓	✗	D+I	●
Management override of controls	✓	✓	D+I	N/a
Revenue recognition	✗	✗	D+I	●
Government reviews and proposals	✗	✗	N/A	●
Public sector specific procedures	✗	✗	N/A	●
Impact of COVID-19	✗	✗	N/A	●
Statement of Service Performance	✗	✗	N/A	●
Climate change and natural hazards	✗	✗	N/A	●

Level of management judgement required

D+I: Testing of the design and implementation of key controls

OE: Testing of the operating effectiveness of key controls



2C. Areas of audit focus – Valuation of assets

Area of audit focus

The Council has a significant asset base with several assets classes carried at fair value. Assets carried at fair value are revalued on a regular basis, generally on a three year cyclical basis.

The following asset classes are carried at fair value, including the date that they were last revalued:

- Three waters infrastructure – 1 July 2018
- Land and Buildings – 1 January 2020
- Roading assets – 30 June 2021

For three waters infrastructure assets, we understand that the Council performed a revaluation effective 1 July 2021. Given the significant increase in construction costs over the last twelve months and the high inflation rates, management and the Councillors are required to perform a fair value assessment to ensure that the carrying value of the assets at 30 June 2022 does not differ materially from their fair value. This assessment requires a degree of management judgement given the various assumptions used in determining fair value and therefore input can be obtained from in-house or independent experts.

For land and buildings, we understand that the Council has engaged the independent valuer to assist in its fair value assessment.

For roading assets, we understand that management's fair value assessment indicates that the asset class is likely to have a material uplift movement from the last revaluation performed. Management is currently performing the full revaluation using inputs from in-house experts, with the revaluation then being peer reviewed by an independent expert. As the valuation process is complex and requires judgement and estimates, management will need to ensure appropriate consideration throughout the process and these are documented to support the fair value uplift.

The fair value assessment of assets is an area that continues to receive increased focus in the sector and management and the Committee will need to ensure a robust and timely review is performed.

Our approach

For those assets where a revaluation has been performed we will:

- Obtain the revaluation of the asset class(es);
- Obtain representation directly from the independent valuer or peer reviewer confirming their independence and methodology;
- Review the key underlying assumptions used and challenge the assessments made to ensure these assumptions are reasonable and in line with the accounting standards; and
- Ensure the revaluation transaction is correctly accounted for and disclosed in the financial statements.

For those assets carried at fair value where no revaluation has been performed, we plan to:

- Obtain management's assessment of the indicative movement in fair value;
- Obtain the supporting documentation from the in-house or independent experts supporting the indicative fair value movement (if applicable); and
- Review the key assumptions applied in determining the indicative fair values and assess and challenge management's overall conclusions.



2C. Areas of audit focus – Management’s ability to override controls

Area of audit focus	Our approach
<p>ISA (NZ) 240 <i>The auditor’s responsibility to consider fraud in an audit of financial statements</i> (“ISA NZ 240”) requires us to presume there are risks of fraud in management’s ability to override controls.</p> <p>We are required to design and perform audit procedures to respond to those risks and therefore this is a focus area for our audit.</p> <p>Management’s override of controls is identified as a fraud risk because it represents those controls in which manipulation of the financial results could occur. It has a potential impact to the wider financial statements and is therefore a significant risk for our audit.</p>	<p>We plan to:</p> <ul style="list-style-type: none"> • Understand and evaluate the financial reporting process and the controls over journal entries and other adjustments made in the preparation of the financial statements; • Test the appropriateness of a sample of journal entries and adjustments and make enquiries about inappropriate or unusual activities relating to the processing of journal entries and other adjustments; • Review accounting estimates for biases that could result in material misstatement due to fraud, including assessing whether the judgements and decisions made, even if individually reasonable, indicate a possible bias on the part of management; • Perform a retrospective review of management’s judgements and assumptions relating to significant estimates reflected in last year’s financial statements; and • Obtain an understanding of the business rationale of significant transactions that we become aware of that are outside the normal course of business or that otherwise appear to be unusual given our understanding of the entity and its environment.



2C. Areas of audit focus – Revenue recognition

Area of audit focus

ISA (NZ) 240 requires us to presume there are risks of fraud in revenue recognition and therefore this is a focus area for the audit.

The Council has various revenue streams which need to be considered separately to ensure they are in-line with PBE Standards.

Failure to comply with rating law and the associated consultation requirements can create risks for rates revenue. Compliance with the detail of the Local Government (Rating) Act 2002 (“LGRA”) is vital; if the rate is not within the range of options and restrictions provided for in that Act, it may not be valid.

Management and Council need to ensure that the requirements of the LGRA are all adhered to and that there is consistency between the rates resolution, the funding Impact Statement for that year, and the Revenue and Financing Policy in the respective Long Term Plan (LTP) or Annual Plan (AP).

Material misstatement due to fraudulent financial reporting relating to revenue recognition often results from an overstatement of revenues through, for example, premature revenue recognition or recording fictitious revenues. It may also result from an understatement of revenues through, for example, improperly shifting revenues to a later period. Through our understanding of the Council and level of risk assessed we expect to rebut the significant risk of fraud associated with revenue recognition.

Our approach

We will perform the following audit procedures to ensure that revenue recognition is appropriate:

- Understand, evaluate and assess the relevant controls that address the risks of revenue recognition;
- Assess the quality of information produced from the IT system and ensure accuracy and completeness of reports that are used to recognise revenue;
- Complete a ‘rates questionnaire’ compiled by the OAG*, to confirm whether rates have been correctly set; and
- Review the meeting minutes recording the adoption of the rates resolution, to ensure the rates are in accordance with the Revenue and Financing Policy as well as reviewing any other information available with regards to rates;
- Complete analytical procedures by developing expectations based on our knowledge of the sector and key performance measures; and
- Assess the impact of any changes to revenue recognition policies.

**Please note that the completion of the ‘rates questionnaire’ is not a legal exercise but aims to provide us with some indication of the rates setting processes being used by the Council. We remind Council that the overall responsibility for the compliance of rates rests with the Councillors.*



2C. Areas of audit focus – Government reviews and proposals

Area of audit focus

There continues to be change in the sector with new regulatory requirements (new and updated national policy statements) in place or proposed (most notably the three waters reform), and other areas being considered by the Government. This constant change makes it challenging for councils to plan ahead, particularly because of uncertainties of regulatory settings and the significant cost implications of these changes.

Three waters reform

The Government is currently carrying out the Three Waters Reform Programme.

The first phase of the reform was establishing Taumata Arowai. The next phase of the reform is for water service delivery. The Government has announced that it will establish four Water Service Entities as a part of its Three Waters Reform Programme. The four new entities will replace the services currently managed by 67 territorial local authorities.

Currently there is still a lot of detail to be worked through including how council ownership will work in practice. A working group has been established to consider representation, governance and accountability of the new Water Services Entities.

Our approach

As part of our audit process we will:

- Continue to follow up and discuss with management the impact these initiatives will have on the Council. Where necessary, we will consider the impact on our audit approach; and
- Maintain close communication with the Office of the Auditor-General (“OAG”) if there are any other areas that require further consideration.

We also draw your attention to the OAG determining that the 2021/22 audit opinions for Councils that are impacted by three waters reform will include an emphasis of matter paragraph with the following proposed wording:

“Without [further] modifying our opinion, we draw attention to note [x] on page [x], which outlines that the Government announced it will introduce legislation to establish four publicly owned water services entities to take over responsibilities for service delivery and infrastructure from local authorities from 1 July 2024. The impact of these reforms, once legislated, will mean that the Council will no longer deliver three waters services.”

We will continue to work with Council and management to ensure the disclosures in the Annual Report are updated for changes or developments as they occur. We will also keep you informed of any updates to the proposed emphasis of matter paragraph as matters evolve.



2C. Areas of audit focus – Public sector specific procedures

Area of audit focus	Our approach
<p>A number of good practice guides are made available by the OAG on its website, with published guides relating to:</p> <ul style="list-style-type: none"> • Managing sensitive expenditure; • Managing conflicts of interest; and • Severance payments <p>Good practice involves the establishment of policies and controls to ensure that relevant focus areas have been made transparent and are appropriate in all aspects. This includes expenses to have a justifiable business purpose; preserve impartiality; have been made with integrity; are moderate and conservative; have regard to the circumstances; have been made transparently and with proper authority.</p> <p>A copy of these guides are accessible here: https://oag.parliament.nz/good-practice/good-practice-guides</p> <p>Areas also specifically raised by the OAG that we will assess include:</p> <ul style="list-style-type: none"> • Related party transactions and disclosures; and • Compliance with laws and regulations. 	<p>During the course of the audit we will:</p> <ul style="list-style-type: none"> • Check whether the Council have reviewed the sensitive expenditure policy against the OAG good practice guide and update where appropriate; • Continue to remain alert to issues and risks related to effectiveness and efficiency, waste and a lack of probity or financial prudence; • Test a sample of items of sensitive expenditure against the OAG’s guidelines for probity, performance and waste; • Inquire management as to how the Council is comfortable that its employees know how to identify, disclose and manage a conflict of interest; • Inquire of management if there is any severance payment and perform testing where appropriate; • Assess related party transactions and disclosures to ensure these are complete and accurate; and • Select a sample of legislation and assess the Council’s compliance with this legislation. <p>We will report any areas of concern to the Committee and the OAG.</p>



2C. Areas of audit focus – Impact of Coronavirus (COVID-19)

Area of audit focus

The long-term impact of Covid-19 in New Zealand, and how it might affect public entities, is unknown. However, it is likely that the uncertainties in the economic environment will increase the risk of material misstatement in the financial statements. These effects might include uncertainties relating to revenue and asset valuations. Throughout 2022 we have seen a significant increase in costs and supply chain disruptions.

Some local authorities may have received funding from central government (such as “Shovel Ready” funding, or infrastructure recovery funding). It is important that local authorities are clearly accounting for this funding and are being transparent with their communities, and meeting any obligations.

Our approach

As part of our audit we will:

- Determine whether the accounting for such funding (if applicable) is appropriate in accordance with PBE accounting standards;
- Increase our professional scepticism placed around management override of controls and other control processes;
- Reconfirm that reporting and internal control systems are in place and are designed and implemented appropriately;
- Heighten professional scepticism to challenge key assumptions applied by management in accounting estimates throughout the preparation of the financial accounts; and
- Factoring impacts of COVID-19 into affected areas of testing.



2C. Areas of audit focus – Statement of Service Performance

Area of audit focus	Our approach
<p>The Council’s annual report is required to include an audited Statement of Service Performance (“SSP”) which reports against the performance framework included in the annual plan/long-term plan.</p> <p>The SSP is an important part of the Council’s annual performance reporting and it is important it adequately “tells the performance story” for each group of activities.</p> <p>Our audit opinion considers whether the service performance information:</p> <ul style="list-style-type: none"> • Is based on appropriately identified elements (outcomes, impacts, outputs), performance measures, targets/results; and • Fairly reflects actual service performance for the year (i.e. not just reports against forecast). <p>Refer to page 25 where we outline the changes to the standard governing the statement of service performance for the reporting which is effective for the year ending 30 June 2023.</p>	<p>We plan to:</p> <ul style="list-style-type: none"> • Review the Council’s SSP against legislative requirements and good practice. This will include checking consistency with the performance framework included in the 2021-2031 LTP; • Audit a sample of the reported performance measures, with a focus on the more significant groups of activities; and • Review the narrative commentary and explanatory information provided in the annual report to ensure that this provides sufficient information to the readers i.e. “tells the performance story”.



2C. Areas of audit focus – Climate change and natural hazards

Area of audit focus

The Local Government Act 2002 requires councils to provide for the resilience of infrastructure assets to the risks from natural hazards, including making sufficient financial provision to respond to these risks. Councils are responsible for planning and regulating development on at-risk land – an important role in moderating future climate risk exposure and long-run adaptation costs.

About a quarter of councils have declared climate emergencies in recent years. The Climate Change Response (Zero Carbon) Amendment Act 2019 (Zero Carbon Act) came into effect in November 2019. It provides a framework for developing and implementing clear and stable climate change policies that:

- contribute to the global effort under the Paris Agreement to limit the global average temperature increase to 1.5 Celsius above pre-industrial levels; and
- allow New Zealand to prepare for, and adapt to, the effects of climate change.

Local government is quickly and increasingly becoming a focus for climate policy related action.

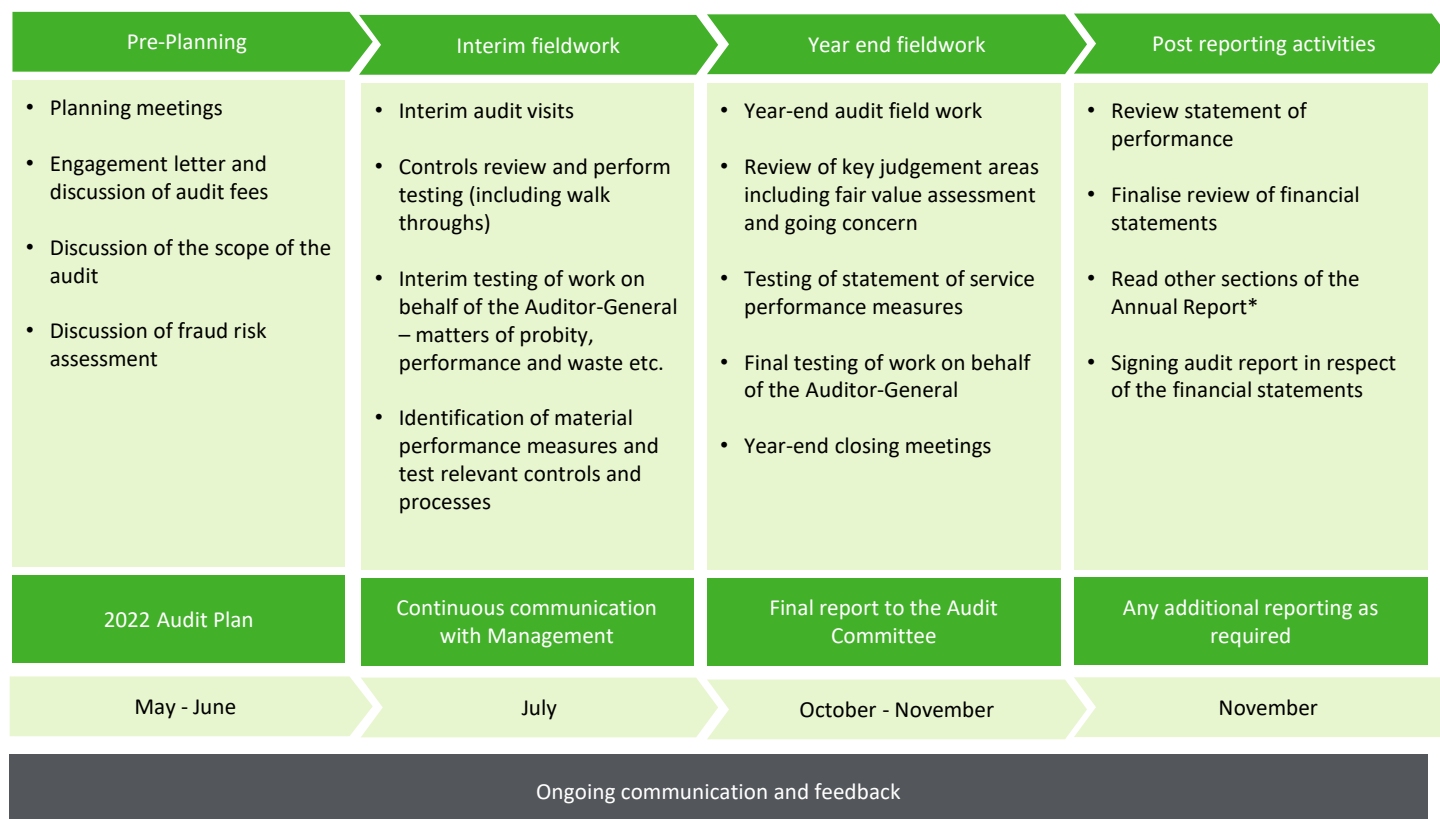
Our approach

As part of our audit process we will understand how the Council has considered climate change in their operations and ensure, where necessary, that this is appropriately considered within our audit approach.



2D. Continuous communication and reporting

As the audit plan is executed throughout the year, the results will be analysed continuously and conclusions (preliminary and otherwise) will be drawn. The following sets out the expected timing of our reporting to and communication with you.



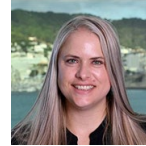
* We are required to read the other information to consider if there are any material inconsistencies which we are obliged to report on. We will need sufficient time to perform the review.



2E. Our team

Our audit will be led by Pam Thompson as Appointed Auditor for the year ending 30 June 2022. Pam will oversee the co-ordination of the audit and has primary responsibility for working with your management team.

Yan Yi Oon will be the primary point of contact for the finance team and will oversee the day to day execution of our audit.



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3. Other reporting matters



3A. Fraud responsibilities and representations



Your responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including designing, implementing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from those charged with governance regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the areas of audit focus section of this document, we have identified the risk of fraud in revenue recognition and management override of controls as a significant audit risk for your organisation.
- As required, we will consider any significant related party transactions outside the entity's normal course of business



Fraud characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will make inquiries of management and others within the entity as appropriate, regarding their knowledge of any actual, suspected or alleged fraud affecting the Council. In addition, we are required to discuss the following with the audit and risk committee:

- Whether the Committee has knowledge of any fraud, suspected fraud or allegations of fraud;
- The role that the Committee exercises in oversight of Stratford District Council's assessment of the risks of fraud and the design and implementation of internal control to prevent and detect fraud;
- The Committee's assessment of the risk that the financial statement may be materially misstated as a result of fraud.

We will be seeking representations in this area, including those relating to your assessment of any impacts resulting from COVID-19, from the Councillors in due course.



3B. Independence and fees

We summarise below our audit fees as agreed in the Audit Proposal for Stratford District Council dated 11 May 2022 and Percy Thomson Trust dated 15 June 2022.

	CY (\$'000)
Fees payable for the audit of the financial statements (excluding disbursements and GST) – Stratford District Council	112.0
Fees payable for the audit of the financial statements (excluding disbursements and GST) – Percy Thomson Trust	8.0
Total audit fees for financial statements	120.0
Trustee Reporting*	4.7
Total audit related and other assurance fees	124.7

*Previously approved by the OAG as being of an "assurance nature" - complies with AS PES 1 Code of Ethics.



4. Financial reporting and other developments



4A. Developments in financial reporting – overview

The following table provides a high level summary of the major new accounting standards, interpretations and amendments that are relevant to the Council. A full list of the standards on issue but not yet effective is released quarterly and is available here:

https://www2.deloitte.com/nz/en/pages/audit/articles/accounting-alert.html?icid=top_accounting-alert

Major new standard, interpretation or amendment	Effective date (periods beginning on or after)
PBE IPSAS 40 PBE Combinations	1 January 2021
PBE FRS 48 Service Performance Reporting	1 January 2022
PBE IFRS 9 Financial Instruments	1 January 2022*
PBE IPSAS 41 Financial Instruments	1 January 2022
PBE IFRS 17 Insurance Contracts	1 January 2023

*Will be superseded by PBE IPSAS 41 but early adoption is still permitted if the date of initial application was before 1 January 2020

Early implementation efforts recommended

Early effort to consider the implementation of these standards is recommended in order to provide stakeholders with timely and decision-useful information. Implementation steps are outlined opposite.

Steps for implementation

Determine extent of impact & develop implementation plan

Monitor progress and take action where milestones are not met

Identify required changes to systems, processes, and internal controls

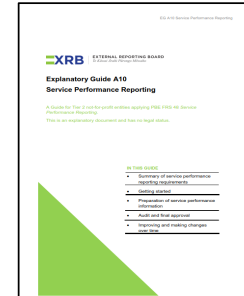
Determine the impact on covenants & regulatory capital requirements, tax, dividends & employee incentive schemes



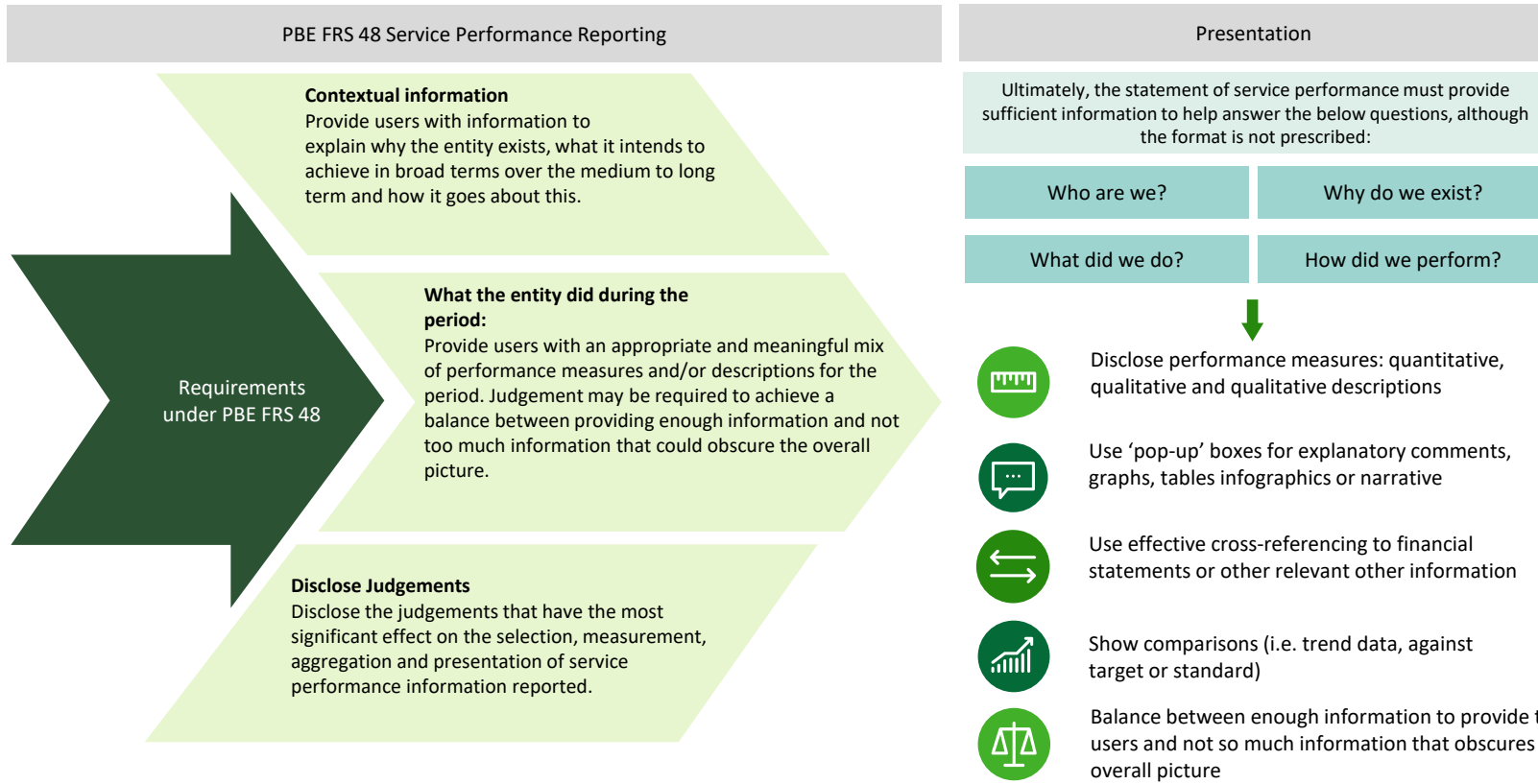
4A. Developments in financial reporting – PBE FRS 48 *Service Performance Reporting*

PBE FRS 48 *Service Performance Reporting* establishes new requirements for the selection and presentation of service performance information. It applies to Tier 1 and 2 not-for-profit PBEs, and to public sector PBEs which are required by law to report service performance information in accordance with GAAP, and is effective for annual reporting periods beginning 1 January 2022.

The objective of PBE FRS 48 is to establish principles and requirements for presenting service performance information that is useful for accountability and decision-making purposes. The Standard establishes high-level requirements which provide flexibility so that an entity can determine how best to ‘tell their story’ in an appropriate and meaningful way.



Explanatory guidance available in the XRB’s website



4B. Developments in financial reporting – Controlling sensitive expenditure

There is heightened public sensitivity when public sector employees are perceived to benefit – or do benefit – personally from sensitive expenditure incurred during the conduct of a public organisation’s business.

In October 2020, the Auditor-General published ‘[Controlling sensitive expenditure: Guide for public organisations](#)’ to help public organisations improve, where necessary, their organisational approach to, and control of, sensitive expenditure.

The Guide:

- outlines the Auditor-General’s list of best practices for dealing with sensitive expenditure; and
- will be used by the Auditor-General when carrying out work, including in annual audits.

It is expected that public organisations will implement the principles discussed in this Guide into their sensitive expenditure policies and procedures.

In addition to carrying out regular reviews, monitoring compliance, considering high-risk areas, and making changes to policies and procedures as necessary, the Auditor-General expects that public organisations will implement the principles discussed in this Guide into their sensitive expenditure policies and procedures.

In particular, the Guide specifically emphasises that public organisations should carefully consider the underlying principles listed in [paragraph 2.4](#) (listed below) and the advice in [Parts 4-9](#) (also listed below) before taking a different approach.



Extract from paragraph 2.4:

“There are principles that underpin decision-making about sensitive expenditure. Expenditure decisions should:

- *Have a justifiable business purpose...*
- *Preserve impartiality...*
- *Be made with integrity...*
- *Be moderate and conservative...*
- *Be made transparently...*
- *Be made with proper authority...”*

Extract from table of contents:

“Part 4: Using credit cards and purchasing cards

Part 5: Expenses when travelling

Part 6: Entertainment and hospitality expenditure

Part 7: Goods and services expenditure

Part 8: Staff support and well-being expenditure

Part 9: Other types of expenditure”



4C. Climate-related, COVID-19 and other emerging risks - implications for financial statement disclosures

Investors are demanding more information on the impact of emerging risks such as those related to climate change on entities' financial performance and financial position. Climate-related risks include those from potential natural disasters, change in climate patterns and the related technology, market, legal and governmental policies. The identification of such emerging risks and the associated responses by entities have become particularly topical recently following the outbreak of COVID-19.

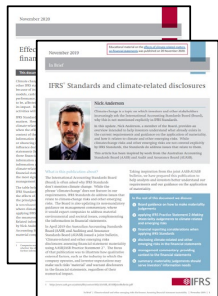
With climate-related risks generally only being discussed outside of the financial statements, entities in Australia have already become subject to law suits regarding the lack of disclosure.

As it represents best practice (and to mitigate the risk of inadequate disclosures), we are encouraging New Zealand directors and management that are preparing financial statements to consider:

- Whether investors could reasonably expect that emerging risks, including climate-related risks, and the impact of COVID 19 could affect the amounts and disclosures reported in the financial statements and whether they have indicated the importance of such information to their decision making;
- What disclosures about the impact of climate-related and other emerging risks are material to the financial statements

The potential financial reporting implications arising from climate-related and other emerging risks may impact on assumptions used in various estimates including:

- Asset impairment
- Change in the useful life of assets
- Changes in the fair valuation of assets due to climate-related and emerging risks
- Increased costs and/or reduced demand for products and services affecting impairment calculations and/or requiring recognition of provisions for onerous contracts
- Potential provisions and contingent liabilities arising from fines and penalties
- Changes in expected credit losses for loans and other financial assets
- Recognition of deferred tax assets



In November 2020, the IFRS Foundation published educational material to highlight how existing requirements in the IFRS Standards require companies to consider climate-related matters when their effect is material to the financial statements. The material complements an [article written by an IASB member in November 2019](#).

The education material contains a non-exhaustive list of examples of when companies may need to consider climate-related matters in their reporting and is aimed at supporting the consistent application of IFRS Standards. It does not add to or change the requirements in the Standards.

Refer [here](#) to access the material.



Following the outbreak of COVID-19, the accounting areas in which specific disclosures might be appropriate are outlined in our IFRS in Focus publication.

Refer [here](#) to access the publication.





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Our reference
F19/13/03-D21/40748

Karakia

Kia uruuru mai
Ā hauora
Ā haukaha
Ā haumāia
Ki runga, Ki raro
Ki roto, Ki waho
Rire rire hau Paimārire

I draw in (to my being)
The reviving essence
The strengthening essence
The essence of courage
Above, Below
Within, Around
Let there be peace.