Notice of Meeting:
I hereby give notice that an ordinary Meeting of the Audit and Risk Committee will be held on:

Date: 9 March 2018
Time: 9.00am
Meeting Room: Council Chamber
Venue: Waikato Regional Council, 401 Grey Street, Hamilton East

VRJ Payne
Chief Executive Officer

Audit and Risk Committee
Open Agenda

Chairperson H Stevens
Deputy Chairperson Cr J Hennebry
Members Cr B Simcock
Cr H Vercoe
External Member G Naylor
Ex officio Cr A Livingston; or
Cr T Mahuta
Quorum 4

Dominique Thurlow
Democracy Advisor
Telephone: 0800 800 401
Dominique.thurlow@waikatoregion.govt.nz
Website: www.waikatoregion.govt.nz
Audit and Risk Committee

REPORTING TO: Council

CONSTITUTION: Chair of the Finance Committee, Deputy Chair of the Finance Committee, Chair of the Strategy and Policy Committee, The Council Chair or Deputy Chair (ex-officio with full voting rights), Two external appointees, one of whom will be the Committee Chair.

QUORUM: Four (4).

MEETING FREQUENCY: Four times per year or as otherwise required.

OBJECTIVE: To promote and enhance the effectiveness of Council’s Audit processes by the provision of independent expertise and to strengthen the monitoring of Council’s risk, control and compliance framework.

SCOPE OF ACTIVITY:

1. External Audit
   (a) Engage with Council’s external auditors regarding the external audit work programme.
   (b) Recommend to Council the terms and arrangements for the external audit programme.
   (c) Review of effectiveness of the annual audit and 10-year plan audit, to ascertain whether emphasis is being placed on areas where the committee, management or auditors believe special attention is necessary.
   (d) Review management response to audit reports and the extent to which external audit recommendations concerning internal accounting controls and other matters are implemented.

2. Internal Audit
   (a) In conjunction with the CE, agree the scope of the annual internal audit work programme.
   (b) Monitor the delivery of the internal audit work programme.
   (c) Assess whether all significant recommendations of the Internal Audit have been properly implemented by management.

3. Risk Management
   (a) Review whether management has in place a current and comprehensive risk management framework, and associated procedures for effective identification and management of the WRC’s financial and business risks, including fraud.
   (b) Review whether a sound and effective approach has been followed in developing strategic risk management plans for major projects or undertakings.
   (c) Review the effect of WRC’s risk management framework on its control environment and insurance arrangements.
   (d) Review whether a sound and effective approach has been followed in establishing WRC’s business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.
   (e) Review WRC’s fraud policy and satisfy itself that WRC has appropriate processes and systems in place to capture and effectively investigate fraud-related information.
4. Control Framework
   (a) Review whether management’s approach to maintaining an effective internal control framework, including over external parties such as contractors and advisers, is sound and effective.
   (b) Review whether management has in place relevant policies, processes and procedures, and that these are periodically reviewed and updated.
   (c) Review whether appropriate policies and procedures are in place for the management and exercise of delegations.
   (d) Review regular reporting on processes ensuring compliance with key controls e.g. gift register reporting and policy updates.

5. Legislative compliance
   (a) Determine whether management has appropriately considered legal and compliance risks as part of WRC’s risk assessment and management arrangements.
   (b) Review the effectiveness of the system for monitoring WRC’s compliance with relevant laws, regulations and associated government policies.

6. Annual Financial Statements
   (a) Report to the Finance Committee on any matters pertaining to the Committee’s work programme that may impact on the adoption of the Annual Report.

POWER TO ACT: (UNDER DELEGATION AND FOR THE INFORMATION OF COUNCIL)

1. Receive and consider external and internal audit reports on financial matters.

2. To receive and consider staff reports on audit, internal control and risk management related matters.

POWER TO RECOMMEND TO COUNCIL:

1. To make recommendations to Council on financial, internal control and risk management policies and procedures as appropriate.

2. To recommend approval of the Auditors engagement letter.

REFERENCE DOCUMENTS:

1. Audit and Risk Committee Work Plan (Doc#3321066).
1 Apologies

2 Confirmation of Agenda

3 Disclosures of Interest

Any disclosures of interest relating to the business at this meeting

4 Matters Arising from Previous Meetings minutes 8-12
Doc # 11611601 & 11300554

This report reviews the actions and matters arising from the previous Audit and Risk Committee meetings.

Minutes from the 1 November 2017 meeting of the Audit and Risk Committee. 13-27

5 Risk Management Activity and Key Projects Update 28-51
Doc # 11440273

This report provides an update on risk management activities and key project risks.
Mr Jared Williams from Audit NZ will be in attendance to provide an update on the 2018 Long Term Plan audit.

6 Havelock North Water Inquiry Update 52-57
Doc # 11904260

This report presents a review of the Havelock North Drinking Water Inquiry: Stage 2 with regard to the potential implications for Waikato Regional Council’s (WRC) roles, responsibilities and functions.

7 Policy Review Schedule Update 58-64
Doc # 11439871 & 11848741

This report provides an update on the Waikato Regional Council policies that are due for review/renewal this quarter.

8 Treasury Risk Management Policy Review 65-120
Doc # 11873976, 11727504, 11725598 & 11831222

This report presents an updated Treasury Risk Management Policy to the Committee for endorsement. The updated policy reflects Council’s decision as part of the 2018 – 2028 Long Term Plan to commence an external borrowing programme through the Local Government Funding Agency.
9 **External Audit Update**  
Doc # 11872058 & 11869039  
This report provides an update on outstanding matters from previous audits and seeks approval for the Chair of the Audit and Risk Committee to sign the Audit Arrangements Letter for the 2017/18 Annual Report audit when received.

10 **Internal Audit Programme Update**  
Doc # 11437580, 11905151, 11810493, 11904301, 11905215  
This report provides a status update on the internal audit programme.

11 **Waikato Regional Council flood protection asset risk management**  
Doc # 11874812  
This report provides an overview of the work areas currently underway to manage the risk associated with the flood protection assets managed by the Waikato Regional Council, and in particular the progress that has been made since the last report (October 2017).

12 **Tauhei Flood Control Project**  
Doc # 11530178  
This report outlines the factors that contributed to an increased project cost estimate for the proposed Tauhei project, a chronology of reporting to council, and landowners and business improvement measures taken as lessons learnt.

13 **Resolutions to Exclude the Public**

<table>
<thead>
<tr>
<th>General subject of each matter to be considered</th>
<th>Reason for passing this resolution in relation to each matter</th>
<th>Ground(s) under section 48(1) for the passing of this resolution</th>
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<tbody>
<tr>
<td>Recommended that the public be excluded from the following part/s of the meeting:</td>
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<tr>
<td>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:</td>
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<td>Item No</td>
<td>Interest</td>
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<tr>
<td>14, 15</td>
<td>Protect information where the making available of the information (i) would disclose a trade secret; or (ii) would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information (Schedule 7(2)(b))</td>
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<td>15</td>
<td>Protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - (i) would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied; or (ii) would be likely otherwise to damage the public interest (Schedule 7(2)(c))</td>
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<td>15</td>
<td>Avoid prejudice to measures that prevent or mitigate material loss to members of the public (Schedule 7(2)(e))</td>
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<td>14, 15</td>
<td>Maintain legal professional privilege (Schedule 7(2)(g))</td>
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<td>15</td>
<td>Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities (Schedule 7(2)(h))</td>
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<td>Item No</td>
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<tr>
<td>14, 15</td>
<td>Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (Schedule 7(2)(i))</td>
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14  **Potential Liability Claims**  
Doc # 11763523  
222-224

15  **Public Excluded Minutes of the Audit and Risk Committee meeting held on 1 November 2017**  
Doc # 11302239  
225-228

Doc # 11900544
Report to Audit and Risk Committee

Date: 28 February 2018

Author: Mike Garrett, Chief Financial Officer

Authoriser: Mike Garrett, Chief Financial Officer

Subject: Matters arising from previous meetings minutes

Purpose

1. To review the actions and matters arising from the previous Audit and Risk Committee meetings.

Staff Recommendation:

1. That the report ‘Matters arising from previous meetings minutes’ (Doc #11611601 dated 18 December 2017) be received.

Matters from previous meeting minutes

<table>
<thead>
<tr>
<th>Meeting Date</th>
<th>Item/issue</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 December 2014</td>
<td>[Standing item] Update Audit and Risk Subcommittee regularly on implementation of Asset Management maturity recommendations.</td>
<td>A report on current asset management activities in included in the agenda.</td>
</tr>
<tr>
<td>2 17 March 2016</td>
<td>In respect to the 60/40 Government disaster funding share, the Subcommittee asked that staff advocate that the timing of the new regulations coincide with the next Long Term Plan process.</td>
<td>We are still awaiting release of the proposal document for consultation.</td>
</tr>
<tr>
<td>3 6 December 2016</td>
<td>Report back on findings from Havelock North water contamination enquiry.</td>
<td>A report is included in the agenda.</td>
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<td>4 1 March 2017</td>
<td><strong>Health and Safety</strong> Provide a report indicating the leave hours for an average employee and the trends compared with other organisations. It could be useful to know if there were staff who never took leave in blocks.</td>
<td>Report on annual leave management, including management of leave balances and leave taken in blocks is included in agenda.</td>
</tr>
<tr>
<td>5 1 November 2017</td>
<td><strong>Draft New Zealand Transport Authority Audit Report – Monitoring Investment Performance</strong> In relation to the Total Mobility Scheme, the Chief Financial Officer undertook to update the Committee on the timing for the implementation</td>
<td>Initial planning was for an implementation between July-October 2018 but timing will be dependent on confirmed timing for the main Electronic Ticketing implementation and resource availability.</td>
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<td>Meeting Date</td>
<td>Item/issue</td>
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<td>6 1 November 2017</td>
<td><strong>Risk Management Activity and Key Projects Update</strong>&lt;br&gt;&lt;br&gt;&lt;strong&gt;Health and Safety Dashboard&lt;/strong&gt;&lt;br&gt;&lt;br&gt;&lt;em&gt;pending events&lt;/em&gt;&lt;br&gt;The Committee were of the view that events pending beyond one week was unsatisfactory noting there needs to be a greater awareness of events within a 24-hour period.&lt;br&gt;&lt;br&gt;&lt;em&gt;Near Miss Corrective Actions&lt;/em&gt;&lt;br&gt;Staff undertook to follow up on the timeliness associated with the number of near misses reported.</td>
<td>The ‘pending events’ is a design feature of Vault. A pending event is an event that been logged into Vault by an employee, but has not been allocated for investigation by a manager. Generally the same manager is the investigator. To move the pending event to an ‘active event’, the manager needs to assign an investigator within 48 hours, according to the H&amp;S management system procedures. Sometimes managers are already investigating the incident, but have not yet completed the administrative process of moving the event. With education of both managers and business support officers, data has shown a reduction in the pending event percentage from 46% in July 2016 to 12.5% in October 2017. Events are not closed until all corrective actions are completed. The manager ensures that realistic timeframes are in place to account for the controls i.e. engineering controls requiring capital expenditure. If there are 8 completed actions and 1 open action the event will remain open. Since April 2016 additional training has been available and overdue corrective actions are now rarely seen. Technically the wording should state ‘underway’ rather than ‘not started’, as it would be red if the timeframes were exceeded. The system administrator is looking into the setting to see if this can be altered to reflect the status more clearly.</td>
</tr>
<tr>
<td>7 1 November 2017</td>
<td><strong>Policy Review Schedule Update</strong>&lt;br&gt;&lt;br&gt;Members requested that both the Fraud Policy and the Protected Disclosures Policy be presented back to Due to LTP workload the fraud policy review has not be completed and will be submitted to the May committee meeting. As part of the policy review we plan to run a</td>
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<td>the Audit and Risk Committee for consideration and approval.</td>
<td>fraud risk assessment workshop that KPMG will facilitate. The Protected Disclosure policy review is included in the agenda.</td>
</tr>
<tr>
<td>8 1 November 2017</td>
<td><strong>Gift Register Update for Staff and Elected Members</strong></td>
<td>Staff are currently revising the Code of Conduct for Elected Members which includes the Elected Members Gifts Policy.</td>
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<td>In respect to the Elected Members Gifts Policy the Committee were of the view that:</td>
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<td>Point 1.1</td>
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<td>‘Councillors may accept any gifts, hospitality or benefits that have an estimated value of less than $100 (including GST) on the condition that acceptance cannot be perceived as a means of influencing a Council decision making process’</td>
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<td>Required rewording as this requirement also relates to gifts of value of more than $100.</td>
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<td>Notwithstanding this, the Committee requested that the Policy differentiate between a hospitality requirement as part of the role versus a personal gift.</td>
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<td>The Committee sought assurance on the rugby tickets received by Anna John and the potential for a conflict.</td>
<td>The Procurement Manager has confirmed with the staff members manager there was no conflict</td>
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<td></td>
<td>The Chief Financial Officer undertook to follow up on this matter.</td>
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<td>9 1 November 2017</td>
<td><strong>Internal Audit Programme Update</strong></td>
<td>The Report has been updated accordingly.</td>
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<td>In relation to the Internal Audit Actions Status report, it was felt that it would be useful to have some accountability for the actions underway and expected completion dates.</td>
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<td>10 1 November 2017</td>
<td><strong>Waikato Regional Council Flood Protection Asset Risk Management</strong></td>
<td>Updated report is included in the agenda</td>
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<td>The Committee complimented staff on the report and requested regular reporting to the Audit and Risk Committee on progress against the recommendations.</td>
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<td>Meeting Date</td>
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<tr>
<td>11 1 November 2017</td>
<td><strong>Project Review – Tauhei Flood Control Project</strong>&lt;br&gt;The Committee requested an analysis of what contributed to the spend, information on the additional $10 million required, why the failure occurred and why staff did not go back to the community with the issue at an earlier stage.</td>
<td>Report is included on the agenda</td>
</tr>
<tr>
<td>12 1 November 2017</td>
<td><strong>Assessment of Flood Management Liability</strong>&lt;br&gt;Management were asked to provide a response to the legal opinion received by Tompkins Wake to the March 2018 Audit and Risk Committee meeting.</td>
<td>This is included in the WRC Flood Protection Asset Risk Management Report that is on the agenda (refer to paragraph 10).</td>
</tr>
<tr>
<td>13 1 November 2017</td>
<td><strong>Insurance Programme Update Including 2017/18 Insurance Renewal</strong>&lt;br&gt;- The Committee requested a summary of all of the premiums at the March 2018 Audit and Risk Committee meeting.&lt;br&gt;- Staff undertook to provide members with details around the motor vehicle underwriters.</td>
<td>Vehicle insurance has moved from NZI to Lumley&lt;br&gt;Summary of policy premiums 2017/18&lt;br&gt;Crime 12,232.26&lt;br&gt;Employers' Liability 1,060.50&lt;br&gt;Statutory Liability 3,721.07&lt;br&gt;Corporate Travel 381.25&lt;br&gt;Accident and Health 1,107.50&lt;br&gt;Infrastructure 164,744.39&lt;br&gt;Infrastructure primary layer 78,234.01&lt;br&gt;Business Interruption 1,194.08&lt;br&gt;Material damage (fire) 60,794.54&lt;br&gt;Material damage 55,002.54&lt;br&gt;Material damage excess layer 1,779.09&lt;br&gt;Cyber liability 14,201.41&lt;br&gt;Motor vehicle 106,398.08&lt;br&gt;Marine Hull 6,792.11&lt;br&gt;Forestry 1,588.38&lt;br&gt;509,231.21</td>
</tr>
</tbody>
</table>
Attachments
Minutes of the Audit and Risk Committee meeting held on 1 November 2017 (DM# 11300554)
Audit and Risk Committee
OPEN MINUTES

Minutes of a meeting of the Audit and Risk Committee held in Council Chamber, 401 Grey Street, Hamilton East on 1 November 2017 at 9.04am.

Chairperson
H Stevens
Deputy Chairperson
Cr J Hennebry
Present
Cr B Simcock
Cr H Vercoe
External Member
G Naylor
Ex-officio
Cr A Livingston
In Attendance
Cr F Lichtwark
Staff
V Payne – Chief Executive
M Garrett – Chief Financial Officer
C Crickett – Director Integrated Catchment Services
K Bennett – Manager CE’s Office
J Becker – Finance Manager
D Thurlow – Democracy Advisor
Apologies  
(Agenda Item 1)

Confirmation of Agenda  
(Agenda Item 2)

H Stevens moved/G Naylor seconded

AR17/53 RESOLVED THAT the agenda of the Audit and Risk Committee of 1 November 2017 as circulated be confirmed as the business for the meeting.

The motion was put and carried (AR17/53)

Disclosures of Interest  
(Agenda Item 3)

There were no disclosures of interest noted.

SECTION A: (UNDER DELEGATION FOR THE INFORMATION OF COUNCIL)

Matters Arising from Previous Meeting Minutes  
(Agenda Item 4) Doc # 11010766 & 10844756

Chief Financial Officer (M Garrett) outlined the actions and matters arising from previous Audit and Risk Committee meetings.

Arising from questions, answers and related discussion, the following matters were noted:

- In relation to the Entertainment Policy, the Chief Financial Officer advised of the following Policy wording:

  Section 5: Wherever practicable, approval for entertainment and hospitality expenditure must be given before the expenditure is incurred.

  Section 6: Approval for entertainment and hospitality expenditure must be given by the manager of (i.e. one up approval) the staff member claiming the expenditure.

- On page 20 of the agenda, the Chief Financial Officer clarified that the statement in the minutes:

  “... that the Chair of the Audit and Risk Committee would present at the Council meeting on 28 September 2017 to provide assurance to the Council that there are no reasons why Council should not adopt the Annual Report”

should state

“... there are no reasons, with respect to the matters covered by the Audit and Risk Committee why Council should not adopt the Annual Report”.

Doc # 11300554
- The Chair advised that he attended the Council meeting on 28 September 2017 on behalf of the Audit and Risk Committee and provided negative assurance on the Annual Report.

G Naylor moved/Cr Hennebry seconded

AR17/54

**RESOLVED**

1. THAT the report ‘Matters arising from previous meetings minutes’ (Doc # 11010766 dated 20 October 2017) be received.

**RESOLVED**

2. THAT the minutes of the Audit and Risk Committee meeting held on 11 August 2017 be confirmed as, a true and correct record (Doc # 10844756).

The motion was put and carried (AR17/54)

**Draft New Zealand Transport Authority Audit Report – Monitoring Investment Performance**

(Agenda Item 5) Doc # 11257106 & 11212883

Chief Financial Officer (M Garrett) presented the draft New Zealand Transport Authority Audit report to the Committee’s information and provided assurance that the New Zealand Transport Authority’s Investment in the Waikato Regional Council’s Land Transport Programme is being well-managed and delivering value for money.

In speaking to the report the Chief Financial Officer advised the Committee that the overall conclusion in the audit report was that the Council had good processes and financial systems in place and rated the overall ‘risk assessment’ as effective. He further advised that the New Zealand Transport Authority noted a minor discrepancy with SuperGold patronage, which differed from that reported in Council’s annual achievement return and requested a reconciliation in the SuperGold patronage by 31 August 2017, which has been completed.

Arising from questions, answers and related discussion, the following matters were noted:
- Given the shortcomings in the ticketing system, the Committee were pleased to see robust levels of control in this area.
- In relation to the Total Mobility Scheme, the Chief Financial Officer undertook to provide the Committee with a report outlining the timing for the implementation of the electronic Ridewise system for administering this scheme.
- The Committee were pleased to see that a complaints management process was in place for passenger transport.

Cr Livingston moved/G Naylor seconded

AR17/55

**RESOLVED**

THAT the report ‘Draft New Zealand Transport Authority Audit Report – Monitoring Investment Performance’ (Doc # 11257106 dated 18 October 2017) be received.

The motion was put and carried (AR17/55)
Risk Management Activity and Key Projects Update

The Manager, CE’s Office (K Bennett) provided an update on risk management activities and key project risks.

Corporate risks and associated mitigation actions

The Manager, CE’s Office (K Bennett) provided an update on the corporate risk register noting that three timeframes have been extended for the following reasons:

- CORP05(1) - all outstanding actions are being managed, the most significant related to sourcing an appropriate provider to support the education and awareness objective around risk management processes. A provider was identified recently and planning has commenced for the pilot and evaluation of the internal training programme by March 2018.

- CORP07(1) – whilst most of the business planning template has been completed it has been put together using a modular approach through the LTP, i.e. each time an activity lead finishes a part of the LTP process it is translated into their business plan. The completion date is being extended to align with the end of the LTP process. At the end of the LTP process, each activity will have a standard business plan with all their LTP information which needs to be updated on an annual basis.

- CORP09(1) – the timeframe for completion was 31 December 2017. Whilst this is on track for partial completion by that date, with employment of staff in vacant roles and refinement of processes and procedures, the completion date needs to be extended with regard to the setting of security passwords and controls on who can access data due to limitations of the database software. These limitations are currently being addressed with the provider.

In speaking to the report, the Manager noted that Council will be holding a workshop in relation to CORP10 to establish the type of information required for an integrated monitoring and reporting framework that provides assurance that Waikato Regional Council is effectively managing the region’s natural resources and that policies and actions detailed in the Waikato Regional Policy Statement are being delivered.

Arising from questions, answers and related discussion, the following matters were noted:

- The Committee sought clarification around CORP07 specifically the comment that Waikato Regional Council is being asked to do more with less. In response the Manager, CE’s Office advised that this relates to expectations from Government and the community that Council will deliver more within existing budgets. The Committee were of the view that if this is an issue, that as part of the Long Term Plan, Council needs to establish the funding requirements in order to meet these expectations. Notwithstanding this, and noting the completion dates associated with the mitigation actions, members questioned whether the extended timeframes are exacerbating the risks, and if they are, should these be considered as part of the Long Term Planning process to ensure the mitigation activities are appropriate to the risk.

- In respect to the mitigation actions for CORP03, specifically the completion of the Maori Engagement Strategy, members were advised that this item has been brought forward from the listed 27 March 2018 date and will be presented to the Strategy and Policy meeting scheduled on 28 November 2017.
Health and Safety

The Committee took this part of the report as read.

Arising from questions, answers and related discussion, the following matters were noted:
- The Committee stressed the need to continually revise policies in light of changing circumstances. Members were advised that the Health and Safety Governance Group and the Health and Safety Committee regularly review events and issues and consider reviewing and updating policies in light of changing circumstances.

Annual Leave Management

The Manager CE’s Office spoke to this part of the report noting that overall there is an improvement in annual leave management; however, there are staff with balances in excess of 400 hours. In regard to those staff with high leave balances, management are working with the individuals concerned to reduce their balances. Consideration will be given to requiring staff with leave balances of greater than 320 hours to take leave.

Policy Review Schedule

The Manager, CE’s Office advised the Policy Review Schedule is addressed as a separate item on the agenda.

Legislative Compliance (ComplyWith)

Compliance surveys were sent out to staff for the period 1 April 2017 to 30 September 2017. Reporting timeframes have been extended because of staff involvement in Long Term Plan matters and so updates will be provided to the Committee in March 2018.

Feedback and Complaints

The Manager CE’s Office spoke to this part of the report noting there has been significant improvement in feedback and complaints. Analysis of feedback and complaints over the past three months indicates customers’ main complaint is that Waikato Regional Council does not respond to their initial inquiry in a timely way. This issue (around service delivery of responding to complaints) is being addressed through the Customer Project, which is due to be completed by January 2018. One of the aims of the project is to embed the expectation that Council staff will respond to a customer’s request within two working days. The Committee was further advised that the greatest number of complaints relate to public transport, which should be viewed in the context of volume, approximately 4 million passenger trips a year.

Councillor Vercoe arrived at the meeting at 9.39am.

Office of Auditor General – Regional Council Progress in Managing Impacts on Freshwater Quality 2017

The Manager CE’s Office spoke to this part of the report noting the Audit and Risk Committee has asked for assurance that Council is managing the region’s natural resources effectively. Aligned to this request, the Committee was advised that in late 2017 the Office of the Auditor General will start a review of Council’s progress in managing impacts on freshwater quality. The audit will revisit the recommendations of Office of the Auditor General 2011 report on freshwater management and examine how
well the public sector manages water and delivers services that affect or make use of water. Council is one of four regional councils involved in the review. Following the self-assessment staff from Office of the Auditor General will be on-site for a week in late November/early December 2017 gathering further evidence and conducting interviews with key staff with the final report expected to be completed within the 2017/2018 financial year.

Arising from questions, answers and related discussion, the following matters were noted:

- David Walker from Audit New Zealand advised the Committee that the Office of the Auditor General issued a ‘foundation report on the 3 waters’. Mr Walker undertook to circulate the report to members.
- The Chief Executive advised that the Office of the Auditor General focussed on the 3 waters and freshwater management and not on flood protection. The Chief Executive informed the Committee that he had met with the Office of the Auditor General and requested that it look at flood protection across the country, given the public interest and the lack of awareness.

**Block D Car Park**

The Manager CE’s Office drew the Committee’s attention to Council’s performance, which was comprehensively and independently assessed in March 2017 as part of the CouncilMARK™ local government excellence programme, resulting in an ‘A’ rating. One of the areas of improvement noted was that “the Council’s earthquake-prone carpark building must be added to the risk register”. As a business plan was underway for the new accommodation project (sale of 401 Grey Street and move to a leased premises), it was decided to focus on funding the new accommodation rather than progressing to upgrade the Block D carpark.

**Key Organisational Project Updates**

Proposed Waikato Regional Plan Change 1 Waikato and Waipa River Catchments (PPC1) was publicly notified on 22 October 2016, with the submission period closing on 8 March 2017.

**Health and Safety Dashboard**

**Pending Events**

The Committee were of the view that events pending beyond one week was unsatisfactory noting there needs to be a greater awareness of events within a 24-hour period.

**Sick Leave**

In relation to monthly absent hours lost compared to target the Committee were of the view that despite the reduction of leave to 4.4 hours lost per full time equivalent, it was still a significant amount of time lost.

**Near Miss Corrective Actions**

Staff undertook to follow up on the timeliness associated with the number of near misses reported.
G Naylor moved/Cr Hennebry seconded

**AR17/56**

**RESOLVED**

THAT the report ‘Risk management activity and key projects update’ (Doc # 10944202 dated 20 October 2017) be received.

The motion was put and carried (AR17/56)

**Policy Review Schedule Update**

(Agenda Item 7) Doc # 10942873

The Manager, CE’s Office (K Bennett) provided an update on the Waikato Regional Council policies that are due for review/renewal this quarter.

Arising from questions, answers and related discussion, the following matters were noted:

- Members requested that both the Fraud Policy and the Protected Disclosures Policy be presented back to the Audit and Risk Committee for consideration and approval.

Cr Livingston moved/G Naylor seconded

**AR17/57**

**RESOLVED**

THAT the report ‘Policy Review Schedule Update’ (Doc # 10942873 dated 20 October 2017) be received.

The motion was put and carried (AR17/57)

**Gift Register Update for Staff and Elected Members**

(Agenda Item 8) Doc # 11219812, 4076281 & 2237035

The Committee took the summary of gifts received by Elected Members and staff during the period 1 April 2017 to 30 September 2017.

Arising from questions, answers and related discussion, the following matters were noted:

- In respect to the Elected Members Gifts Policy the Committee were of the view that:

  **Point 1.1**

  ‘Councillors may accept any gifts, hospitality or benefits that have an estimated value of less than $100 (including GST) on the condition that acceptance cannot be perceived as a means of influencing a Council decision making process’

  Required rewording as this requirement also relates to gifts of value of more than $100. Notwithstanding this, the Committee requested that the Policy differentiate between a hospitality requirement as part of the role versus a personal gift.

  - The Committee sought assurance on the rugby tickets received by Anna John and the potential for a conflict. The Chief Financial Officer undertook to follow up on this matter.
Cr Vercoe moved/Cr Livingston seconded

AR17/58

RESOLVED

THAT the report ‘Gift register update for staff and elected members’ (Doc # 11219812 dated 11 October 2017) be received.

The motion was put and carried (AR17/58)

SECTION B: (FOR RECOMMENDATION TO COUNCIL)

Audit New Zealand Long Term Plan Letter of Engagement
(Agenda Item 9) Doc # 11218327 & 11273862

Chief Financial Officer (M Garrett) presented the Audit New Zealand 2018-2028 Long Term Plan Letter of Engagement to the Audit and Risk Committee. In speaking to the report, an update on the project governance structures, quality assurance process and high-level risk associated with the Long Term Plan project was provided.

David Walker from Audit New Zealand spoke to the Audit Letter of Engagement for the 2018-2028 Long Term Plan.

Arising from questions, answers and related discussion, the following matters were noted:

- In relation to the statement from Audit New Zealand on page 66 of the agenda stating ‘we assume that elected members are familiar with those responsibilities and, where necessary, have obtained advice about them’, the Chair of the Committee asked Councillors to confirm that this was a reasonable assumption. In response, the Chief Financial Officer advised members that from a staff perspective Councillors have been engaged in the Long Term Plan process. The Chair of Council agreed with the comment by the Chief Financial Officer and assured members that this assumption was correct.

H Stevens moved/G Naylor seconded

AR17/59

RESOLVED

1. THAT the report ‘Audit New Zealand Long Term Plan Letter of Engagement’ (Doc # 11218327 dated 20 October 2017) be received.

RECOMMENDED

2. THAT the Audit Letter of Engagement for the 2018-2028 Long Term Plan be recommended to Council for approval.

The motion was put and carried (AR17/59)

SECTION A: (UNDER DELEGATION FOR THE INFORMATION OF COUNCIL)

Audit New Zealand Letter for the year ended 30 June 2017
(Agenda Item 10) Doc # 11260595

Finance Manager (J Becker) presented the Audit Management Letter covering the results from the audit of the Council’s 2016/17 Annual Report.
The Management Report on the audit of Waikato Regional Council for the year ended 30 June 2017 was tabled (Doc # 11284491).

David Walker from Audit New Zealand spoke to the Letter noting the following:
- In relation to Sensitive Expenditure approvals, Audit New Zealand, whilst not concerned, highlighted the need for transparency.
- In relation to the accounting treatment of Regional Software Holdings Limited, the differing views with management and Audit New Zealand were acknowledged.
- A number of Council’s have found themselves not legally compliant with regard to rates. Whilst this is not the case for Waikato Regional Council, Council was encouraged to remain vigilant in this area.

Arising from questions, answers and related discussion, the following matters were noted:
- Members were of the view that Council’s stance with regard to Regional Software Holdings Limited was justifiable at this stage and not a matter that the Committee should be currently concerned about.
- The Chief Financial Officer outlined Council’s process with regard to any new rate, noting that it is reviewed by Council’s Lawyers to ensure Rating Policies are accurate and the rates are valid.
- The Chair of Audit and Risk Committee advised that he had spoken with Audit New Zealand prior to the meeting and that there were no matters they wished to raise without management present.
- The Committee congratulated the Finance Team for a such a ‘clean’ audit report.

Cr Vercoe moved/G Naylor seconded

AR17/60  
RESOLVED  
THAT the report ‘Audit Management Letter for the year ended 30 June 2017’ (Doc # 11260595 dated 18 October 2017) be received.

The motion was put and carried (AR17/60)

The meeting adjourned for morning tea at 10.12am and reconvened at 10.27am.

Internal Audit Programme Update  
(Agenda Item 11) Doc # 10942349 & 17271758

The Manager, CE’s Office (K Bennett) introduced the Internal Auditors.

Richard Taylor and David Sutton from KPMG provided an update on the internal audit programme.

Arising from questions, answers and related discussion, the following matters were noted:
- In relation to the Internal Audit Actions Status report, it was felt that it would be useful to have some accountability for the actions underway and expected completion dates.
- Staff advised the Health and Safety Integrated Catchment Management review has been deferred pending further discussion regarding the directorate’s capacity to engage in such a review.
- KPMG presented its assessment of the adequacy and effectiveness of Waikato Regional Council’s framework, processes and controls to manage and monitor flood protection assets.
- Discussion centred on the issue faced by Council around privately owned stopbanks that are not maintained and the reputational risk that this poses to Council if the scheme fails during a flood event.
- Given the significant issues raised in relation to the Asset Management Review – Flood Protection, the Committee questioned when it would receive comments from management on how they intend to deal with these. It was further noted that given that Council is entering into the Long Term Plan process that it is an ideal time to engage with the community, given their increased expectations around flood protection, on the cost consequences of increased levels of service. Notwithstanding this, the Committee acknowledged the affordability issue that exists.
- The Chair thanked KPMG for their comprehensive review on flood protection.

Cr Vercoe moved/G Naylor seconded

AR17/61

RESOLVED
THAT the report ‘Internal audit programme update’ (Doc # 10942349 dated 20 October 2017) be received.

The motion was put and carried (AR17/61)

Findings of the Independent Review into Rangitaiki River Scheme
(Agenda Item 12) Doc # 11232646

Chris Ingle and Mat Taylor from the Bay of Plenty Regional Council presented a summary of the findings of the independent review of the 6 April 2017 Rangitaiki River Scheme breach (Doc # 11352070).

Arising from questions, answers and related discussion, the following matters were noted:
- A question was raised as to whether the one in one hundred-year event terminology disadvantages councils insofar as it makes it difficult for communities to understand the actual risk.
- The importance of having good relationships in place with territorial authorities and civil defence around evacuation planning was emphasised.
- A question was raised as to whether there is any signal from Central Government that the funding model for flood schemes is no longer sustainable particularly for smaller rural communities. Members were of the review that if regional councils collectively looked at flood protection as a whole they would likely achieve more traction from Central Government as opposed to each council approaching Government individually.
- The Committee commended the Bay of Plenty for taking a proactive approach in setting up the inquiry to establish where the issues lay. The presenters were thanked for taking the time to present on the findings that were identified as part of the independent review.
Cr Hennebry moved/Cr Livingston seconded

**AR17/62**  
**RESOLVED**  
THAT the report ‘Findings of the independent review into Rangitaiki River Scheme’ (Doc # 11232646 dated 13 October 2017) be received.

The motion was put and carried (AR17/62)

With the consent of the meeting, Item 14 was considered at this time.

**Waikato Regional Council Flood Protection Asset Risk Management**  
(Agenda Item 14) Doc # 11203125

Acting Manager Business and Technical Services (G Ryan) provided an overview of the work areas currently underway to manage the risk associated with the flood protection assets managed by the Waikato Regional Council, including:

a. An overview of the framework of legislation and plans that the Waikato Regional Council flood protection activity operates within
b. A summary of findings from the report into the Edgecumbe flood event, including an overview of the recommendations made and how they relate to the Waikato Regional Council
c. An update on the work recently undertaken to assess the Waikato Regional Council assets that protect urban areas
d. A brief introduction to the involvement of the Waikato Hydro-scheme (operated by Mercury) and Tongariro Hydro-scheme (operated by Genesis) in the management of flooding in the Waikato River; and

e. An update on other asset management projects, including the Waikato Regional Council Infrastructure Strategy 2018 – 2067, and the recently completed asset management review by KPMG.

Arising from questions, answers and related discussion, the following matters were noted:
- Staff advised that they are happy with the relationships that exist with Council and the hydro operators. A question was raised around Council’s ability to dictate water levels to the hydro operators at a time that could affect them economically.
- The Committee questioned, under Part C: Waikato Regional Council flood protection in urban areas, why it has taken an incident for operational matters to be remedied. In response staff noted that a number of the issues identified were already in progress prior to this inspection being completed, and that the report provided further impetus to ensure resolution.
- Following on from the learnings from the Rangitaiki River Scheme breach, members questioned whether Council has triggered dam safety conservations, and if not, should these conversations start happening. Staff noted that dam safety is already a consideration during the management of flood events, and is incorporated into existing decision-making processes.
- The Committee complimented staff on the report and requested regular reporting to the Audit and Risk Committee on progress against the recommendations.

G Naylor moved/Cr Hennebry seconded

**AR17/63**  
**RESOLVED**  
THAT the report ‘Waikato Regional Council flood protection asset risk management’ (Doc # 11203125 dated 17 October 2017) be received.

The motion was put and carried (AR17/63)
Project Review – Tauhei Flood Control Project  
(Agenda Item 13) Doc # 11262118

Manager Lower Waikato/Waipa/West Coast Catchments (M Davis) presented a summary of observations in relation to the reasons why the current estimates for flood protection work on the Tauhei scheme vary markedly from original estimates, which were developed in 2014. In speaking to the report the Manager highlighted how management intend to ensure such risks are mitigated in the future, including informing a review of funding policy and other Council processes (Doc # 11305711).

The Director Integrated Catchment Services (C Crickett) spoke to the report acknowledging that better communication would have meant the drainage scheme stakeholders would have been more prepared for potential cost escalations for the increased level of flood protection in the Tauhei area.

Arising from questions, answers and related discussion, the following matters were noted:
- Discussion centred on the $853,000 that has been expended on investigation, design, assessment of environmental effects and consultation. Whilst members may understand plus or minus 50 percent of the total original project cost, they could not comprehend how we ended up 3 to 4 times what was originally estimated, nor could they understand that somebody did not know about this significant increase earlier on in the project design. Notwithstanding this, members felt that the report did not provide a breakdown on how the project cost went from a small amount to one 3 to 4 times greater than what was originally proposed. Given that the quality of the earlier estimates appears lacking, early decisions were made on flawed information, which brings into question the decision-making aspect of the project. It was felt that communication with stakeholders was not the only issue but that we also need to address the governance process and decision making authority in these matters. The Chair of Council expressed his disappointment about the situation. Whilst he acknowledged that poor communication had contributed to the matter, he noted that this was not the sole reason. He was of the view that this matter needs to be addressed as soon as possible. On this basis the Committee requested an analysis of what contributed to the spend, information on the additional $10 million required, why the failure occurred and why staff did not go back to the community with the issue at an earlier stage.

H Stevens moved/Cr Vercoe seconded

AR17/64  RESOLVED
THAT the report ‘Project Review – Tauhei flood control project’ (Doc # 11262118 dated 18 October 2017) be received.

The motion was put and carried (AR17/64)

SECTION A:  (UNDER DELEGATION FOR THE INFORMATION OF COUNCIL)

Resolutions to Exclude the Public  
(Agenda Item 15)

AR17/65  Cr Hennebry moved/G Naylor seconded

Recommended that the public be excluded from the following part/s of the meeting:
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:

<table>
<thead>
<tr>
<th>General subject of each matter to be considered</th>
<th>Reason for passing this resolution in relation to each matter</th>
<th>Ground(s) under section 48(1) for the passing of this resolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 Assessment of flood management liability</td>
<td>Good reason to withhold exists under Section 7.</td>
<td>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a)</td>
</tr>
<tr>
<td>17 Public Excluded minutes of the Audit and Risk Committee meeting held on 11 August 2017</td>
<td>Good reason to withhold exists under Section 7.</td>
<td>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a)</td>
</tr>
<tr>
<td>18 Potential Liability Claims</td>
<td>Good reason to withhold exists under Section 7.</td>
<td>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a)</td>
</tr>
<tr>
<td>19 Information systems security review status update</td>
<td>Good reason to withhold exists under Section 7.</td>
<td>That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a)</td>
</tr>
</tbody>
</table>
20 Insurance programme update including 2017/18 insurance renewal

Good reason to withhold exists under Section 7.

That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a)

This resolution is made in reliance on sections 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 7 of that Act, which would be prejudiced by the holding of the relevant part of the proceedings of the meeting in public are as follows:

<table>
<thead>
<tr>
<th>Item No</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>16, 17,18</td>
<td>Protect information where the making available of the information (ii) would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information (Schedule 7(2)(b))</td>
</tr>
<tr>
<td>20</td>
<td>Protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - (i) would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied; or (ii) would be likely otherwise to damage the public interest (Schedule 7(2)(c))</td>
</tr>
<tr>
<td>19</td>
<td>Avoid prejudice to measures that prevent or mitigate material loss to members of the public (Schedule 7(2)(e))</td>
</tr>
<tr>
<td>16, 17,18</td>
<td>Maintain legal professional privilege (Schedule 7(2)(g))</td>
</tr>
<tr>
<td>19</td>
<td>Enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities (Schedule 7(2)(h))</td>
</tr>
<tr>
<td>16, 17,18</td>
<td>Enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (Schedule 7(2)(l))</td>
</tr>
</tbody>
</table>

THAT JAMES MACGILLVRAY of TOMPKINS WAKE be permitted to remain at this meeting, after the public has been excluded, because of their knowledge of Assessment of flood management liability. This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because of his knowledge of the subject.

The motion was put and carried (AR17/65)
Return to Open Meeting at 1.03pm.

Meeting closed at 1.03pm.
Report to Audit and Risk Committee

Date: 28 February 2018

Author: Sarah Jones, Senior Legal Advisor

Authoriser: Karen Bennett, Manager Chief Executive’s Office

Subject: Risk Management Activity and Key Projects Update

Section: A (Committee has delegated authority to make decision)

Purpose

1. To update the Audit and Risk Committee on Waikato Regional Council’s (council’s) risk management activities and key project risks.

Executive Summary

2. The report provides an update on the following:
   - Corporate risks and associated mitigation actions;
   - Health and safety;
   - Annual Leave Balances;
   - Legislative compliance;
   - Feedback and complaints;
   - Office of the Auditor General – Regional Council Progress in Managing Impacts on Freshwater Quality 2017;
   - Office of the Auditor General – Hauraki Gulf Marine Spatial Plan process;
   - Animal Welfare Act Compliance;
   - Travel, accommodation and expense claims policy;
   - Conflicts of Interest Declaration and Gifts Register Confirmation; and
   - Key Project Updates
     - Healthy Rivers/ Wai Ora ;
     - Healthy Rivers/Wai Ora (Implementation); and

Staff Recommendation:
That the report “Risk Management Activity and Key Projects Update” (Doc# 11440273 dated 28 February 2018) be received.
Risk Management Activity Update

Background

3. Council’s risk management framework is used for risk identification, analysis, and evaluation and monitoring at corporate, directorate and project levels.

4. The council regularly reviews the organisational risk profile to provide governance oversight and direction. The identified risks and mitigation actions are monitored by staff and reported quarterly to Audit and Risk committee.

5. Due to current Long Term Plan (LTP) commitments, the councillor risk workshop will be scheduled following LTP adoption. As a matter of course, risks have been assessed throughout the LTP development process and consequently specific investments are proposed in the LTP to address identified risks. The workshop later in the year will help inform the review of council’s strategic direction as well as providing the opportunity to review risks that might affect council’s ability to achieve its LTP objectives.

6. The Risk Forum and other staff continue to review and update all key organisational risk controls. We are also developing a clear risk work programme for staff which will include ensuring directorate risk registers are consistently managed, monitored and reviewed.

Mitigation actions

7. There are mitigation actions for each corporate risk. For the last quarter: 3 actions have been completed, 18 are on track, 4 actions have a new timeframe, 2 actions are no longer required and there is 1 new action. These changes are reported in greater detail below, with all actions colour coded in the following tables.
<table>
<thead>
<tr>
<th>RISK NO</th>
<th>RISK</th>
<th>CURRENT RISK SCORE</th>
<th>RESIDUAL RISK SCORE</th>
<th>TREND</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP01</td>
<td>WRC is unable to provide the necessary emergency response internally and externally in the event of natural hazard, pollution or biosecurity events. <strong>Statement:</strong> WRC accepts a medium risk rating with all reasonable controls in place, recognising that the costs of implementing further controls across the region would be prohibitive.</td>
<td>Medium</td>
<td>Medium</td>
<td>↑ <strong>Constant vigilance required in light of climate change impacts and biosecurity incursion risk.</strong></td>
</tr>
<tr>
<td>CORP02</td>
<td>Non-compliance with legislation resulting in possible reputational damage, judicial reviews of council decisions, appointment of commissioners, Ombudsman enquiries, or legal action. <strong>Statement:</strong> WRC has a low tolerance for risk in regard to its legislative obligations, recognising that as an effective and responsible public body, WRC must endeavour to keep apprised of changing legislation and at all times must meet its legislative obligations. Only temporary, inconsequential breaches will be tolerated.</td>
<td>Medium</td>
<td>Medium</td>
<td>↓ <strong>The residual risk is currently rated medium. However, the risk is expected to decrease due to better/timely information to ensure WRC is abreast of legislative changes.</strong></td>
</tr>
<tr>
<td>CORP03</td>
<td>Ineffective partnership relationships or stakeholder engagement or public relations leading to an inability to work with others to achieve strategic objectives and loss of confidence in service delivery. <strong>Statement:</strong> WRC accepts a medium risk rating. The organisation has a responsibility to maintain mutually beneficial relationships with partners and stakeholders while recognising there are inherent risks in any relationship that are outside the council’s control.</td>
<td>High</td>
<td>High</td>
<td>↓ <strong>Risk expected to decrease following implementation of key strategies, however much remains outside WRC control.</strong></td>
</tr>
<tr>
<td>CORP04</td>
<td>Inability to shape a positive organisational culture leading to poor employee engagement, performance and customer service. <strong>Statement:</strong> WRC accepts a low level of risk recognising positive, engaged and capable people are central to the organisation’s ability to meet its strategic objectives.</td>
<td>High</td>
<td>Low</td>
<td>↓ <strong>Risk decreases as leadership and organisational culture initiatives are implemented.</strong></td>
</tr>
<tr>
<td>CORP05</td>
<td>Injury or illness to staff, contractors or others in the workplace as a result of an unsafe, unhealthy work environment and facilities. <strong>Statement:</strong> WRC is committed to reducing to reasonably practicable levels all identified health and safety risks and meeting all its obligations under health and safety legislation.</td>
<td>High</td>
<td>Medium</td>
<td>↓ <strong>Risk will decrease following the implementation of health and safety initiatives.</strong></td>
</tr>
<tr>
<td>CORP06</td>
<td>Information technology strategy, systems or infrastructure fail or are inadequate, resulting in an inability to deliver key services or to support current and future business needs. <strong>Statement:</strong> WRC accepts a medium risk environment but aspires to a lower risk environment within quality/time/cost parameters appropriate for a local authority.</td>
<td>High</td>
<td>Medium</td>
<td>↓ <strong>Risk will decrease following the implementation of IT audit findings and BCP requirements.</strong></td>
</tr>
<tr>
<td>CORP07</td>
<td>Ineffective planning processes impact on the Council’s ability to deliver on projects outlined in the LTP. <strong>Statement:</strong> WRC accepts a medium risk environment but aspires to a lower risk environment within quality/time/cost parameters.</td>
<td>High</td>
<td>Medium</td>
<td>↑ <strong>WRC is being asked to do more with less therefore the council must ensure effective planning and prioritisation</strong></td>
</tr>
<tr>
<td>CORP08</td>
<td>Inadequate management of operational processes may lead to misinformed or inappropriate decision making or overspend (includes funding of third parties). <strong>Statement:</strong> WRC accepts and operates in a low residual risk environment. Council has clear strategic, reporting and operations objectives and a prioritisation process to ensure public money is applied effectively.</td>
<td>High</td>
<td>Low</td>
<td>↓ <strong>Risk will decrease due to implementation of key organisational strategies and processes</strong></td>
</tr>
<tr>
<td>CORP09</td>
<td>Misuse of data externally or internally unintentionally or through criminal intent could expose WRC to financial, reputational and legal risk as well as damage to stakeholder relationships. <strong>Statement:</strong> WRC accepts that it operates in a medium risk environment but aspires to a lower risk environment within quality/time/cost parameters.</td>
<td>High</td>
<td>Medium</td>
<td>↓ <strong>Risk will decrease due to implementation of key strategies in place</strong></td>
</tr>
<tr>
<td>CORP10</td>
<td>Failure to deliver on the policies and actions detailed in the Waikato Regional Policy Statement resulting in reputational damage, environmental harm, and costs to the community. <strong>Statement:</strong> WRC has a low tolerance for risk in regard to its resource management role.</td>
<td>High</td>
<td>Medium</td>
<td>New key risk controls are currently managed at directorate level and are being reviewed corporately</td>
</tr>
</tbody>
</table>
8. Corporate Risk Register – List of Mitigation Actions

### CORP01: WRC is unable to provide the necessary emergency response internally and externally in the event of natural hazard, pollution or biosecurity events

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP 1.1</td>
<td>Marine Organism Pathway Management Plan (Regional Councils)</td>
<td>Patrick Whaley</td>
<td>01/10/2018 (for draft plan)</td>
<td>New timeframe</td>
<td>Working with Northland, Auckland and Bay of Plenty Regional Councils to develop a draft Interregional Pathways Plan. Development of this plan has been slow due to discussions around MPI leading the development of a national plan.</td>
</tr>
<tr>
<td>CORP 1.2</td>
<td>National Biosecurity Response Preparedness (including Foot and Mouth Preparedness Programme). WRC is participating in all stages of this work with MPI</td>
<td>Patrick Whaley</td>
<td>Ongoing</td>
<td>On track</td>
<td>Council staff undertake training as required and are on call for response if the need arises.</td>
</tr>
<tr>
<td>CORP 1.3</td>
<td>Inter-Regional Border Incursions Surveillance Programme</td>
<td>Patrick Whaley &amp; Darion Embling</td>
<td>Ongoing</td>
<td>On track</td>
<td>Working with MPI and Regional Council’s to manage biosecurity risk outside the region e.g. velvetleaf and kauri dieback issues with Auckland region.</td>
</tr>
<tr>
<td>CORP 1.4</td>
<td>Regional Natural Hazards Strategy (Phase 2 – external)</td>
<td>Rick Liefting</td>
<td>Ongoing</td>
<td>On track</td>
<td>Working with SAS and Regional Plan/Regional Coastal Plan reviews.</td>
</tr>
<tr>
<td>CORP 1.5</td>
<td>Emergency Response Framework</td>
<td>Rick Liefting</td>
<td>31/03/2018</td>
<td>New timeframe</td>
<td>Final draft to go out to internal stakeholders end of February, Final out end of March 2018.</td>
</tr>
<tr>
<td>CORP 1.6</td>
<td>Create a Funding Policy for Emergency Response.</td>
<td>Lee Hazlewood</td>
<td>30/06/2018</td>
<td>New timeframe</td>
<td>Scope of this policy needs to be re-evaluated. After further evaluation, the mandate for this policy sits within the Finance directorate and should be viewed as a joint effort. Will seek to close this joint initiative before the end of the financial year.</td>
</tr>
<tr>
<td>CORP 1.7</td>
<td>Annual review of Service Level Agreement between WRC and Waikato Civil Defence Emergency Management Group</td>
<td>Lee Hazlewood</td>
<td>30/10/2017</td>
<td>Completed</td>
<td>Final Service Level Agreement approved by the Coordinating Executive Group of the Waikato CDEM Group.</td>
</tr>
</tbody>
</table>

### CORP02: Non-compliance with legislation resulting in possible reputational damage, judicial reviews of council decisions, appointment of commissioners, Ombudsman enquiries, or legal action

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP 2.1</td>
<td>Conduct six monthly ComplyWith surveys in all Directorates</td>
<td>Sarah Jones</td>
<td>Ongoing</td>
<td>On track</td>
<td>The next survey will commence in April 2018.</td>
</tr>
<tr>
<td>CORP 2.2</td>
<td>Monthly Legislation updates to ELT</td>
<td>Mali Ahipene</td>
<td>Ongoing</td>
<td>On track</td>
<td>Monthly updates have been provided to ELT and the same information is then shared with all staff in the organisation wide publication.</td>
</tr>
</tbody>
</table>
### CORP03: Ineffective partnership relationships or stakeholder engagement or public relations leading to an inability to work with others to achieve strategic objectives and loss of confidence in service delivery

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP 3.1</td>
<td>Implementation of Customer Information Management System</td>
<td>Nicola Chrisp</td>
<td>30/06/2018</td>
<td>Completed</td>
<td>Embedding needs to continue, and quality control is a currently under resourced area that needs addressing.</td>
</tr>
<tr>
<td>CORP 3.2</td>
<td>Implementation of Customer Engagement Strategy</td>
<td>Nicola Chrisp</td>
<td>Ongoing</td>
<td>On track</td>
<td>The current customer engagement strategy is in implementation and due for review in June 2018.</td>
</tr>
<tr>
<td>CORP 3.3</td>
<td>Implementation of Stakeholder Engagement Strategy</td>
<td>Nicola Chrisp</td>
<td>30/04/2018</td>
<td>New timeframe</td>
<td>The strategy is being redrafted and requires clarification and direction from ELT (the next strategy meeting is not until 14 April 2018).</td>
</tr>
<tr>
<td>CORP 3.4</td>
<td>Completion of the Maori Engagement Framework</td>
<td>Neville Williams</td>
<td>27/03/2018</td>
<td>On track</td>
<td>A Councillor workshop took place on 22 February 2018 and the Maori Engagement Framework has been recommended to be approved by Council (as part of the Significance Policy) at its meeting on 13 March 2018.</td>
</tr>
<tr>
<td>CORP 3.4</td>
<td>LGNZ Excellence Programme Improvement Plan agreed identifying key areas for improvement, timeframes and responsibilities (quantitative assessment NZ only)</td>
<td>Tracey Powrie</td>
<td>31/03/2018</td>
<td>Completed</td>
<td>Improvement Plan was presented to Council on 22 February 2018.</td>
</tr>
</tbody>
</table>

### CORP04: Inability to shape a positive organisational culture leading to poor employee engagement, performance and customer service

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP 4.1</td>
<td>Implementation of Realising our Potential project to develop and deliver a leadership development programme and organisational culture roadmap.</td>
<td>Nick Ollington</td>
<td>Phase one 30/08/2018</td>
<td>On track</td>
<td>Leadership Programme underway, roadmap launched in December 2017. All milestones achieved.</td>
</tr>
<tr>
<td>CORP 4.2</td>
<td>Implementation of the People Strategy</td>
<td>Nick Ollington</td>
<td>30/06/2018</td>
<td>On track</td>
<td>Ongoing. Delivery to key priority areas achieved.</td>
</tr>
</tbody>
</table>

### CORP05: Injury or illness to staff, contractors or others in the workplace as a result of an unsafe, unhealthy work environment and facilities

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP 5.1</td>
<td>Implementation of Asbestos Report Process Review actions</td>
<td>Nick Ollington</td>
<td>1/03/2018</td>
<td>On track</td>
<td>All key actions complete with agreed organisation wide Risk Training/Awareness to be initiated in March 2018.</td>
</tr>
<tr>
<td>CORP 5.2</td>
<td>Drive continuous improvement through the implementation and monitoring of the Directorate Specific Action Plans</td>
<td>Nick Ollington</td>
<td>30/06/2018</td>
<td>On track</td>
<td>All directorates have health and safety action plans in place and these are being actively implemented.</td>
</tr>
</tbody>
</table>
### CORP06: Information technology strategy, systems or infrastructure fail or are inadequate, resulting in an inability to deliver key services or to support current and future business needs

<table>
<thead>
<tr>
<th>No.</th>
<th>Mitigation Actions</th>
<th>Owner</th>
<th>Completion Date</th>
<th>Status</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP 6.1</td>
<td>Risk management system requirements and business case approved</td>
<td>Karen Bennett</td>
<td>Potential to be incorporated as part of Corporate Systems Replacement Project</td>
<td>No longer required</td>
<td>High Level requirements have been determined through a workshop with the Risk Forum and other key staff. This cannot be progressed further until completion of the Corporate Systems Replacement Project.</td>
</tr>
<tr>
<td>CORP 6.2</td>
<td>Risk management system implemented and operational</td>
<td>Karen Bennett</td>
<td>Potential to be incorporated as part of Corporate Systems Replacement Project</td>
<td>No longer required</td>
<td>This will be considered upon completion of the Corporate Systems Replacement procurement process (the outcome of this will dictate where to from here).</td>
</tr>
<tr>
<td>CORP 6.3</td>
<td>Strategic Information Systems Plan implementation</td>
<td>John Crane</td>
<td>Ongoing</td>
<td>On track</td>
<td>New initiatives and implementation of enabling technology solutions continue to be delivered in line with the IS Strategy. The process to refresh the IS Strategy will start in Q4 of 2017/18.</td>
</tr>
<tr>
<td>CORP 6.4</td>
<td>Corporate Systems Replacement Project - Business Case</td>
<td>John Crane</td>
<td>Potential to be signed off in September 2018</td>
<td>New action</td>
<td></td>
</tr>
</tbody>
</table>

### CORP07: Ineffective planning processes impacts on Council’s ability to deliver on projects outlined in the LTP

<table>
<thead>
<tr>
<th>No.</th>
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<th>Status</th>
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</tr>
</thead>
<tbody>
<tr>
<td>CORP 7.1</td>
<td>Integrated Business Planning and Budgeting (IBP&amp;B) Framework implementation</td>
<td>Nicole Hubbard</td>
<td>30/06/2018</td>
<td>On track</td>
<td>The business planning template has been developed and the content is being pulled together in a modular approach throughout the development of the LTP.</td>
</tr>
<tr>
<td>CORP 7.2</td>
<td>Project Portfolio Management System implemented and operational</td>
<td>Tracey Powrie</td>
<td>Ongoing for progression of the use of the tool</td>
<td>On track</td>
<td>System has been implemented and is in operational use across the organisation. As business as usual the PMO will support staff to load their projects as required.</td>
</tr>
</tbody>
</table>

### CORP08: Inadequate management of operational processes may lead to misinformed or inappropriate decision making or overspend (includes funding of third parties)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>COPR 8.1</td>
<td>Directorates to continue to map and regularly review key Directorate and organisational business processes (Promapp and continuous improvement).</td>
<td>Tracey Powrie</td>
<td>Ongoing</td>
<td>On track</td>
<td>Directorates continue to map and review their processes as resources allow.</td>
</tr>
<tr>
<td>COPR 8.2</td>
<td>Enhancement of the project management framework to support decision making i.e. governance, reporting (including financials).</td>
<td>Tracey Powrie</td>
<td>1/12/2018</td>
<td>On track</td>
<td>Governance training is to be scheduled for the Executive and Senior Managers. Work progresses with the Finance team on improving processes and systems for project financial reporting.</td>
</tr>
</tbody>
</table>
CORP09: Misuse of data externally or internally, unintentionally or through criminal intent could expose WRC to financial, reputational and legal risk as well as damage to stakeholder relationships

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>COPR 9.1</td>
<td>Establish internal centre of excellence around data collection, storage, accessibility, quality assurance and analysis for environmental monitoring.</td>
<td>Tracey May</td>
<td>31/12/2018</td>
<td>On track</td>
<td></td>
</tr>
</tbody>
</table>

CORP10: Failure to deliver on the policies and actions detailed in the Waikato Regional Policy Statement resulting in reputational damage, environmental harm, and costs to the community

<table>
<thead>
<tr>
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<th>Status</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORP 10.1</td>
<td>A report to Audit and Risk committee showing progress against the Regional Policy Statement will be updated twice a year.</td>
<td>Tracey May</td>
<td>Ongoing</td>
<td>On track</td>
<td>Next update - June 2018.</td>
</tr>
</tbody>
</table>

Health and Safety

Background

9. The health and safety dashboard is reported to council each month. It is designed to enable council to exercise due diligence with regard to health and safety governance and provides a general summary of health and safety risk and activities within council. Additionally, from time to time other topics regarding health and safety of relevance for council will also be included. The dashboard will continue to be under development until the safety management system has been fully implemented.

Written Report - Dashboard for December 2017 and January 2018

10. There were a total of 12 incidents reported in December 2017; 9 were events and 3 were near misses. In January 2018 there were a total of 18 incidents reported. Of this number, 11 were events and 7 were near misses.

11. Notifications to WorkSafe NZ - There were no notifications to WorkSafe in December 2017 and January 2018.

12. Critical Risks - Review of council critical risks continues to progress. Two critical risks were reviewed in December; vehicle use and contractor activities. These two risks, along with boat use, and threats, aggression and violence were reviewed by the Health and Safety Governance Group in January 2018. The dashboard provides an organisational critical risk table showing the critical risks, the raw (pre control), and residual (post control) risk scoring.

13. Although scored as a high risk rather than a critical risk, working alone or in isolation will remain on the dashboard until the new check-in system (call-in procedure) is fully in place. A total of 40 inReach devices are now being used by field staff. A post-implementation review will be carried out in March 2018.

14. There were 3 events reported against the vehicle use critical risk in December 2017 and no events reported for January 2018. All incidents reported in December 2017 resulted in moderate or minor vehicle damage. No staff, contractors or members of the public were injured.
15. The critical risk effectiveness levels have been amended to align to the five categories contained in council’s risk management framework - excellent, good (strong), fair (some strength), poor (weak), very poor (very weak).

16. **Lost Time Injuries (LTI)** – There were no LTI’s in December 2017 and January 2018.

17. **Lost time Injuries (YTD)** – There is one lost time injury (12 hours lost) YTD.

18. **Health and Safety Summary Chart (pyramid)** - In December 2017 there were 2 reported incidents that did not require treatment; 1 involved a doorframe and 1 an allergic reaction. There was 1 first aid treatment to the hand following a burn. In January 2018 there were 7 reported incidents that did not require treatment. There was 1 first aid treatment to the arm following a bite by an eel, and 1 medical treatment following a cut to the leg on a metal object.

19. **Near Miss Events versus All Other Events** - Near-miss reporting has remained reasonably constant. Near-miss reporting provides an opportunity for improvement prior to an event occurring.

20. **Sick Leave Taken** - In December 2017 sick leave dropped to 2.4 and increased slightly in January 2018 to 2.7; below the target benchmark of 3.0 to 5.0. The rolling average for the year is 4.5, which is within the target benchmark range.

21. **Pending Events** - There were no pending events in December 2017 and 1 event in the pending register when the report was run for January 2018. The events held in the pending event register for greater than one week decreased from 33.3% in November 2017 to 12.6% in December 2017 and then increased to 14.1% in January 2018.

22. **Event Corrective Actions (excl. Near Miss Corrective Actions)** – In December 2017 there were a total of 9 events reported, and 3 of the 9 corrective actions have been completed. In January 2018 there were a total of 11 events reported, 6 of the 11 have had corrective actions assigned. Five of the corrective actions have been completed and 3 are underway. No corrective actions are overdue for completion.

23. **Health and Safety Training FYTD**
   A range of organisational health and safety training is available and advertised on the workforce development calendar. Some course dates for 2018 are yet to be confirmed.

24. **Near Miss Corrective Actions** – In December 2017, there were 3 near miss reports; 2 corrective actions are completed. In January 2018 there were 7 near miss reports; 4 of the corrective actions are completed and 1 is underway. No corrective actions are overdue.

25. **Audits FYTD** - See internal/external audits table for details of completed audit recommendations.

### Annual Leave Management

**Background**

26. Council annual leave policy provides for up to 6 weeks’ annual leave balance being held, with Director approval required to carry over leave balances beyond this.

27. Regular monitoring of annual leave balances has been in place since August 2016 to ensure balances do not accrue to excessive levels. A reduction to 20 or fewer staff with balances above 280 hours is targeted.

**Current State**

28. The table below sets out Council annual leave balances as at 1 February 2018.
29. There are 4 employees (2 in Resource Use and 2 in Integrated Catchment Management) with annual leave balances in excess of 400 hours.

30. The reduction in employees holding high leave balances is encouraging, and validates the ongoing focus on better leave management. Employees holding balances of more than 8 weeks has reduced by 50% relative to August 2016 and we are moving closer to the target of 20 or fewer employees holding leave balances of 7 weeks of more (now at 27 employees). Even factoring in that the February data follows the annual summer holiday period these are good reductions relative to the equivalent data in 2017.

31. Below is a graph showing annual leave taken in hours. The graph shows the seasonality of leave usage, with a spike in January then again as expected during school holidays. The data is consistent in 2016 and 2017.
Annual Leave Taken in Blocks

32. The committee has requested a report identifying staff who did not take leave in blocks of two weeks or more.

33. The table below shows a breakdown of leave taken in blocks for Section Managers and ELT. From the data extracted we are only able to see leave taken in blocks not whether they are consecutive blocks of leave. Public Holidays in particular are problematic, as a week of leave when a public holiday falls interrupts the leave block, which can have a distorting effect on the data.

34. Data gathered since January 2017.

<table>
<thead>
<tr>
<th>Block of leave taken</th>
<th>Count of annual leave taken in blocks (including Section Managers and ELT) as at February 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than a fortnight</td>
<td>0</td>
</tr>
<tr>
<td>Full fortnight</td>
<td>11</td>
</tr>
<tr>
<td>Over a week</td>
<td>10</td>
</tr>
<tr>
<td>Full week</td>
<td>10</td>
</tr>
<tr>
<td>Less than a week</td>
<td>3</td>
</tr>
</tbody>
</table>

35. All Section Managers have taken annual leave since January 2017. Three Section Managers have not taken leave in a block of a week or more, however the data set does not include statutory holidays over the Christmas break.

36. The consistent and ongoing focus on leave utilisation is having a gradual and noticeable effect on the number of employees holding high leave balances. Although continued focus is necessary, it is pleasing to note the progress made on the back of significant effort from Directors, Section Managers and Team Leaders with support from HR Business Partners. This focus will need to be maintained throughout 2018 to ensure momentum is not lost.

Legislative Compliance (ComplyWith)

37. Council completed a full legislative compliance round for the period 1 April to 30 September 2017 (inclusive) with the survey being extended by four weeks (to 9 November 2017) due to staff commitments with the Long Term Plan. Despite this extension 429 out of 1732 questions remained unanswered by 15 staff. Accordingly the Senior Legal Advisor followed up staff in person and requested that they complete a manual survey and as a result of this the number of unanswered questions reduced to 113 out of 1732.

38. The combined results of the ComplyWith survey and the manual survey are outlined below.

Combined Results

39. Results from the legislative compliance reporting round for the period 1 April 2017 to 30 September 2017 (inclusive). Combined results showed 96.93% full compliance and 3.07% partial compliance (as outlined in the graph below).

40. Each respondent was asked to report on the legislative compliance obligations relevant to their role at council. Compliance obligations were allocated to 64 employees with 88 Acts and Regulations being covered.

41. Reporting respondents were asked to rate compliance at one of three levels:

- Full = the obligation arose and was fully complied with;
- Partial = the obligation arose, there was more than zero compliance but not full compliance (explanation mandatory); or
- Zero = the obligation arose, but there was no compliance at all with it (explanation mandatory).
42. The graph below summarises the full and partial compliance results (there was no zero compliance).

43. Responses of “Partial Compliance” required additional information about whether the non-compliance had been resolved, and if it had not been resolved, whether there is any plan or course of action underway to resolve the non-compliance.

44. In terms of obligations that were answered as “partial compliance” most of these had corrective actions noted as “resolved” and the remainder had action plans in place. Examples of “partial compliance” include:

- **S 6(1) Land Transport Act 1988** – Every vehicle on a road must be safe
  
  “There are some cases where staff have been on leave and their vehicles WOF have expired. Vehicles are grounded and can only be driven to the service agent to have the WOF completed or required repairs, if any.”

  Corrective action – resolved “Staff in outer offices now have drivers and administrators who both receive text messages and emails of WOF. A process of grounding vehicles has now been put in place”.

- **Building Act 2004** – Certificates of Acceptance – Where a certificate of acceptance has been issued, have the requirements in the Building Act being complied with?
  
  “Time frame of 34 days resulting from external consultant being on leave. As the Applicant was several months late providing information, not an issue for them, File Note made.”

  Corrective action – resolved.

45. Reporting respondents could also answer:

- ‘Obligation Did Not Arise’ if the circumstances giving rise to a compliance obligation did not occur during the period covered by the reporting round; or

- ‘Yes’ or ‘No’ to a pre-question asking if an event or circumstances giving rise to a group of obligations had arisen during the reporting period. If ‘yes’, those obligations were then included. If ‘no’ the relevant obligations were not asked and are reported as ‘Not Asked’ in the results. These obligations are then counted as having the same status as ‘obligation did not arise’; or
• ‘Reallocate This Obligation’ if they believed the obligation:
  o should be answered by someone else at council; or
  o does not apply to council’s operations or for some other reason does not represent a potentially significant compliance risk at council.

46. The graph below provides an overview of all responses to the compliance obligations:

“Reallocate This Obligation”

47. Whilst the graph shows 3.24% (56 questions) as “Reallocate This Obligation”, 34 of these questions were reported on by at least one another staff member. A focus area of improvement will be question allocation.

“Not Completed”

48. As outlined above 113 questions out of 1732 were not completed. Further work is being done to increase staff engagement in this survey. This will include revisiting the question allocation prior to the next survey round to ensure these are still relevant to the positions. Legislative compliance (measured by the ComplyWith survey) is also now a KPI for all Directors.

Next reporting cycle
49. The next ComplyWith survey will commence in April 2018 and will capture the period 1 October 2017 to 31 March 2018.

Feedback and Complaints

50. As at 28 February 2018:
  366 complaints remained open:
  86 – 0-10 working days
  280 – older than two weeks

51. As reported previously, the greatest number of complaints relate to public transport. This should be viewed in the context of volume – approximately 4 million passenger trips a year. As at 28 February 2018, 349 of the 366 open complaints were about public transport.

52. The majority of the open bus complaints are with the bus company for follow up. These complaints are about the operation of the day to day bus service, such as driver attitude, bus failed to pick up/drop off, bus running late or bus condition. The passenger transport team processes these complaints via Iris and sends on to the bus company for follow-up. The volume of these complaints
has increased exponentially following the introduction of Iris – all enquiries and complaints are now entered directly into the database, including via the external call centre. The bus company has been made aware of the urgency of responses.

53. Refer to Appendix 2 for the feedback and complaints report for the period 1 December 2017 to 28 February 2018.

Update on Office of Auditor General Review – Regional Council Progress in Managing Impacts on Freshwater Quality 2017

54. Staff from the Office of the Auditor General (OAG) were on-site for a week in early December 2017 gathering further evidence and conducting interviews with key staff. The OAG staff met with Chair Livingston and other identified staff members. They were particularly interested in talking with field staff, rather than those with managerial oversight. During their visit, they went on field trips with the Environmental Monitoring Section to understand the entire approach to gathering information to inform our science. They also gained an understanding of how our science is used in policy formation and how this information is made available to the public.

55. Since the visit in early December 2017 OAG staff have been in contact with council staff only once to gain an additional report regarding the assessment of the Healthy Rivers Wai Ora collaborative process.

56. As yet it is unknown when the draft report will be released, the committee will be kept updated.

OAG – Hauraki Gulf Marine Spatial Plan Process

57. In addition to the freshwater focus the OAG have also identified that they will undertake an audit on the Hauraki Gulf Marine Spatial Plan (Seachange) development process.

58. The first contact with OAG on this project will be in early March 2018 where initial conversations will be undertaken with those involved on the project to determine who would be best to be included in more in-depth OAG audit interviews.

59. Council is in the very preliminary stages of this audit process and once more information is to hand, particularly in regard to scope and timing of the audit, the committee will be updated accordingly.

Animal Welfare Act Compliance

60. A question was raised as to whether council was adhering to the Animal Welfare Act 1999 (AWA) when it carries out its pest control operations, particularly with regards to non-target deaths.

61. Pest control operations are governed by a raft of legislation including the AWA. The AWA requires owners of animals and persons in charge of animals to attend properly to the welfare of those animals.

62. Nothing in the AWA makes it unlawful to hunt or kill a pest in accordance with the Biosecurity Act 1993 (Biosecurity Act).

63. The deaths of non-target species are inevitable with any pest control method. The death of a non-target species does not constitute an offence under the AWA as the animals are killed in the course of council performing its functions under the Biosecurity Act and to not treat such actions as lawful would be contrary to the purposes and principles of the Biosecurity Act, i.e. to provide for the eradication and effective management of pests in New Zealand. Furthermore the accidental or inadvertent killing of an animal does not constitute an offence under the ACA.
Council uses approved contractors* for its pest control operations. Council’s standard contract for services requires the contractors to comply with all legislation (this encompasses the AWA), regulations and industry codes of practice during the performance of the pest control operations. The contractors are audited to ensure compliance with all legislation.

* To be an approved contractor you must:
- be a fit and proper person (this includes background checks);
- have a good track record in the industry;
- have well established health and safety procedures;
- have all necessary qualifications/licences and approved handler certificates; and
- have standard operating procedures (these are usually modelled from or refer to the National Pest Control Agencies (NPCA) best practice guidelines for controlling and monitoring vertebrate pests.

**Travel, Accommodation and Expense Claims Policy**

65. Staff were asked to update the committee on the council’s policy for approving travel, accommodation and expense claims.

66. The council recognises that staff travelling on council business may be exposed to a range of different risks. The council’s policies, procedures and guidelines aim to ensure the council and the traveller take all necessary precautions to reduce those risks. Travel expenses must be reasonable and necessarily incurred while undertaking approved business travel, procured as cost effectively as possible within the specified budget, appropriately documented and within the guidelines of policy. The policy identifies those expenses which are considered to be a legitimate and appropriate part of travel on council business, and sets out the relevant approval and accountability processes.

67. Travel and accommodation are booked by directorate travel coordinators and must be approved in advance on a ‘one-up’ basis, that is, approval must be granted by the claimant’s manager. Staff expense claims are prepared using an expense claim form and processed through the one-up approval process.

68. It is not permissible for expense claims to be approved by the initiator of the claim. A Manager may prepare his or her expense claim but must have it approved for payment by a Director with an understanding of the reasons for the expense claim. Likewise, the Chief Executive, or anyone holding his delegated authority must approve Director expense claims. Expense claims submitted by the Chief Executive must be approved by the Chair of the Council.

**Conflict of Interest Declaration and Gifts Register Confirmation**

**Annual Conflict of Interest Declaration and Gifts Register Confirmation**

69. Annually, staff are asked to confirm any conflict of interest with suppliers paid from their budget or where they have approved a purchase order. These staff, along with Resource Use Directorate staff involved with granting resource consents, are also asked to confirm that they have declared all gifts and personal benefits they may have received as a result of their work at the council. These reviews have taken place during February 2018.

**Conflict of Interest Confirmation**

70. Fourteen staff have reported a potential conflict of interest. Where appropriate, measures have been put in place to ensure that they do not approve purchases from suppliers they have a conflict with.
Gift Register Confirmation
71. To date, all staff have confirmed that they have declared any gifts they have received, in accordance with the council policy.

Outstanding Responses
72. The Conflict of interest declaration has had a 96% response. The Gifts Register confirmation has had a 95% response. Staff that have not responded due to being on leave or for any other reason will be followed up during March 2018, and any conflicts will be reported.

Key Organisational Project Updates

Proposed Waikato Regional Plan Change 1 - Waikato and Waipa River Catchments (Healthy Rivers / Wai Ora)
73. Proposed Waikato Regional Plan Change 1 Waikato and Waipa River Catchments (PPC1) was publicly notified on 22 October 2016, with the submission period closing on 8 March 2017.

Submissions Management
74. 1023 submissions were received and summarised. A draft summary of these submissions was placed on the council website on 30 October 2017 for information only. To date there have been 8 requests from submitters suggesting corrections to how their submission has been summarised.

75. A call for further submissions will take place in mid-2018, in conjunction with a call for further submissions on the re-notified north-east portion of PPC1 (Variation 1 of PPC1).

76. Preparation of the section 42A Report (a document which provides the hearings panel with the author’s view on matters raised in submissions) has commenced with Mathew McCallum Clarke from Incite Consulting being appointed to lead its preparation. Risks associated with this include availability of internal staff (policy and implementation) given other priorities and possible budget implications including the need to engage external experts. These risks are being managed.

Withdrawn north-east portion
77. On 3 December 2016 Council withdrew part of PPC1 as it applies to the north-east portion of the Waikato River catchment to allow council time to undertake consultation with Hauraki Iwi authorities in the area. Consultation and preparation of a Plan variation that incorporates feedback from Hauraki Iwi has been finalised and was provided to the Te Ropu Hautu Steering Group (TRH) for their review on 1 November 2017 and at a follow up meeting on 14 November 2017. Representatives of Pare Hauraki provided a deputation to TRH at the 1 November meeting.

78. The Healthy Rivers Wai Ora committee (HRWO) is scheduled to meet on 20 March 2018 to provide a recommendation to the council to notify the Variation. Pare Hauraki will be invited to provide a deputation to the HRWO and the council meetings. A council meeting is scheduled for 27 March 2018 to make the decision to re-notify the Plan Change.

79. There is a risk of judicial review from Pare Hauraki if their recommendations were not included in the Variation. This is being managed by a heightened level of scrutiny ensuring that the development of the Variation follows step-by-step the requirements for consultation in the
Resource Management Act 1991 and legal checks on each process are undertaken and documented, particularly in relation to consultation activities.

**Healthy Rivers Wai Ora Implementation**

80. Implementation progress of Healthy Rivers Waiora has been steady although risks remain around delivering work stream objectives in time for initial registration of farm property data and nitrogen reference points. A new information technology work stream lead started on 7 Feb 2018.

81. The funding for the LTP business case has been approved for consultation by council. There has been significant ongoing stakeholder engagement with key industry and advocacy groups. The terms of agreement for the approval process for the Certified Nutrient Management Advisors has been endorsed by the Project Control Group (PCG). The terms of agreement for the Certified Farm Environmental Planners is in review and will be presented to the PCG this month.

82. The draft Certified Industry Schemes Principles is in review and will be presented to PCG as well. The guide for Certified Farm Environment Planners (FEP) and FEP Template have been revised and under review by the reference group. Farmer engagement starts this month in the next set of Priority 1 sub-catchments.

83. Refer to Appendix 3 for a Project Status Report.

**2018 – 2028 Long Term Plan Project Update**

84. An ongoing relationship has been established with the Audit Manager to confirm timelines and process, and staff meet with the auditor’s on a regular basis to review progress. Council adopted the Consultation Document and supporting documents for auditing on 22 February 2018. The final documents will be adopted on 13 March 2018 before consultation opens on 16 March 2018. No significant issues have been raised by the auditor to date.

85. The LTP project has been broken into seven work streams, each with a work stream lead who is responsible for ensuring the deliverables are met, and relevant staff assigned to each of the tasks. Each deliverable has a series of key milestones which are included in the Project Management Plan and reported to the project control group (PCG) on a monthly basis. The PCG meets monthly to discuss the project including the project status report, project risk and issues, and other relevant topics.

86. Key risks and slippage in milestones are reported to the Executive Leadership Team on a monthly basis. Monthly internal communications are provided to all staff via our LTP intranet page, to keep staff up to date with the project as well as highlight upcoming work and key deadlines. Directors also receive a monthly update on upcoming work that will require their review.

87. The Strategy and Policy committee receive an LTP update each meeting, including an update on the 12 key building blocks of an LTP, the upcoming work programme and any risks or issues that need to be escalated to the committee for consideration.

88. Staff have completed the SOLGM health check and the audit self-assessment, both checklists have been developed to assist councils with legislative compliance. An internal quality assurance checklist has also been developed by staff as another reference point.

89. The only high risks currently noted on the project risk register relate to staff being under pressure and potentially unable to meet deadlines. These risks are being managed with ongoing communication about deadlines, and deferring other non-critical work where appropriate. There are currently no high risks noted post mitigation.
90. A key change to Council’s Financial Strategy is to borrow externally. Advice has been sought from PwC in support of this Council decision and an amended Treasury and Risk Management Policy is on the agenda for the committee endorsement. Council is intending to borrow via the Local Government Financial Agency and advice has been sort from PwC to assist with this process. This process is subject to a statement of proposal as part of the LTP process.

91. Jared Williams from Audit NZ will be in attendance to provide a verbal update in respect to the process for auditing the LTP.

Conclusion

92. This report provides relevant updates on council’s risk management activities and key projects.

Appendix 1: Health and Safety Dashboard  
Appendix 2: Feedback and Complaints Report  
Appendix 3: Project Status Report Healthy Rivers Wai Ora Implementation
Organisational Critical Risks – Critical risks with a residual score of ‘High’

Lost Time Injuries
There were no lost time injuries for December 2017.

Organisational Critical Risks – Critical risks with a residual score of ‘High’

Risk Effective Levels – Effectiveness of existing systems and processes, expressed in the following 5 categories; Excellent, Good (strong), Fair (some strength), Poor (weak), Very Poor (very weak) – Reference information obtained from: Risk Management Framework – Corporate Risk Policy (DM # 2151810).

Critical and High Risks (those with a risk score of 10 or higher)  

<table>
<thead>
<tr>
<th>Activity/Task</th>
<th>Risk</th>
<th>Impact</th>
<th>Risk Score</th>
<th>Raw Risk Score</th>
<th>Residual Risk Score</th>
<th>Insights</th>
<th>Reported incidents</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vehicle use</strong></td>
<td>Risk: Personal injury – multiple injuries (self and others), fatality, property damage.</td>
<td>Impact: Physical harm, property damage.</td>
<td>20 – Critical</td>
<td>12 – High</td>
<td>15 – High</td>
<td>Good (strong)</td>
<td></td>
</tr>
<tr>
<td><strong>Contractor activities</strong></td>
<td>Risk: Harm to workers, others, damage to plant and property due to poor contractor management.</td>
<td>Impact: Financial, legal, reputation, environmental.</td>
<td>20 – Critical</td>
<td>12 – High</td>
<td>15 – High</td>
<td>Good (strong)</td>
<td></td>
</tr>
<tr>
<td><strong>Working in or over water</strong></td>
<td>Risk: Drowning, physical harm.</td>
<td>Impact: Legal, physical harm, reputation.</td>
<td>20 – Critical</td>
<td>15 – High</td>
<td>Good (strong)</td>
<td>Controls adequate. Water Working Policy now includes competency assessment.</td>
<td></td>
</tr>
<tr>
<td><strong>Aggressive people/public</strong></td>
<td>Risk: Assault, verbal and physical.</td>
<td>Impact: Physical and psychological harm, property damage.</td>
<td>20 – Critical</td>
<td>15 – High</td>
<td>Good (strong)</td>
<td>Controls adequate. Staff training in situational safety and tactical communications from February 2018. Will be improved with the implementation of the new security procedures in January 2018.</td>
<td></td>
</tr>
<tr>
<td><strong>Struck by moving vehicles / equipment</strong></td>
<td>Risk: Harm to workers, others, damage to plant and property due to poor management controls.</td>
<td>Impact: Financial, legal, physical harm, reputation, property damage.</td>
<td>20 – Critical</td>
<td>10 – High</td>
<td>Good (strong)</td>
<td>Controls adequate. Reviewed by Governance Group in November 2016.</td>
<td></td>
</tr>
<tr>
<td><strong>Working alone or in isolation while conducting high risk work</strong></td>
<td>Risk: Lack of access to immediate support (two way communication) in the event of an emergency.</td>
<td>Impact: Legal, reputation.</td>
<td>15 – High</td>
<td>12 – High</td>
<td>Good (strong)</td>
<td>Controls adequate. Stage two of InReach devices has been rolled out (25 on 26 September 2017). Close project March 2018.</td>
<td></td>
</tr>
</tbody>
</table>

Two risks have been reviewed; vehicle use and contractor activities. They will be submitted to Governance Group for sign-off in January 2018. Risks are reviewed at least annually by the Governance Group in conjunction with the H&S BPs, subject matter experts, and Health and Safety Committee. Risks are also reviewed after a system / process change, or after a critical event.

Pending Events – events not captured in the November event report
There were 0 pending events for December 2017.

Health and Safety Summary
Injuries/Illnesses

<table>
<thead>
<tr>
<th>Category</th>
<th>Body Location</th>
<th>Event Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>First aid</td>
<td>Burn</td>
<td>Underway</td>
</tr>
<tr>
<td>No treatment</td>
<td>Other</td>
<td>Not started</td>
</tr>
<tr>
<td>No treatment</td>
<td>Allergic reaction</td>
<td>Not started</td>
</tr>
</tbody>
</table>

Health and Safety Summary

Near Miss Events versus All Other Events

<table>
<thead>
<tr>
<th>Activity/Task</th>
<th>Subject</th>
<th>Event Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Aid</td>
<td>Personal safety – drove close to washout in road</td>
<td>Completed</td>
</tr>
<tr>
<td>Vehicle</td>
<td>Stock on road – evasive action</td>
<td>Underway</td>
</tr>
<tr>
<td>Human factors</td>
<td>Pedestrian crossing – public, drove through red light</td>
<td>Completed</td>
</tr>
</tbody>
</table>
In December leave dropped to 2.4, below the benchmark range of 3.0 to 5.0. The rolling average for the YTD is 4.7, within the target benchmark range.

In December 2017, a total of 9 events (excluding near misses) were reported (refer to red line in previous graph). 3 of the 9 events reported have had corrective actions assigned, of which 3 are completed.

In December 2017, a total of 3 near misses were reported (refer to green line in above graph). 2 of the 3 near misses reported have had corrective actions assigned. 2 corrective actions are completed.

### Health & Safety Training

<table>
<thead>
<tr>
<th>Course</th>
<th>Duration</th>
<th>Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractor Management (NZQA 17595)</td>
<td>1 day</td>
<td>2018 Training to be scheduled</td>
</tr>
<tr>
<td>Risk Management</td>
<td>½ day</td>
<td>2018 Training to be scheduled</td>
</tr>
<tr>
<td>Tactical Communication</td>
<td>1 day</td>
<td>28 February 2018</td>
</tr>
<tr>
<td>First Aid Training</td>
<td>1 day</td>
<td>2018 Training – ongoing as required</td>
</tr>
<tr>
<td>Vault training for Managers, Team Leaders and Supervisors</td>
<td>3 hrs</td>
<td>21 March 2018 and 20 June 2018</td>
</tr>
<tr>
<td>Vault training for Business Support staff</td>
<td>3 hrs</td>
<td>21 February 2018 and 23 May 2018</td>
</tr>
</tbody>
</table>

### Internal / External Audit

<table>
<thead>
<tr>
<th>Scope</th>
<th>Section/ Auditor</th>
<th>Audit Classification</th>
<th>Date of audit</th>
<th>Total Actions</th>
<th>Completion date</th>
<th>Completed Actions</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Audits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>P&amp;F</td>
<td>Contractor management/risk management</td>
<td>December 2016</td>
<td>21</td>
<td>December 2017</td>
<td>21</td>
<td>Actions completed</td>
</tr>
<tr>
<td>ICM</td>
<td>ICM</td>
<td>Training and supervision</td>
<td>April 2017</td>
<td>17</td>
<td>January 2018</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Resource Use</td>
<td>RUD</td>
<td>Risk management/contractor management</td>
<td>November 2017</td>
<td>Pending audit</td>
<td>2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External audits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Science and Strategy</td>
<td>KPMG</td>
<td>Health and safety systems and field work compliance (SaS)</td>
<td>7 February 17</td>
<td>18</td>
<td>7 February 2018</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>People and Capability</td>
<td>KPMG</td>
<td>Health and safety systems and field work compliance (PaC)</td>
<td>7 February 17</td>
<td>17</td>
<td>7 February 2018</td>
<td>17</td>
<td>Actions completed</td>
</tr>
</tbody>
</table>
Reporting Month: January 2018

Lost Time Injuries
There were no lost time injuries for January 2018.

Organisational Critical Risks – Critical risks with a residual score of ‘High’
Risk Effective Levels – Effectiveness of existing systems and processes, expressed in the following 5 categories; Excellent, Good (strong), Fair (some strength), Poor (weak), Very Poor (very weak) – Reference information obtained from: Risk Management Framework – Corporate Risk Policy (DM # 2151810).

<table>
<thead>
<tr>
<th>Critical and High Risks (those with a risk score of 10 or higher)</th>
<th>Raw Risk Score</th>
<th>Residual Risk Score</th>
<th>Risk Effectiveness Levels</th>
<th>Insights</th>
<th>Reported incidents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trailer use Risk: Multiple injuries/fatality to self and others.</td>
<td>25 - Critical</td>
<td>15 - High</td>
<td>Good (strong)</td>
<td>Fulfils requirements. Controls adequate and in place.</td>
<td></td>
</tr>
<tr>
<td>Impact: Physical harm, property damage, public liability.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact: Physical harm, property damage.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contractor activities: Risk: Harm to workers, others, damage to plant and property due to poor contractor management.</td>
<td>20 – Critical</td>
<td>12 – High</td>
<td>Good (strong)</td>
<td>Fulfils requirements. Contract manager training in place (NZQA Unit Standard 17595). Risk review completed January 2018.</td>
<td></td>
</tr>
<tr>
<td>Impact: Financial, legal, reputation, environmental.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working in or over water Risk: Drowning, physical harm.</td>
<td>20 – Critical</td>
<td>15 – High</td>
<td>Good (strong)</td>
<td>Controls adequate. Water Working Policy now includes competency assessment.</td>
<td></td>
</tr>
<tr>
<td>Impact: Legal, physical harm, reputation.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impact: Physical and psychological harm, property damage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Struck by moving vehicles / equipment Risk: Harm to workers, others, damage to plant and property due to poor management controls.</td>
<td>20 - Critical</td>
<td>10 - High</td>
<td>Good (strong)</td>
<td>Controls adequate. Risk Review by Governance Group in November 2016.</td>
<td></td>
</tr>
<tr>
<td>Impact: Financial, legal, physical harm, reputation, property damage.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working alone or in isolation while conducting high risk work Risk: Lack of access to immediate support (two way communication) in the event of an emergency.</td>
<td>15 - High</td>
<td>12 - High</td>
<td>Good (strong)</td>
<td>Controls adequate. InReach devices has been implements. Close project March 2018.</td>
<td></td>
</tr>
<tr>
<td>Impact: Legal, reputation.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Four risks have been reviewed; vehicle use, contractor activities, boat use, and threats / aggression and violence. They were submitted to Governance Group for sign-off in January 2018.

Risks are reviewed at least annually by the Governance Group in conjunction with the H&S BPs, subject matter experts, and Health and Safety Committee. Risks are also reviewed after a system / process change, or after a critical event.

Pending Events – events not captured in the January event report
There was 1 pending event for January 2018

Health and Safety Summary

<table>
<thead>
<tr>
<th>Category</th>
<th>Body Location</th>
<th>Event Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>First aid</td>
<td>Bite</td>
<td>Underway</td>
</tr>
<tr>
<td>Medical</td>
<td>Cut</td>
<td>Underway</td>
</tr>
<tr>
<td>No treatment</td>
<td>Sprain</td>
<td>Underway</td>
</tr>
<tr>
<td>No treatment</td>
<td>Gradual process</td>
<td>Completed</td>
</tr>
<tr>
<td>No treatment</td>
<td>Cut</td>
<td>Completed</td>
</tr>
<tr>
<td>No treatment</td>
<td>Laceration</td>
<td>Not started</td>
</tr>
<tr>
<td>No treatment</td>
<td>Bruising</td>
<td>Underway</td>
</tr>
<tr>
<td>No treatment</td>
<td>Gradual process</td>
<td>Not started</td>
</tr>
</tbody>
</table>

Near miss summary

<table>
<thead>
<tr>
<th>Category</th>
<th>Subject</th>
<th>Event Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property damage</td>
<td>Personal safety – broken glass</td>
<td>Underway</td>
</tr>
<tr>
<td>Plant/equipment failure</td>
<td>Mechanical – standing desk</td>
<td>Underway</td>
</tr>
<tr>
<td>Plant/equipment failure</td>
<td>Electrical – appliance left on</td>
<td>Underway</td>
</tr>
<tr>
<td>Vehicle</td>
<td>Traffic – car ran red light (Grey St)</td>
<td>Not started</td>
</tr>
<tr>
<td>Plant</td>
<td>Broken glass (café window)</td>
<td>Completed</td>
</tr>
<tr>
<td>Vehicle</td>
<td>Traffic – car ran red light (Grey St)</td>
<td>Completed</td>
</tr>
<tr>
<td>People/human factors</td>
<td>Found split fluid on floor</td>
<td>Completed</td>
</tr>
</tbody>
</table>
In January leave dropped to 2.7, below the benchmark range of 3.0 to 5.0.

The rolling average for the YTD is 4.5, within the target benchmark range.

Events pending for > 1 week (%) has increased from 12.6% in December 2017 to 14.1% in January 2018

In January 2018, a total of 11 events (excluding near misses) were reported (refer to red line in previous graph).

6 of the 11 events reported have had corrective actions assigned, of which 5 are completed and 3 underway.

In January 2018, a total of 7 near misses were reported (refer to green line in above graph).

4 of the 7 near misses reported have had corrective actions assigned. 4 corrective actions are completed and 1 is underway.

### Health & Safety Training

<table>
<thead>
<tr>
<th>Course</th>
<th>Duration</th>
<th>Dates</th>
</tr>
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<tbody>
<tr>
<td>Contractor Management (NZQA 17595)</td>
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<td>Vault training for Managers, Team Leaders and Supervisors</td>
<td>3 hrs</td>
<td>21 March 2018 and 20 June 2018</td>
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<tr>
<td>Vault training for Business Support staff</td>
<td>3 hrs</td>
<td>8 March 2018 and 23 May 2018</td>
</tr>
</tbody>
</table>

### Internal / External Audit

<table>
<thead>
<tr>
<th>Scope</th>
<th>Section/Auditor</th>
<th>Audit Classification</th>
<th>Date of audit</th>
<th>Total Actions</th>
<th>Completion date</th>
<th>Completed Actions</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Audits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>P&amp;F</td>
<td>Contractor management/risk management</td>
<td>December 2016</td>
<td>21</td>
<td>December 2017</td>
<td>21</td>
<td>Actions completed</td>
</tr>
<tr>
<td>ICM</td>
<td>ICM</td>
<td>Training and supervision</td>
<td>April 2017</td>
<td>17</td>
<td>January 2018</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Resource Use</td>
<td>RUD</td>
<td>Risk management/contractor management</td>
<td>January 2018</td>
<td></td>
<td>Underway</td>
<td>2018</td>
<td></td>
</tr>
<tr>
<td><strong>External audits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Science and Strategy</td>
<td>KPMG</td>
<td>Health and safety systems and field work compliance (SaS)</td>
<td>7 February 17</td>
<td>18</td>
<td>7 February 2018</td>
<td>17</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2—Feedback and Complaints

Feedback and Complaints - Audit and Risk Committee report

Of the 2616 complaints and compliments logged, 2376 were complaints, and 240 were compliments.

Open complaints
366 complaints are still open.
- 26 are between zero and 10 working days old.
- 200 are older than two weeks.
349 open complaints are identified as Public Transport.

By priorities and directorates

By type, status subject

Feedback and complaints by Directorate - Last three months
As above, excluding Public Transport
**Appendix 3 - Project Status Report (Healthy Rivers Wai Ora Implementation)**

<table>
<thead>
<tr>
<th>Project Name</th>
<th>HRWO Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Manager</td>
<td>Maggie Sullivan</td>
</tr>
<tr>
<td>Project Business Owner</td>
<td>Chris McLay</td>
</tr>
</tbody>
</table>

**Project RAG Status**

<table>
<thead>
<tr>
<th>Period</th>
<th>Two periods ago</th>
<th>Last period</th>
<th>Current period</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Implementation progress has been steady although major risks remain around delivering work stream objectives in time for the 1 Sep 18 registration of farm property data and nitrogen reference points. The new ITS work stream lead started on 7 Feb and has begun to uncover missing deliverables that are key to the portal development. This has been identified as a risk below. The funding for LTP business case has been approved for consultation by WRC. There has been significant ongoing stakeholder engagement with key industry and advocacy groups. The terms of agreement for the approval process for the Certified Nutrient Management Advisors has been endorsed by the PCG. The terms of agreement for the Certified Farm Environmental Planners has been endorsed (with changes) by the PCG. The draft Certified Industry Schemes Principles has been endorsed (with changes) by the PCG as well. The guide for Certified Farm Environment Planners and FEP Template have been revised and under review by the WSLs. Testing on farms start week of 26 Feb. Farmer engagement starts this month in the next set of Priority 1 sub-catchments.</td>
</tr>
<tr>
<td>Time</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>The holidays and the late on boarding of the ITS work stream lead caused delay in the portal and database design. Now that most of the team members are back from the holidays momentum will pick up in this area. However, as the ITS WSL is revising the ITS project plan and schedule, some key deliverables from other workstreams were not identified as dependencies and therefore not prioritised. This results in risk that the portal will not be ready for the 1Sep18 date. To remedy the issue, a full project schedule with dependencies is in development. This will give a clear view of the status of the project and provide more accurate time reporting. This revised schedule is expected to be ready for the March PCG meeting.</td>
</tr>
<tr>
<td>Budget</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Overall project budget is tracking closer to forecasted spend this month. Variances are noted and addressed in the Project Financial Report. The budget will be reforecasted in Mar18.</td>
</tr>
<tr>
<td>Scope</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Project scope has not changed</td>
</tr>
</tbody>
</table>

**Communications and Engagement Workstream RAG Status**

<table>
<thead>
<tr>
<th>Period</th>
<th>Two periods ago</th>
<th>Last period</th>
<th>Current period</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Overall is green as we have finalised plans and are working on updating collateral and developing new collateral for engagement. New column in Waikato Farmer will share proactive messages.</td>
</tr>
<tr>
<td>Time</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Communication and Stakeholder Engagement Plan approved by PCG. Website and other collateral is being updated in early 2018. Continuing farmer engagement.</td>
</tr>
<tr>
<td>Budget</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Spend is tracking on budget as we have begun work on sub-catchment brochures and other collateral.</td>
</tr>
<tr>
<td>Scope</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>No changes to scope.</td>
</tr>
</tbody>
</table>

**Farm Environment & Sub-Catchment Planning Workstream RAG Status**

<table>
<thead>
<tr>
<th>Period</th>
<th>Two periods ago</th>
<th>Last period</th>
<th>Current period</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Overall RAG reflects commentary for indicators below; anticipate that works undertaken at present will enable indicators to move to green in next reporting period.</td>
</tr>
<tr>
<td>Time</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Workstream is still tracking behind original plan. MS. 08 was not completed according to the revised schedule due to concerns from PCG about the quality of the product. Work is under way to confirm the scope and assess a revised timeframe for delivery and that will result in a change request. The biodiversity reports for all P1 catchments are completed in draft form and the contractor has completed drafts of the land and water reports for three more profiles. Completion of these reports for Oparau, Waitomo and Little Waipā/ Pokaiwhenua catchments is expected in February.</td>
</tr>
<tr>
<td>Budget</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>On track</td>
</tr>
<tr>
<td>Scope</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td></td>
</tr>
</tbody>
</table>

**Information Technology Systems Workstream RAG Status**

<table>
<thead>
<tr>
<th>Period</th>
<th>Two periods ago</th>
<th>Last period</th>
<th>Current period</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>The new workstream lead started Feb 7. The business analysts are preparing business requirements and user stories. They continue to have discussions with internal information system experts and external businesses regarding design, data management and integration. Due to the staffing changes and late on boarding of new WSL, there has been significant delay in completing the architectural design. The team has also identified the need to bring on a database analyst to facilitate the database build. They are working diligently in spite of the delays to deliver a portal on time for the 1Sep date.</td>
</tr>
<tr>
<td>Time</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Due to the staffing changes and late on boarding of new WSL, there has been significant delay in completing the architectural design. The team has also identified the need to bring on a database analyst to facilitate the database build.</td>
</tr>
<tr>
<td>Budget</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Budget status is Amber because the spend variance is more than 10% of the overall budget. The new WSL lead is currently reviewing the workstream project plan and will reforecast the associated budget in March.</td>
</tr>
<tr>
<td>Scope</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>No change in scope.</td>
</tr>
</tbody>
</table>

**Plan Effectiveness, Environmental Monitoring and Science workstream RAG Status**

<table>
<thead>
<tr>
<th>Period</th>
<th>Two periods ago</th>
<th>Last period</th>
<th>Current period</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>▲</td>
<td>▲</td>
<td>▲</td>
<td>Plan Effectiveness: On track. Environmental Monitoring and Science workstream is in development. This will give a clear view of the status of the project and provide more accurate time reporting.</td>
</tr>
<tr>
<td></td>
<td>Two periods ago</td>
<td>Last period</td>
<td>Current period</td>
<td>Commentary</td>
</tr>
<tr>
<td>-------------------</td>
<td>-----------------</td>
<td>-------------</td>
<td>----------------</td>
<td>------------</td>
</tr>
<tr>
<td>Overall</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>Not Set</td>
<td>Not Set</td>
<td></td>
<td>No budget</td>
</tr>
<tr>
<td>Budget</td>
<td>Not Set</td>
<td>Not Set</td>
<td></td>
<td>No budget</td>
</tr>
<tr>
<td>Scope</td>
<td></td>
<td></td>
<td></td>
<td>Scope is optimistic as no time or budget was given for this work stream this financial.</td>
</tr>
</tbody>
</table>

### Regulatory and Industry Schemes Workstream RAG Status

<table>
<thead>
<tr>
<th></th>
<th>Two periods ago</th>
<th>Last period</th>
<th>Current period</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td></td>
<td></td>
<td></td>
<td>Amber overall due reasons reflected below in time. The Terms of agreement for the certification of Nutrient Advisors has been approved. The TOA for Farm Environment Planners is near completion and expect signoff by February'18.</td>
</tr>
<tr>
<td>Time</td>
<td></td>
<td></td>
<td></td>
<td>Time has been recorded as Amber as the first two milestones have been exceeded. It is unlikely this time can be recovered however a revised date of 30 December for completion of milestones has been set to ensure the milestones are completed as planned. Development of certification processes are on track for the December 30 milestone.</td>
</tr>
<tr>
<td>Budget</td>
<td></td>
<td></td>
<td></td>
<td>Project funded labour: underspend due to late on boarding of new members</td>
</tr>
<tr>
<td>Scope</td>
<td></td>
<td></td>
<td></td>
<td>No changes to scope</td>
</tr>
</tbody>
</table>
Report to Audit and Risk Committee

Date: 28 February 2018

Author: Karen Bennett, Manager Chief Executive’s Office

Authoriser: Karen Bennett, Manager Chief Executive’s Office

Subject: Havelock North Water Inquiry Update

Section: A (Committee has delegated authority to make decision)

**Purpose**

1. To review the report of the Havelock North Drinking Water Inquiry: Stage 2 with regard to the potential implications for Waikato Regional Council’s (WRC) roles, responsibilities and functions.

**Executive Summary**

2. The Department of Internal Affairs (DIA) released the Stage Two report of the Havelock North Drinking Water Inquiry on 6 December 2017. Staff have considered the report and the implications for WRC’s roles, responsibilities and future activities.

3. In its report, the Inquiry makes 51 recommendations, 21 of which potentially affect regional councils. From these, there are recommendations of particular relevance that require further understanding and discussions with stakeholders. These relate to water supply source protection, either through changes to the Resource Management Act 1991 (RMA) or through review of the National Environmental Standard for Drinking Water (NES), and participation in Joint Working Groups (JWGs).

4. WRC staff are anticipating new national direction through legislative change and have initiated actions to enable implementation of key recommendations. Preliminary work to establish JWGs in Waikato is underway.

**Staff Recommendation:**

That the report Havelock North Water Inquiry (Doc #11904260) dated 28 February 2018 be received.

**Background**

5. In August 2016, there was a major outbreak of campylobacteriosis in Havelock North affecting thousands of people. In September 2016, the Government established a two-stage inquiry to investigate and report on the outbreak. The first stage focussed on identifying what happened, the cause of the outbreak, and an assessment of the conduct of those responsible for providing safe drinking water to Havelock North. The second stage focussed on improvement of the safety of drinking water in New Zealand, lessons to be learned and changes that should be made to achieve these goals. The terms of reference required the Inquiry to investigate and make recommendations in respect of:

   (a) Any legal or regulatory changes or additions necessary and desirable to prevent or minimise similar incidents;
(b) Any changes or additions to operational practices for monitoring, testing, reporting on and management of drinking water supplies, implementation of drinking water standards, contingency planning, and responses by local and central government to address the lessons from this incident; and

(c) Any other matter which the Inquiry believes may promote the safety of drinking water and/or prevent the recurrence of similar incidents.

6. Some of the Inquiry’s recommendations would involve changes to the existing law, and others are likely to require detailed reviews or updates. Other recommendations will not need a change to the law and can be implemented promptly, without undue difficulty. The Inquiry’s view is that implementation of such recommended changes should take place as a matter of urgency.

Key findings

7. The relevant key findings of the Inquiry are summarised as follows:

a. Regional councils have a central role in managing risk to source water through the RMA and NES regulations.

b. The regulatory system itself must be fit for purpose and capable of ensuring known risks can be eliminated and unknown risks can be mitigated.

c. Collaborative drinking water groups (JWGs, led by District Health Boards and including regional and district councils) should be mandatory.

d. The RMA (section 6 and 30) should be amended to provide “first barrier protection” to drinking water standards:

   • section 6 should make protection and management of drinking water a matter of national importance.
   • section 30 should make it explicit that regional councils are responsible for protecting and managing drinking water sources.

e. The existing Drinking Water NES (2008) should be implemented, and the review of the NES should be accelerated as a matter of urgency. The current NES requires:

   • Under Regulations 7 and 8, a regional council must not grant a water permit or discharge permit for an activity that will occur upstream of a drinking water abstraction point if the activity is likely to introduce or increase the concentration of determinands in the drinking water by a certain amount. An activity proposed upstream of an abstraction point must not result in a need for a higher level of treatment of that drinking water source.

---

1 The NES uses the term ‘determinand’ instead of ‘contaminant’. ‘Determinand’ has a specific meaning which is narrower than that of contaminant (as defined in the RMA). The Drinking-water Standards for New Zealand2005 (DWSNZ) define determinand as:
A constituent or property of the water that is determined, or estimated, in a sample, for example:

   • microbial determinand: total coliforms
   • chemical determinand: chloride
   • physical determinand: turbidity
   • radiological determinand: radon.

In the NES regulations, ‘determinand’ specifically refers to the health-related determinands specified in the DWSNZ.
• Under Regulation 10, a regional council must not include or amend a rule in its regional plan to allow a permitted activity upstream of a drinking water abstraction point if the activity is likely to introduce or increase the concentration of determinands in the drinking water by a certain amount. Again, activities permitted upstream of abstraction points must not result in a need for a higher level of treatment of that drinking water source. The report suggests this regulation could be reviewed to require mandatory consideration of drinking water source protection in assessing relevant controlled and restricted discretionary activities.

• Under Regulation 12, regional and district councils when assessing resource consent applications must consider two things. First, whether the proposed activity might itself lead to an event occurring that may have a significant effect on the quality of water at any abstraction point. Secondly, whether an external event could cause the activity to have a significant effect on the quality of water at any abstraction point. If either of those circumstances apply, the regional or district council must impose a condition on the resource consent requiring emergency notification of any such event to the drinking water supplier and the regional or district council.

Waikato context

8. While the local government sector plays a major role as owner and operator of some drinking water supplies and regulator of most, the drinking water safety issue is wider than local government. Other operators supply drinking water to citizens, including marae, schools, prisons, industry and government agencies. The Ministry of Health and district health boards have responsibilities to protect public health and prevent population-wide disease caused by contaminated water supplies.

9. In Waikato, there are 208 recognised network or specified self-suppliers for drinking water in the region. The Institute of Environmental Science and Research (ESR) maintains the drinking-water register for the Ministry of Health. The register was considered to be inaccurate in the Havelock North case and was one of the reasons JWGs are proposed.

10. In the Waikato region three district health boards have responsibility for public health:
• Counties- Manukau covers the part of the northern Waikato previously known as Franklin District
• Waikato – covers west coast, Hauraki Plains, Coromandel and the Hamilton basin
• Lakes – covers the part of the Taupo and Rotorua District Councils within the region.

Table One: Types of identified water supplies in each District Health Board area

<table>
<thead>
<tr>
<th>Neighbourhood</th>
<th>Small Population</th>
<th>Minor Population</th>
<th>Medium Population</th>
<th>Large Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 – 100 Population (Marae, schools)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>101 – 500 Population (Small villages)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>501 – 5,000 Population (Settlements)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,001–10,000 Population (Townships)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; 10,000 Population (District centres)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Counties – Manukau District Health Board | 9 | 5 | | |
| Waikato District Health Board | 77 | 51 | 22 | 6 |
| Rotorua – Taupō District Health Board | 14 | 11 | 8 | 1 |

Σ 100 | Σ 67 | Σ 30 | Σ 6 | Σ 5 |

2 The Register of Community Drinking-water Suppliers in New Zealand is printed annually by the Ministry of Health, and is a Register of drinking-water suppliers (excluding water-carriers) and specified self-suppliers. The Act defines a drinking-water supplier as a person who supplies drinking water to people in New Zealand or overseas from a drinking-water supply. Further information from section 69J(3) of the Health Act 1956. https://www.esr.cri.nz/our-services/consultancy/water-quality-and-sanitation/register-of-suppliers
11. The majority of water supplies are for small rural villages and settlements many of which are not provided by local government.

**Water supply sources in Waikato**

12. The Inquiry found that insufficient information and understanding of the interactions between the groundwater source and the adjacent surface water bodies contributed to the contamination. In this light, it is necessary to consider the type, number, range and locations of the water supply sources within the Waikato region.

**Table two: Water Supply sources within the region**

<table>
<thead>
<tr>
<th>Source</th>
<th>Neighbourhood</th>
<th>Small</th>
<th>Minor</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surface water</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lakes/springs/rivers</td>
<td>24</td>
<td>30</td>
<td>34</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>Groundwater</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bore / well</td>
<td>66</td>
<td>54</td>
<td>18</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Rainwater</td>
<td>22</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unspecified</td>
<td>3</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

13. There are more sources than recognised suppliers as some networked supplies take from multiple sources. For example the Matamata-Piako District Council supplies Te Aroha, a minor supply from four separate surface sources. Additionally, some neighbourhood suppliers (typically schools and marae) often source from a bore and from rainwater.

**Implications for Waikato Regional Council**

14. Of the 21 recommendations identified as having potential impact on regional councils, eight are of particular relevance. The following table outlines the implications of these.

<table>
<thead>
<tr>
<th>Report recommendation</th>
<th>General Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Recommendation 15</strong></td>
<td>This recommendation emphasises the importance of source protection of drinking water. Hawkes Bay Regional Council staff advise three areas of increased effort in relation to source protection:</td>
</tr>
<tr>
<td>Amend section 6 and 30 RMA to expressly recognise protection and management of drinking water sources as:</td>
<td></td>
</tr>
<tr>
<td>- s6: a matter of national importance, and</td>
<td></td>
</tr>
<tr>
<td>- s30: a function of regional councils</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Increase in the understanding of land influences upstream and up-gradient (for groundwater) of water supplies. This is requiring increased surveys, environmental measurement and modelling of waterbody interactions at different times (flows, events etc.).</td>
</tr>
<tr>
<td></td>
<td>- Changes to the way wells and bores are managed, requiring follow-ups to establish location, integrity and appropriate decommissioning.</td>
</tr>
<tr>
<td></td>
<td>- Changes to planning rules with the inclusion of water supply protection zones up-stream and up-gradient of water supplies with special attention to activities that were historically permitted activities to consentable activities.</td>
</tr>
<tr>
<td>Report recommendation</td>
<td>General Implications</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td><strong>Recommendation 16</strong></td>
<td>Fast-tracking of legislative changes.</td>
</tr>
<tr>
<td>Recommendation 15 processed through the statute amendments bill process</td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation 17</strong></td>
<td>Fast-tracking of legislative changes. Advice from Ministry for the Environment officials is that the current focus is on review of the implementation of the current version of the NES and that effectiveness and the possible inclusion of Inquiry outcomes will be a follow-up phase. It is too early to tell how the new government will interpret the call to review the NES. The recommendations have been drawn from the specific evidential base collected for the Havelock North event and these might not be relevant everywhere.</td>
</tr>
<tr>
<td>Accelerate review of National Environmental Standard for Drinking Water Regulations, rewrite as a matter of high priority</td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation 18</strong></td>
<td>The Inquiry found a lack of a process to exchange relevant information, including data collection, dissemination, making recommendations for improvements and understanding changes to condition of water sources. The recommendation directs the relevant agencies to establish a JWG of officials modelled on the Hawkes Bay JWG. In Waikato this will require additional governance arrangements with the three DHBs, councils and others.</td>
</tr>
<tr>
<td>DHBs should establish as soon as practicable (with the assistance of the Ministry of Health), a JWG (or groups) responsible for oversight of drinking water safety in their respective regions. Such JWGs should operate along the lines of the Hawke’s Bay JWG.</td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation 36</strong></td>
<td>Legislative changes. Awaiting further direction from MfE</td>
</tr>
<tr>
<td>MfE ensure the outcome of the review of the NES Regulations is accompanied by a comprehensive and ongoing programme of implementation and guidance.</td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation 48</strong></td>
<td>Regional Plan review to consider potential changes to the objectives, policies and rules relating to bores.</td>
</tr>
<tr>
<td>A subsequent review of the DWSNZ, Drinking-water Guidelines, all regional plans, RMA consent conditions, building consent conditions (where they apply), and water suppliers’ policies and standards should be undertaken to bring them into line with any new national standard.</td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation 49</strong></td>
<td>New national direction. The Resource Use Directorate is reviewing current bore permit structure and associated monitoring to take account of recommendations 49, 50.</td>
</tr>
<tr>
<td>No new below ground bore heads should be permitted.</td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation 50</strong></td>
<td>New national direction A risk assessment of existing bores close to groundwater takes for domestic and municipal water supply is nearing completion.</td>
</tr>
<tr>
<td>Ensure special attention is given to the risk of existing bores with below ground headworks and appropriate mitigation (including treatment and raising where practicable).</td>
<td></td>
</tr>
</tbody>
</table>
Ongoing areas of activity

15. Staff have started to implement the Inquiry’s recommendations that do not require a law change. These include:
   - Exploring the establishment of JWGs with the various parties. A meeting is scheduled for 1 March 2018 with a number of Territorial Authorities (TAs) and DHBs to discuss the outcomes of the Inquiry and the collaborative approach to implementing the recommendations in Waikato.
   - Staff are continuing the focus on existing relationships with water supply staff at TAs and DHBs so that the eventual working group is effective at the operational level (following the release of the Stage 1 report in May 2017, council staff initiated a meeting with all relevant parties at WRC last July).
   - The Resource Use Directorate has started a comprehensive review of bore consenting and monitoring.
   - Staff are also exploring how relevant and up to date data can be easily communicated and disseminated to all agencies to enable them to fulfil their responsibilities to ensure safe drinking water.

Conclusion

16. Work is underway across WRC directorates to respond to the relevant recommendations arising from the Havelock North Drinking Water Inquiry. The committee will be kept informed of developments as more information is made available about changes to legislation.
Report to Audit and Risk Committee

Date: 28 February 2018

Author: Sarah Jones, Senior Legal Advisor

Authoriser: Karen Bennett, Manager Chief Executive’s Office

Subject: Policy Review Schedule Update

Section: A (Committee has delegated authority to make decision)

Purpose
1. To provide an update on the Waikato Regional Council (Council) policies that are due for review/renewal this quarter.

Staff Recommendation:
1. That the report Policy Review Schedule Update (Doc#11439871 dated 28 February 2018) be received.

2. That the Protected Disclosures Policy (Doc#11848741) be endorsed.

2. In March 2017 the Audit and Risk subcommittee approved the Council Policy Schedule.

3. A Policy Review Schedule Update on policies due for review this quarter is outlined in Appendix 1.

4. A copy of the Protected Disclosures Policy is attached for review and endorsement of the Committee.

Appendix 1 – Policy Review Schedule Update

Attachment:
Protected Disclosures Policy Doc#11848741
### Appendix 1 – Policy Review Schedule Update

<table>
<thead>
<tr>
<th>Policy</th>
<th>Review Cycle</th>
<th>Review Date</th>
<th>Person Responsible</th>
<th>Update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud</td>
<td>Two yearly</td>
<td>August 2016</td>
<td>Chief Financial Officer</td>
<td>Due to LTP workloads the review of this policy has not been completed but will be done prior to the next Audit and Risk Committee meeting. The policy review will be undertaken in conjunction with the fraud risk mapping sessions to be scheduled with KPMG, second and third tier managers and Finance staff.</td>
</tr>
<tr>
<td>Customer Service</td>
<td>Annually</td>
<td>November 2017</td>
<td>Team Lead, Customer Engagement</td>
<td>This policy has been reviewed and no updates were considered necessary.</td>
</tr>
<tr>
<td>Recruitment</td>
<td>Annually</td>
<td>November 2017</td>
<td>People and Capability Manager</td>
<td>This policy has been reviewed, updated and published on the staff intranet.</td>
</tr>
<tr>
<td>Equal Opportunities</td>
<td>2 yearly</td>
<td>December 2017</td>
<td>People and Capability Manager</td>
<td>The policy has been reviewed and updated and a refreshed version is being prepared for publication and release to the organisation.</td>
</tr>
<tr>
<td>Sabbatical Leave</td>
<td>2 yearly</td>
<td>December 2017</td>
<td>People and Capability Manager</td>
<td>The policy has been reviewed and updated and a refreshed version is being prepared for publication and release to the organisation.</td>
</tr>
<tr>
<td>Reference</td>
<td>6 monthly</td>
<td>December 2017</td>
<td>People and Capability Manager</td>
<td>The policy has been reviewed and updated and a refreshed version is being prepared for publication and release to the organisation.</td>
</tr>
<tr>
<td>Personal Days</td>
<td>6 monthly</td>
<td>December 2017</td>
<td>People and Capability Manager</td>
<td>This policy has been retired as personal days have been incorporated into the Leave Policy.</td>
</tr>
<tr>
<td>Re-employment</td>
<td>6 monthly</td>
<td>December 2017</td>
<td>People and Capability Manager</td>
<td>This policy has been retired as the rehire of former employees has been incorporated into the Recruitment Policy.</td>
</tr>
<tr>
<td>Asset Management</td>
<td>3 yearly</td>
<td>January 2018</td>
<td>Director, Integrated Catchment Management</td>
<td>This has been scheduled to be reviewed by the Asset Management Team Lead in April 2018. It will be updated in terms of the work/thinking that has occurred around the Infrastructure Strategy and Regional Asset Management Plan and with the potential for it to apply to all assets owned by Council.</td>
</tr>
<tr>
<td>Cash Handling</td>
<td>3 yearly</td>
<td>January 2018</td>
<td>Team Leader, Accounting Services</td>
<td>A review of this Policy has commenced and it will be updated as necessary by 30 March 2018.</td>
</tr>
<tr>
<td>---------------------</td>
<td>----------</td>
<td>--------------</td>
<td>-----------------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Investment Management</td>
<td>3 yearly</td>
<td>March 2018</td>
<td>Team Leader, Accounting Services</td>
<td>A review of this Policy has commenced and it will be updated as necessary by 30 March 2018.</td>
</tr>
<tr>
<td>Protected Disclosures</td>
<td>2 yearly</td>
<td>October 2019</td>
<td>Manager, Chief Executives Office</td>
<td>This has been reviewed and updated ahead of schedule and is attached for review and endorsement by the Committee.</td>
</tr>
</tbody>
</table>
Waikato Regional Council Protected Disclosures (Whistleblower) Policy

(Protected Disclosures Act 2000)

1. Purpose

The purpose of this Policy is to:

- facilitate the disclosure and investigation of matters of serious wrongdoing in or by Waikato Regional Council (WRC); and
- set out the protections for employees who make disclosures of information about serious wrongdoing in or by WRC; and
- set out the internal procedure for receiving and dealing with disclosures about serious wrongdoing in or by WRC.

2. Internal Procedures

Under the Protected Disclosures Act 2000 (the Act) WRC must have internal procedures to receive and deal with information about serious wrongdoing. Internal procedures must comply with the principles of natural justice which primarily means that any person who makes, or is the subject of, a disclosure must receive a fair hearing.

The procedures must also identify persons to whom a disclosure may be made. The Chief Executive and the independent Chair of Audit and Risk at WRC have been appointed as persons to whom disclosures may be made by employees (refer to section 6 of this Policy for further information on WRC’s procedure).

3. What is a Serious Wrongdoing?

“Serious Wrongdoing” includes:

- unlawful, corrupt or irregular use of public funds or resources; or
- an act, omission or course of conduct:
  - that constitutes a serious risk to public health or public safety or the environment; or
  - that constitutes a serious risk to the maintenance of law, including the prevention, investigation and detection of offences and the right to a fair trial; or
  - that constitutes an offence; or
  - by a public official that is oppressive, improperly discriminatory or grossly negligent, or that constitutes gross mismanagement.
4. **Conditions of Disclosure (When is my disclosure protected under the Act?)**

To make a protected disclosure you must be an employee (as defined by the Act) which includes:

- Staff currently employed by WRC; or
- A person seconded to WRC staff; or
- A contractor to WRC; or
- A person concerned in the management of WRC; or
- A former employee of WRC; or
- A person who works for WRC as a volunteer without reward or expectation of reward for that work.

If you are an “employee” your disclosure **WILL BE** protected if:

- The information is about a serious wrongdoing in, or by WRC; and
- you believe on reasonable grounds that the information is true or likely to be true; and
- you wish to disclose the information so that it can be investigated; and
- you wish for the disclosure to be protected.

Employees must not personally conduct investigations or interviews related to suspected wrongdoing.

You must make your disclosure following the procedure outlined in section 6 of this Policy.

Your disclosure **WILL NOT** be protected if:

- you know the allegations are false, or you act in bad faith; or
- the information you’re disclosing is protected by legal professional privilege.

5. **What Protection do I receive?**

- The ability to take personal grievance proceedings against retaliatory action by your employer;
- Immunity from civil and criminal proceedings;
- Application of the anti-victimisation provisions of the Human Rights Act 1993; and
- Confidentiality,

The fact that you have made the disclosure must be kept confidential by the person/s to whom you made the disclosure unless:

- you agree otherwise; or
- it is essential to the effective investigation of the allegations; or
- it is essential to prevent serious risk to public health or safety or to the environment; or
- it is essential having regard to the principle of natural justice.

Requests for information under the Local Government Official Information and Meetings Act 1987 (LGOIMA) may be refused if it might identify the person who made the disclosure.
6. **WRC Procedure for making a Protected Disclosure**

*Who do I notify?*

Notify the **Chief Executive** or the independent **Chair of Audit and Risk** verbally, or in writing, disclosing the information about the serious wrongdoing.

*What happens next?*

If you make a disclosure to The Chief Executive or the independent Chair of Audit and Risk (or their delegated representative(s)) in the circumstances described above, they will:

a) Discuss the matter with you;

b) Record the disclosure and the date the notification was received. This should also include a detailed file note recording the interview, the investigation and the explanation given to you; and

c) Provide information and guidance to you on:

- the kinds of disclosures that are protected by the Act;
- the protections and remedies available under the Act and the Human Rights Act 1993; and
- how and in what circumstances information disclosed under the Act may be deferred to another appropriate authority or a Minister/Ombudsman under the Act; and

d) Report back to you on how the matter has been dealt with within 20 working days.

7. **When can disclosure be made to an outside agency?**

You may make the disclosure directly to an **appropriate authority** if you believe on reasonable grounds:

- that the Chief Executive and/or the independent Chair of Audit and Risk is or may be involved in the serious wrongdoing alleged or disclosed; or
- that immediate reference to an appropriate authority is justified by reason of the urgency of the matter to which the disclosure relates, or some other exceptional circumstances; or
- you have already made a disclosure to WRC but there has been no action or recommended action on the matter to which the disclosure relates within 20 working days after the date on which the disclosure was made.

*What is an appropriate authority?*

An **appropriate authority** includes:

- the Commissioner of Police;
- the Controller and Auditor General;
- the Director of the Serious Fraud Office;
- the Inspector General of the Intelligence and Security;
- an Ombudsman;
- the Parliamentary Commissioner for the Environment;
- the Independent Police Conduct Authority;
- the Solicitor-General;
- the State Services Commissioner; and
the Health and Disability Commissioner.

But does not include:
- A minister of the Crown; or
- A member of Parliament.

8. **When can I make a Disclosure to a Minister or Ombudsman?**

You can make your disclosure to a Minister or Ombudsman if:
- You have already made substantially the same disclosure in accordance with WRC’s internal procedures or to an appropriate authority; and
- You believe on reasonable grounds that the person or authority to whom you made your disclosure has:
  - decided not to investigate the matter; or
  - decided to investigate the matter but has not made progress with the investigation within a reasonable period of time; or
  - investigated but not taken or recommended any action; and
- You continue to believe on reasonable grounds that the information disclosed is true or likely to be true.
Report to Audit and Risk Committee March 2018

Date: 23 February 2018
Author: Janine Becker, Manager, Finance
Authoriser: Mike Garrett, Chief Financial Officer
Subject: Treasury Risk Management Policy Review
Section: A (Committee has delegated authority to make decision

Purpose
1. This report presents an updated Treasury Risk Management Policy to the committee for endorsement. The updated policy reflects the council’s decision as part of the 2018 – 2028 Long Term Plan (LTP) to commence an external borrowing programme.

Executive Summary
2. As part of the development of the LTP, the council has identified the need to establish an external borrowing programme to fund council’s infrastructure renewals.

3. In light of this change, staff commissioned a review of the Treasury Risk Management Policy to ensure it was appropriate and contained the appropriate financial management parameters to support the proposed borrowing programme via the Local Government Funding Agency (LGFA).

4. The policy was approved by the council as part of the LTP budget meeting in January 2018, subject to endorsement of the policy by the Audit and Risk Committee.

Staff Recommendation:
1. That the report “Treasury Risk Management Policy Review” (Doc #11873976 dated 23 February 2018) be received, and
2. That the committee endorses the Treasury Risk Management Policy as presented.

Background
5. The 2018 – 2028 Draft Long Term Plan has been developed on the basis that the council will commence an external borrowing programme from 1 July 2018. The need to move from the current internal borrowing to an external borrowing programme has been as a consequence of the level of capital investment required to maintain the council’s infrastructure assets.

6. In making this change, the council has taken advice from Mercer (NZ) Ltd with respect to the impact of the required borrowing on the council’s investment fund by way of internal borrowing, and from PricewaterhouseCoopers (PwC) with respect to the establishment of an external borrowing programme.

7. The Executive Summary from the PwC report is included as an appendix to this report. The full report has previously been provided to councillors and members of this committee.
8. On balance, the council believes that the establishment of an external borrowing programme now is the most appropriate way to fund these capital expenditure requirements. This decision takes account of the following considerations:

- Increasing the level of internal borrowing will result in a reduction in the diversification of investments able to be maintained within the investment fund. This is contrary to one of the Financial Strategy objectives, which is to maintain a diversified investment strategy to assist with risk management.
- Extending the internal borrowing programme may distort the equity between ratepayer groups (general ratepayers vs targeted ratepayers) as the investment fund returns available to offset the general rate are reduced with the decline in the investment fund value. The Treasury Risk Management Policy (section 4.2.6.3) places a cap on the level of internal borrowing of 20 per cent of the investment fund value, noting that borrowings in excess of this would compromise the investment structure and the ability of the fund to leverage its size to achieve diversification across asset classes and fund managers.
- An external borrowing programme associated with the council’s infrastructure assets better allows the council to match funding requirements with asset lives. This will help to support the affordability of the council’s infrastructure to the targeted ratepayers who currently fund the majority of these costs.
- In the current market the cost of external borrowing via the LGFA is cheaper than internal borrowing.

9. In light of this change, staff also commissioned PwC to review the Treasury Risk Management Policy to ensure that this was appropriate and contained the required financial management parameters to support the proposed borrowing via the Local Government Funding Agency (LGFA).

10. This revised policy was presented to the council as part of the Long Term Plan budget meeting in January 2018. At this meeting, the council resolved to approve the Treasury Risk Management Policy, subject to endorsement of the policy by the Audit and Risk Committee. As a result, the revised policy is now presented to the committee for this purpose.

11. The LGFA scheme was set up by central and local government and is a company that borrows funds and on lends them to local authorities at lower interest rate margins than would be payable to other lenders. Central government has a 20% shareholding.

12. The LGFA requires any local authority who is borrowing more than $20m to become a guaranteeing local authority which is the position of Waikato Regional Council and is the recommendation of PWC. Accordingly council is required to consult on this matter.

13. PwC has prepared a statement of proposal that sets out the reasons for the proposal to join the LGFA which is attached and is part of Councils LTP consultation process.

14. Sections 40 to 48 of the statement of proposal sets out the terms of the guarantee and risks. Section 43 notes “the LGA Guarantee will only ever be called if the LGFA defaults. Consequently a call on the LGFA Guarantee will only occur if the numerous safeguards put in place to prevent an LGFA default fail. This is highly unlikely to happen.”

15. To date 45 councils have joined as guaranteeing councils of which 30 are shareholders.

16. There are a number of steps required to join the LGFA scheme including setting up a debenture trust deed. Staff are proposing to progress with the set up process noting that any final decision will not be made until the LTP deliberation meetings. A meeting has been set up with LGFA and staff will brief the committee on the outcome of this meeting.
Assessment of Significance
17. Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a
decision in accordance with the recommendations is not considered to have a high degree of
significance.

Legislative context
18. In accordance with the section 102 Local Government Act 2002 the council is required to adopt a liability
management policy and an investment policy. For Waikato Regional Council, these two policies are
incorporated into the Treasury Risk Management Policy presented to the committee here. Changes to
this policy can be made without the need for consultation, however the key limits within the policies are
included in the council’s Financial Strategy which cannot be changed without consultation. A summary
of the Draft Financial Strategy is included in the Consultation Document for the 2018 – 2028 Draft Long
Term Plan.

Attachments
- Draft Treasury Risk Management Policy (doc #11727504)
- PwC – Treasury Risk Management Policy Review (doc #11725598)
- Local Government Financial Agency participation statement of proposal (doc #11831222)
Executive summary

- Council have indicated a requirement to fund infrastructure spending and asset renewals throughout the next 10 years and expect to utilise external borrowings to do so.
- Council could however, make use of current investment balances (cash and fixed interest only) and internal borrowing mechanisms to meet capital expenditure requirements, providing key financial benefit in internalising credit margins - i.e. not paid to external lenders. In order to maintain equity across the ratepayer base, the use of targeted rates and/or the setting of internal borrowing rates which reflect the actual investment income sacrificed (and which are charged in arrears) would be recommended.
- The net benefit to Council of using current investment balances in conjunction with internal borrowing mechanisms rather than external borrowings is however, dependent on the internal borrowing rate relative to the external cost of borrowing.
- In the current funding market, it is likely that the cost of external borrowings to fund expenditure requirements (and therefore maintaining investment balances at current levels) will be lower than investment returns. This is however, conditional on on-going investment performance in excess of the cost of external borrowing and is further dependent on the types of investments made and the associated risks taken. The external cost of borrowing should be considered as a benchmark rate for Council to consider in its decision to using external investment balances and internal borrowing mechanisms or external borrowing to fund infrastructure spending and asset renewals.
- If Council funds it’s infrastructure spending and asset renewal requirements through the use of existing investment balances and via an internal borrowing mechanism rather than seeking external funding, Council’s balance sheet will be in a net position. If however, Council chooses to fund it’s activities through the use of external borrowings and maintain existing investment balances, Council’s balance sheet will be in a gross or ‘grossed up’ position.
- As external debt funding through the LGFA for strongly credit rated Councils is currently able to be sourced at a lower rate than the level of returns recently generated on investment balances, Council’s gross balance sheet position can reduce the funding burden on ratepayers who are currently obligated to meet an internal borrowing rate at a higher level. It should be noted that additional financial market risks need consideration in managing a grossed up balance sheet; with liquidity, funding and interest rate risks relating to external borrowing requiring management and mitigation. Council’s Liability Management Policy does, however, articulate the frameworks and parameters for prudent management of external borrowing.
- A net balance sheet position will increase Council’s self reliance in meeting it’s funding obligations and reduce exposure to financial market risks relating to external borrowing. However, external investment balances which are currently maintained for intergenerational equity could be compromised unless internal borrowing rates match that of investment returns sacrificed within a net balance sheet structure. This balance sheet structure will also see a significant increase in internal borrowings and could impact the ability to achieve effective diversification in external investments. As the internal borrowing rate is currently set in advance of the actual level of returns being known, a potential mismatch occurs and benefits/costs will be accrued by ratepayers in a potentially inequitable manner.
- New Zealand short-term wholesale interest rates have traded within a narrow range near historically low levels throughout 2017 and are expected to remain ‘lower for longer’. Over a longer time horizon, i.e. five years, short term interest rates (90 day BKBM) are expected increase back towards a ‘neutral rate’ of 3.75% (a level that the RBNZ deem to be consistent with the economy neither running hot nor cold in terms of economic activity and inflationary pressures). New Zealand long term interest rates (i.e. between 5 to 10 years and longer) are primarily driven by US (and global) long term interest rate markets. We anticipate a US Fed Funds Rate hike in December as well as potential further rate hikes in 2018 which will see long-term US (and thus New Zealand) wholesale interest rates gradually move higher.
- Credit spreads are expected to gradually increase in coming years for bank related borrowing as on-going regulatory reforms increase the banks costs of funds. LGFA spreads are, however, expected to experience more moderate increases as investor demand remains strong for highly rated (AA+) bond issuance.
• Gradual increases in short and long term interest rates as well as moderate increases to credit spreads over coming years will likely see borrowers pay additional costs to meet their funding requirements.

• PwC has used the Moody’s local and regional councils (outside of the USA) ratings methodology in order to determine an indicative shadow credit rating outcome for WRC considering factors such as the rating derived for Greater Wellington Regional Council (GWRC) as well as statistical regression results. PwC believe that WRC has characteristics not too dissimilar to a AA rated Council. Analysis has estimated that for a borrowing tenor of 10 years, Council’s interest cost would currently approximate 4.10% should Council achieve a formal credit rating of AA (10 year swap rate + 84 basis points p.a.) and 4.30% without a formal credit rating (10 year swap rate + 104 basis points p.a.).

• Assuming that Council successfully becomes a member of, and could fund itself via the Local Government Funding Agency (LGFA), then its implied debt capacity is largely driven by the LGFA financial covenants, restricting rated and unrated borrowers from surpassing certain financial metric thresholds. Of these covenants, the most pertinent in determining Council’s debt capacity is the Net Debt / Total Revenue threshold which is set at 250% for rated Councils and 175% for unrated Councils. Given the current financial forecasts received, this implies that Council has debt capacity of $312 million on a formally rated basis and $220 million on an unrated basis. As this is significantly greater than Council’s forecast net peak borrowings of c. $49.7 million in FY22, the LGFA’s Net Debt / Revenue covenant is not considered to be a material constraint for Council’s external borrowing requirements.

• In considering the use of an independent credit rating, there are fundamentally two drivers relevant to Council - will economies of scale relating to new debt or debt refinancing’s achieve the efficiencies required to cover the cost of the credit rating; and will Councillor’s see the disciplines of increased management, governance and reporting associated with the on-going maintenance of a credit rating as an additional objective of the credit rating.

• Assuming Council’s infrastructure and asset renewal capital expenditure program will see an increase in debt from $16.5 million in June 2018 to $49.7 million over the next five years (and to be maintained relatively constant in the period thereafter at $48.0 million), the benefits of obtaining a credit rating will provide a total interest cost saving of approximately $190,000 over the LTP period, representing the 20 basis point advantage in LGFA pricing on WRC’s c. $49.7 million external borrowing forecast. The breakeven external debt level where the cost of the annual credit rating maintenance fee of A$60,000 is meet by the financial benefits of obtaining a credit rating is $33.5 million.
WAIKATO REGIONAL COUNCIL

TREASURY RISK MANAGEMENT
POLICY

INCLUDING LIABILITY
AND INVESTMENT POLICIES

JUNE 2017 | JANUARY 2018
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1.0 INTRODUCTION

1.1 Purpose of policy
The purpose of the Treasury Risk Management Policy is to outline approved policies and procedures in respect of all treasury activity to be undertaken by Waikato Regional Council (Council). The formalisation of such policies and procedures will enable treasury risks within Waikato Regional Council to be prudently managed.

2.0 SCOPE AND OBJECTIVES

2.1 Scope
This document identifies the policy and procedures of Waikato Regional Council in respect of treasury management activities.

2.2 Objectives
The objective of this Treasury Risk Management Policy is to control and manage costs and investment returns that can influence operational budgets and public equity. Specifically:

Statutory Objectives

- All external borrowing, investments and incidental financial arrangements (such as use of interest rate hedging financial instruments) will meet requirements of the Local Government Act 2002 and incorporate the Liability Management Policy and Investment Policy.

- Waikato Regional Council is governed by the following relevant legislation:
  - Trustee Act 1956. When acting as a trustee or investing money on behalf of others, the Trustee Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trustee Act 1956 Part II Investments.

- All projected external borrowings are to be approved by the Council as part of the Long Term Plan or Annual Plan process or resolution of the Council before the borrowing is affected.

- All legal master documentation in respect to borrowing and financial instruments will be approved by the Council’s solicitors prior to the transaction being executed.

- The Council will not enter into any borrowings denominated in a foreign currency.

- The Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by the Council itself, (subject to the exemption as per Section 9 of The Local Government Borrowing Act 2013, lending and financial accommodation provided to the Local Government Funding Agency).

- A resolution of Council is not required for hire purchase, credit or deferred purchase of goods if:
  - The period of indebtedness is less than 91 days (including rollovers); or
  - The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate amount determined by resolution of the Council as not being so significant as to require specific authorisation.
General Objectives

- To manage investments to optimise returns in the long term whilst balancing risk and return considerations.
- Minimise the Council’s costs and risks in the management of any future external borrowings.
- Minimise the Council’s exposure to adverse interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds, invest funds and transact risk management instruments within an environment of control and compliance under the Council approved Treasury Risk Management Policy so as to protect the Council’s financial assets and costs and to broadly maintain the real value of the Investment Fund.
- To maintain equity between the amounts available for distribution to present and future generations of ratepayers.
- Externally managed funds will comply with the Council’s Statement of Investment Policy and Objectives.
- Comply with financial ratios and limits stated within this policy.
- Monitor the Council’s return on investments.
- Maintain appropriate liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements.
- To minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- To ensure adequate internal controls exist to protect the Council’s financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, the LGFA and investors.
- Ensure the Council management and relevant staff are kept abreast of the latest treasury products, methodologies, and accounting treatments through training and in-house presentations.

3.0 LIABILITY MANAGEMENT POLICY

The Council’s liabilities comprise borrowings and various other liabilities. The Council’s Liability Management Policy focuses on short term borrowings:

- Raising specific debt associated with projects and capital expenditure
- Funding assets whose useful lives extend over several generations of ratepayers
- Funding working capital requirements and short term funding gaps for working capital requirements. For the foreseeable future the council will be a net investor of funds and will only borrow funds for short term Working Capital purposes.

3.1 Debt Ratios and Limits

Debt will be managed within the following macro limits.
Net debt as a percentage of equity  <20%  N/A
Net external debt as a percentage of total revenue  <100%*  <175%*
Net Interest on external debt as a percentage of total revenue  <10%*  <20%*
Net Interest on external debt as a percentage of annual rates  <15%  <25%*
Liquidity (total debt + liquid funds + term debt and committed loan facilities + liquid investments to existing proportion of external debt)  >120%  >110%

*This ratio increases to 250% should Council obtain a formal credit rating.

- Total Revenue is defined as earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net external debt is defined as total consolidated debt less liquid financial assets/investments.
- Liquidity in liquid funds are defined as external debt plus committed loan facilities plus liquid:
  - Overnight Cash at 100% of value
  - Wholesale / retail bank term deposits no greater than 30 days at 100% of value
  - NZ government bonds, Kauri bonds and LGFA bonds at 100% of market value
  - RCD’s less than 36591 days at 100% market value
  - CP less than 36591 days at 100% market value
  - Traded Corporate/ Financial institution bonds and FRN’s 1-5 years at 80% of market value, 5 - 10 years at 75% of market value
  - Wholesale / retail bank term deposits linked to pre-funding of maturity of term debt exposures

- The liquidity ratio excludes encumbered cash investments divided by external debt, such as cash held within special / reserve funds.
- Net Interest on external debt is defined as the amount equal to all interest and financing costs on external debt less interest income for the relevant period.
- Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local governments for services provided and for which the other LGs rate.
- Financial covenants are measured on the Council only not consolidated group.

- Outstanding covenants are measured on the Council only not consolidated group.

Debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate.
3.2 Asset Management Plans
In approving new debt, the Council considers the impact on its external borrowing limits as well as the economic life of the asset that is being funded and its overall consistency with the Council’s Revenue and Financing Policy and the requirement to match the funding of assets over their economic life/period of benefit to achieve inter-generational equity.

3.3 Borrowing Mechanisms
Waikato Regional Council is able to borrow externally through a variety of market mechanisms including issuing debt/bonds, commercial paper (CP) and debentures, direct bank borrowing, the LGFA, accessing the short and long-term wholesale/retail debt capital markets directly (e.g. FRNs and bonds) or internal borrowing of reserve and special funds. In evaluating strategies for new borrowing (in relation to source, term, size and pricing), the Council takes into account the following:

- Available terms from banks, the LGFA and debt capital markets.
- The Council’s overall debt maturity profile, to ensure concentration of debt is avoided at reissue/rollover time.
- Prevailing interest rates and margins relative to term for debt issuance, the LGFA, capital markets and bank borrowing.
- The market’s outlook on future interest rate movements as well as its own.
- Ensuring that the implied finance terms and conditions within the specific debt (such as project finance) are evaluated in terms such as cost/tax/risk limitation - compared to the terms and conditions Council could achieve in its own right.
- Legal documentation and financial covenants together with security and credit rating considerations.
- For internally funded projects, to ensure that finance terms for those projects are at least as equitable with those terms from external borrowing.
- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.
- The 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.

3.3.1 New Zealand Local Government Funding Agency Limited investment
Despite anything earlier in this Policy, the Council may borrow from the LGFA and, in connection with that borrowing, may 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 to the LGFA. For example borrower notes.
- 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.
- 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.
- Subscribe for shares and uncalled capital in the LGFA.

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3.4 Security

The Council’s external borrowings and interest-rate risk management instruments will generally be secured by way of a charge over rates and rates revenue. Where appropriate the Council may seek project financing which may have a charge over the project or a specific asset/s rather than rates. The utilisation of special funds and reserve funds and internal borrowing of special funds / reserve funds and other funds will be on an unsecured basis.

Should the Council undertake external borrowing, it is likely that the Council will ultimately need to move to putting in place a Debenture Trust Deed prior to accessing material funding from the external financial markets. If the Council borrows from the LGFA this will be a mandatory requirement of such borrowing.

Under a Debenture Trust Deed the Council’s borrowing is secured by a floating charge over all the Council rates levied under the Local Government (Rating) Act 2002, excluding any rates collected by the council on behalf of any other local authority. In such circumstances, the security offered by the Council ranks ‘Pari Passu’ for all debt issued by the Council including any security issued.

Under the Debenture Trust Deed the Council offers deemed rates as security for general borrowing programs. From time to time, with prior the Council and Debenture Trustee approval, security may be offered by providing a charge over one or more of the Council’s assets.

Physical assets will be charged only where:

- There is a direct relationship between the debt and the purchase or construction of the asset, which it funds (such as an operating lease, or project finance)
- The Council considers a charge over physical assets to be appropriate
- Any pledging of physical assets must comply with the terms and conditions contained within the Debenture Deed.

3.5 Debt Repayment

The funds from all asset sales, operating surpluses, grants and subsidies will be applied to the reduction of debt and/or a reduction in borrowing requirements, unless the Council specifically directs that the funds will be put to another use.

Debt will be repaid as it falls due in accordance with the applicable loan agreement. Subject to the debt limits, a loan may be rolled over or re-negotiated as and when appropriate. In certain circumstances (where market interest rates allow) Council may repurchase and cancel existing borrowings before maturity.

The council will manage debt on a net portfolio basis and will only externally borrow when it is commercially prudent to do so.

3.6 Guarantees/contingent liabilities and other financial arrangements

Council may act as guarantor to financial institutions on loans or enter into incidental arrangements for organisations, clubs, Trusts, or Business Units, when the purposes of the loan are in line with Council’s strategic objectives.

Council is not allowed to guarantee loans to Council-controlled trading organisations under Section 62 of the Local Government Act.
Council will ensure that sufficient funds or lines of credit exist to meet amounts guaranteed. Guarantees given will not exceed any amount agreed by Council or an appropriate Council committee in aggregate. All guarantees will be regularly reported.

Should Council desire to obtain external debt funding from the LGFA in excess of NZD20 million, the LGFA will require that Council becomes an LGFA Guarantor.

4.0 INVESTMENT POLICY AND LIMITS

4.1 General Policy

The Council is currently a net investor of funds and should, under normal circumstances, not be in a position to have a requirement to externally borrow. The Council should internally borrow from special reserve funds in the first instance to meet future capital expenditure requirements, unless there is a compelling reason for establishing external debt.

Investments are maintained to meet specified business reasons. Such reasons can be:

- For strategic purposes consistent with Council’s LTP
- To reduce the ratepayer burden
- The retention of vested land
- Holding short term investments for working capital and liquidity requirements
- Holding equity and fixed income investments that are necessary to carry out Council operations consistent with LTP and Annual Plan objectives.
- Provide ready cash in the event of a natural disaster. The use of which is intended to bridge the gap between the disaster and the reinstatement of normal income streams and assets.
- Invest amounts allocated to accumulated surplus. Council created restricted reserves and general reserves.
- Invest proceeds from the sale of assets.

The Council recognises that as a responsible public authority it manages investments in accordance with the Local Government Act 2002 and Trustee Act 1956; to invest prudently and to exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. All investments held should be low risk in terms of balancing capital risk to return considerations. The Council also recognises that low risk investments generally mean lower potential returns.

In its financial investment activity, the Council’s primary objective when investing is the protection of its investment capital and that a prudent approach to risk/return is always applied within the confines of this policy.

4.2 Investment mix

The Council maintains investments in the following assets from time to time:

- Direct Equity investments in CCO/ CCTO and other shareholdings
- Property investments incorporating land, buildings, a portfolio of ground leases and land held for development
- In-house managed Financial investments incorporating the management of Working Capital and longer term fixed income investments
- Externally managed equity and fixed income funds.
The “investment fund” is defined as fixed income investments and externally managed equity and fixed income funds that have accrued over time from the fund originally created by the sale of the shares in the Ports of Auckland and Tauranga, taking into account internal borrowings less any capital withdrawals and distributions.

4.2.1 Acquisition of New Investments
With the exception of financial investments, acquisition and management of medium to long-term investments are managed in accordance with goals, objectives and provisions of the LTP and Annual Plans. However, the Council may from time to time deem it appropriate in terms of prudent financial management, to modify its investment mix such a change would be entered into only through specific Council resolution and in compliance with the provisions of the Local Government Act 2002.

4.2.2 Direct Equity Investments
The Council maintains equity investments and other minor shareholdings.

The Council’s equity investments fulfil various strategic, economic development and financial objectives as outlined in the LTP.

The Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments.

Dividends received from Council Controlled Organisations (CCOs) and unlisted companies not controlled by the Council are recognised when they are received in the Statement of Comprehensive Revenue and Expense.

Any purchase or disposition of equity investments requires the Council approval. Any profit or loss arising from the sale of these investments is to be recognised in the Statement of Comprehensive Revenue and Expense.

Unless otherwise directed by the Council, the proceeds from the disposition of equity investments will be used firstly to repay any debt relating to the investment and then for other capital expenditure as determined by the Council.

The Council recognises that there are risks associated with holding equity investments and to minimise these risks the Council monitors the performance of its equity investments on a regular basis to ensure that the stated objectives are being achieved. The monitoring of direct equity investments will be the responsibility of the Finance Committee which will approve the Statement of Intent of any CCO equity investment and receive six monthly shareholder reports and audited annual accounts. The Council seeks professional advice regarding its equity investments when it considers this appropriate.

4.2.2.1 New Zealand Local Government Funding Agency Limited investment
Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment.

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 become and 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. If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

4.2.3 Property Investments

The Council holds property investments (including owner occupied land and building, commercial land and buildings, ground leases, land held for development and land and buildings held or acquired for strategic purposes) that are necessary to achieve its operational, investment and strategic objectives as stated in the LTP and/or Annual Plan. The Council may also hold and maintain property investments which have been vested to the Council.

The Council seeks to achieve an acceptable commercial rate of return from all property investments held. The determination of an acceptable return must be consistent with the nature of the property investment held. All operational income together with any gain or loss arising from any sale of the Council’s property investments is included in Statement of Comprehensive Revenue and Expense. Any gain or loss on sale will be taken to the Investment reserve for further investment, unless the Council directs otherwise.

In respect of leasehold land, subject to the powers and provisions conferred under the Local Government Act 2002, Public Bodies Leases Act 1969 and the Property Act 2007, the sale of any ground leases and approval of lease discounts (which may be used to incentivise lessees to adopt short rent review periods) requires the Council approval.

Any purchase or disposition of Property investments requires Council approval. Property investments may include, but are not limited to; ground leases, undeveloped land, forestry, commercial and industrial investments. The proceeds from the disposition of property will be used to repay any debt relating to the investment and then taken to an Investment reserve for further investment, unless the Council directs otherwise.

The Council recognises that there are risks associated with holding investment property and to minimise these risks the Council will undertake regular reviews of the property portfolio to ensure the stated objectives are being achieved. The Council seeks professional advice regarding its property investments when it considers this appropriate.

The Finance Committee or similar committee shall have the following responsibility:

- Recommend appropriate strategies and policies for the Council’s commercial activities, in order to maximise the capital value and profitability of its leased properties.
- Recommend to the Council the sale or purchase of commercial property;
- Review the Council’s realty assets and performance against stated objectives and obtain expert advice where applicable.
- Recommend to the Council policies and strategies for undertaking its commercial investment activities.
- Approve any lease discounts which may be required to encourage lessees to adopt shorter rent review periods, subject to the powers conferred by the Public Bodies Leases Act 1969 and the Property Act 2007.
- Review and recommend to the Council the sale of any of the Council’s ground leases and other property held.

4.2.4 In-house Managed Financial Investments Incorporating Working Capital requirements.
For the foreseeable future, the Council will be in a net investment position and until such time that the Council becomes a net borrower, liquid investment funds will be prudently invested as follows:

- Any liquid investments must be restricted to a term that meets future cash flow and capital expenditure projections.

- Interest income from financial investments is credited to general funds, except for income from investments for special funds, reserve funds and other funds where interest may be credited to the particular fund.

- Internal borrowing will be used where Council prefers this form of funding as an alternative to external borrowing unless there is a compelling reason for establishing external debt.

### Financial Investment Objectives

- The Council’s primary objectives when investing is the protection of its investment capital and maximising returns. Accordingly, the Council may only invest in creditworthy counterparties. Creditworthy counterparties and investment restrictions are covered in section 5.3. Credit ratings are monitored and reported quarterly to the Council.

- The Council may invest in acceptable short term debt instruments such as Commercial Paper or Floating Rate Notes (FRNs) and may make interest rate duration positions using investor swaps. These investments are aligned with the Council’s objective of investing in high credit quality and highly liquid assets while allowing for optimal interest rate investments to be made.

- The Council’s net investment interest rate profile will be managed within the parameters outlined in section 5.0

### Special Funds and Reserve Funds

Liquid assets are not required to be held against special funds and reserve funds. Instead the Council will internally borrow or utilise these funds wherever possible.

Through adopting this Treasury Risk Management Policy, the Council supersedes any previous Council resolutions relating to the continued funding or internal borrowing of specific special funds and reserve funds.

Unless otherwise directed by the Council, internal borrowing to/from reserves will be undertaken at the internal cost of borrowing which will be set annually as part of the LTP and Annual Plan process. This reflects investment income sacrificed and is charged annually in arrears. Accounting entries representing interest accrual allocations will be made using the specified annual rate for internal borrowing.

### Trust Funds

Where the Council hold funds as a trustee, or manages funds for a Trust then such funds must be invested on the terms provided within the trust. If the Trust’s investment policy is not specified then this policy should apply.

#### 4.2.45 Externally Managed Equity and Fixed Income Fund Management Portfolio of the Investment Fund

The following objectives will be complied with:

- **4.2.45.1 Externally Managed Equity Portfolio**
The Equity portfolio must be externally managed by a reputable Investment Manager(s) appointed by the Council after receiving appropriate professional advice and conducting due diligence.

A target allocation of 40 per cent of the investment fund may be invested in a diversified portfolio of equities in accordance with the Statement of Investment Policy and Objectives (SIPO) with an approved range of 30-45% to allow for the impact of major movements of asset values.

The Council intends for the Fund to be regularly rebalanced back to target weights. In approving a rebalancing, the Council can take into account transaction costs, recent volatility and the likelihood that major movements may result in the position moving back within specified ranges. The fund will be rebalanced back to target weights when any asset class position is outside the applicable range.

The performance of the Equity portfolio will be monitored quarterly against agreed benchmarks between the Council and the Manager based on the recommendation of the Fund Advisor.

Decisions about currency hedging of this portfolio will be determined by the Council in conjunction with the Fund Advisor/Manager.

Derivatives may only be used to facilitate the Investment of the fund. No leveraging of the portfolio is to be allowed by the Fund Manager.

The objectives of the Equity funds under Management will broadly meet the overriding objectives of this policy and the SIPO.

4.2.5.2 Externally Managed Fixed Income

The Council may decide to outsource part or all of the management of a Fixed Income portfolio in Global and NZ domestic Securities. In this case the Council will appoint a reputable Investment Manager(s) after receiving appropriate professional advice and conducting due diligence.

A target allocation of 60% of the Investment Fund may be invested in a Fixed Income portfolio in accordance with the SIPO with an approved range of 55 - 70% to allow for the impact of major movements of asset classes.

The performance of the Fixed Income portfolio will be monitored quarterly against agreed benchmarks between the Council and the Manager based on the recommendation of the Fund Advisor.

Decisions about currency hedging of this portfolio will be determined by the Council in conjunction with the Fund Advisor/Manager.

Derivatives may only be used to facilitate the Investment of the fund. No leveraging of the portfolio is to be allowed by the Fund Manager.

In addition to contributing to the overall investment strategy, the Fund’s NZ cash allocation can be used to meet the Council’s short term working capital requirements. In these circumstances, short-term means ‘loans’ from the Fund will still be deemed to be an asset of the Fund for asset allocation monitoring purposes.

The objectives of the externally managed Fixed Income portfolio will broadly meet the overriding objectives of this policy and the SIPO.

4.2.6 Specific Policies

4.2.6.1 Fund Distributions
The Council will distribute the annual return from the investment fund as follows:

- An amount equal to that required to increase the Real Capital Base by the New Zealand Consumer Price Index (CPI) for the year will be credited to the Preservation Reserve.
- The amount required to meet rate subsidy requirements for that year, including the funding required for the implementation of the economic development strategy.
- Excess returns will be distributed first to a Regional and Economic Development Reserve, such that the rate subsidy and regional and economic development funding is no more than 4 per cent of the Real Capital Base.
- The income equalization reserve to provide a source of income in years when the investment income is insufficient to meet the distribution requirements.

The Council will review the distribution policy should the loss reserve/income equalization deficit exceed two years of rates subsidy for more than two consecutive quarters. Where the Equalization reserve exceeds 4 years of rates subsidy it is a signal to the Council that it may be appropriate (but not necessary) to transfer excess funds to the Regional and Economic development reserves.

4.2.6.2 Capital Withdrawals
The Council may from time to time draw down on the Capital of the investment fund to provide funding for specific region-wide environmental projects, related to the Council’s core activities. The amount to be drawn down in any one financial year will not exceed 5 per cent of the total investment fund. The intention to withdraw capital will be notified in the annual planning process.

4.2.6.3 Internal Borrowing
The Council is permitted to internally borrow from the Investment Fund to fund short term working capital requirements as a result of timing differences (e.g., rates revenue receipts and natural disasters), the expansion or renewal of assets and community capital infrastructure expenditure, natural heritage projects, smoothing the rating impact of the Healthy Rivers Wai Ora implementation project across financial years, and its contribution to the national cycling centre of excellence. Internal borrowing for capital infrastructure will be repaid over the life of the asset or the period and a Capital rate is set to recover the cost or an agreed period approved by the Council. In the case of any natural heritage debt, this will be repaid from the Natural Heritage rate over an agreed period to be approved by the Council. In the case of the national cycling centre of excellence debt, this will be repaid from the associated rate over a period of 20 years.

- The level of internal borrowing available from the Investment Fund will be limited to 20% of the Investment Fund value (being 50% of the Fund’s fixed interest allocation), excluding the internal borrowing relating to the Cook Street purchase and will be deemed to be a fixed Interest Asset for asset allocation monitoring purposes.
- The Council has put in place a cap on internal borrowing as unlimited/large internal loans would compromise the investment structure (as a dominant single investment) and the ability of the fund to leverage its size to achieve diversification across asset classes and fund managers.
• Furthermore, it is expected that some loans will be for very long periods (corresponding with the underlying infrastructure assets) effectively reducing the ability of the Funds asset allocation to evolve over time.

• The internal borrowing relating to the Cook Street purchase has been excluded from the cap as the Council considers this to be a short term arrangement pending the decisions surrounding the Council’s future accommodation requirements and it will be deemed to be a Property investment for asset allocation monitoring purposes.

• Internal borrowing costs will be charged annually in arrears at an interest rate corresponding with investment income sacrificed based as a result of the lending activity. This methodology the expected long term returns for fixed interest, as advised by the Investment Fund Strategic advisors and that this rate be reset every three years as part of the LTP process to provide medium-term certainty for annual budgeting purposes.

• The internal loan principal and interest payments required to be reinvested in the Investment Fund will be netted off against the budgeted return/draw down from the Investment Fund to subsidise rates and the net balance will be transacted twice yearly in November and May.

• The delegation for approval of internal loans sits with the Finance Committee and the staff report that provides the recommendations for the loan should include:
  o the amount of the loan
  o the purpose of the loan
  o confirmation that the loan is consistent with the Treasury Management Policy
  o the start and maturity date
  o the applicable interest rate
  o interest and capital repayment terms.

5.0 RISK RECOGNITION/IDENTIFICATION/ MANAGEMENT
The definition and recognition of interest rate, liquidity, funding, counterparty credit, market, operational and legal risk of the Council will be as detailed below and applies to both the Liability management policy and Investment policy.

5.1 Interest Rate Risk

5.1.1 Risk Recognition

Although for the foreseeable future the Council will be a net investor of liquid funds, and the following interest rate risk control limits below are designed to provide a framework to manage interest rate risk on both the financial investment portfolio as well as interest rate risk arising as a result of the financial investment portfolio, until such time as the Council becomes a net borrower/external borrowing activity which Council may undertake to facilitate infrastructure/asset renewal spending and other capital expenditure. Note however, that interest rate risk control limits relating to external borrowings will only apply once 12 month forecast external core debt exceeds $25 million. Should the council become a net borrower, the investment interest rate risk control limits will cease to be applicable and the net external core debt interest rate risk control limits will accordingly apply.

Interest rate risk is the risk that investment returns or funding costs (due to adverse movements in market interest rates) will materially exceed or fall short of projections included in the LTP and Annual Plan so as to adversely impact revenue projections, cost control and capital investment decisions/returns/and feasibilities.

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing of investment returns or funding costs. Both objectives are to be achieved through the active management of underlying interest rate exposures.
5.1.2 Approved Financial Instruments

Dealing in interest rate products must be limited to financial instruments approved by the Council and are included in the table below.

Approved interest rate instruments are as follows. Any interest rate risk management instruments and investments must be restricted to also comply with the counterparty credit risk section 5.3 of this policy and the asset duration limits in 5.1.4 (applicable to investments only).

<table>
<thead>
<tr>
<th>Category</th>
<th>Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash management and borrowing</td>
<td>Bank overdraft</td>
</tr>
<tr>
<td></td>
<td>Committed cash advance and bank accepted bill facilities (short term and long term loan facilities)</td>
</tr>
<tr>
<td></td>
<td>Uncommitted money market facilities</td>
</tr>
<tr>
<td></td>
<td>Wholesale Fixed Rate Note Bond (Medium Term Note/Bond)</td>
</tr>
<tr>
<td></td>
<td>Floating Rate Note (FRN) issuance (senior ranking)</td>
</tr>
<tr>
<td></td>
<td>Retail and wholesale debt security issuance</td>
</tr>
<tr>
<td></td>
<td>Commercial paper (CP) (senior ranking)</td>
</tr>
<tr>
<td></td>
<td>LGFA borrower/R/Promissory notes/CP/bills/bonds/FRN’s</td>
</tr>
<tr>
<td>Investments</td>
<td>Short term bank deposits</td>
</tr>
<tr>
<td></td>
<td>Bank bills</td>
</tr>
<tr>
<td></td>
<td>Registered Bank certificates of deposit (CDs)</td>
</tr>
<tr>
<td></td>
<td>Treasury bills</td>
</tr>
<tr>
<td></td>
<td>Local Authority borrowings bonds/FRN’s or State Owned Enterprise (SOE) bonds and FRNs (senior ranking)</td>
</tr>
<tr>
<td></td>
<td>Corporate bonds (senior ranking)</td>
</tr>
<tr>
<td></td>
<td>Floating Rate Notes (senior ranking)</td>
</tr>
<tr>
<td></td>
<td>Promissory notes/Commercial paper (senior)</td>
</tr>
<tr>
<td></td>
<td>LGFA borrower notes/CP/bills/bonds/FRN’s</td>
</tr>
<tr>
<td>Interest rate risk management</td>
<td>Forward rate agreements (&quot;FRAs&quot;) on:</td>
</tr>
<tr>
<td></td>
<td>• Bank bills</td>
</tr>
<tr>
<td></td>
<td>• Government bonds</td>
</tr>
<tr>
<td></td>
<td>Interest rate swaps including:</td>
</tr>
<tr>
<td></td>
<td>• Forward start swaps (start date &lt;24 months unless linked to existing maturing swaps with notional amount amounts not exceeding maturing swap)</td>
</tr>
<tr>
<td></td>
<td>• Amortising swaps (whereby notional principal amount reduces)</td>
</tr>
<tr>
<td></td>
<td>• Swap extensions and shortenings</td>
</tr>
<tr>
<td></td>
<td>Interest rate options on:</td>
</tr>
<tr>
<td></td>
<td>• Bank bills (purchased caps and one for one collars)</td>
</tr>
<tr>
<td></td>
<td>• Government bonds</td>
</tr>
<tr>
<td></td>
<td>• Interest rate swaptions (purchased swaptions and one for one collars with matching notional values only)</td>
</tr>
</tbody>
</table>
Foreign exchange management
Spot foreign exchange
Forward exchange contracts (including par forwards)

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved. All investment securities must be senior in ranking. The following types of investment instruments are expressly excluded:

- Structured debt where issuing entities are not a primary borrower/issuer
- Subordinated debt, (other than Borrower Notes subscribed from the LGFA), Junior debt, Perpetual Notes and Hybrid Notes such as convertibles.

5.1.3 Interest Rate Risk Control Limits

**External Debt/Borrowings**
The following risk control limits will only apply once the 12 month forecast gross external debt exceeds $25 million.

The Council’s gross external debt/borrowings should be within the following fixed/floating interest rate control limits:

<table>
<thead>
<tr>
<th>Debt Period Ending</th>
<th>Minimum Fixed</th>
<th>Maximum Fixed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Month</td>
<td>50%</td>
<td>95%</td>
</tr>
<tr>
<td>Year 1</td>
<td>45%</td>
<td>95%</td>
</tr>
<tr>
<td>Year 2</td>
<td>40%</td>
<td>90%</td>
</tr>
<tr>
<td>Year 3</td>
<td>35%</td>
<td>85%</td>
</tr>
<tr>
<td>Year 4</td>
<td>30%</td>
<td>80%</td>
</tr>
<tr>
<td>Year 5</td>
<td>25%</td>
<td>75%</td>
</tr>
<tr>
<td>Year 6</td>
<td>15%</td>
<td>70%</td>
</tr>
<tr>
<td>Year 7</td>
<td>0%</td>
<td>65%</td>
</tr>
<tr>
<td>Year 8</td>
<td>0%</td>
<td>60%</td>
</tr>
<tr>
<td>Year 9</td>
<td>0%</td>
<td>55%</td>
</tr>
<tr>
<td>Year 10</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>Year 11</td>
<td>0%</td>
<td>45%</td>
</tr>
<tr>
<td>Year 12</td>
<td>0%</td>
<td>40%</td>
</tr>
<tr>
<td>Year 13</td>
<td>0%</td>
<td>35%</td>
</tr>
<tr>
<td>Year 14</td>
<td>0%</td>
<td>30%</td>
</tr>
<tr>
<td>Year 15</td>
<td>0%</td>
<td>25%</td>
</tr>
<tr>
<td>Year 16</td>
<td>0%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Master Fixed/Floating Risk Control Limit**
Minimum Fixed Rate | Maximum Fixed Rate
55% | 90%
“Fixed Rate” is defined as an interest rate repricing date beyond 12 months forward on a continuous rolling basis.

“Floating Rate” is defined as an interest rate repricing within 12 months.

The “Fixed Rate” percentages are calculated on the projected external debt level calculated by management (signed off by the Chief Financial Officer, or equivalent). Gross external debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdown of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the policy minimums and maximums.

The fixed rate amount at any point in time should be within the following maturity bands:

<table>
<thead>
<tr>
<th>Fixed Rate Maturity Profile Limit</th>
<th>Minimum Cover/Hedge %</th>
<th>Maximum Cover/Hedge %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 3 years</td>
<td>15%</td>
<td>60%</td>
</tr>
<tr>
<td>3 to 5 years</td>
<td>15%</td>
<td>60%</td>
</tr>
<tr>
<td>5 years plus</td>
<td>10%</td>
<td>60%</td>
</tr>
</tbody>
</table>

A fixed rate maturity profile that is outside the above limits, however self corrects within 90 days is not in breach of this Policy. Maintaining a maturity profile beyond 90-days requires specific approval by Council.

Floating rate debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.

Any interest rate hedge with a maturity beyond 16 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate or an interest rate hedge is linked to floating rate LGFA debt that has a maturity date beyond 16 years.

Interest rate options must not be sold outright. However, 1:1 collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, one side of the collar cannot be closed out by itself, both must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”.

Purchased borrower swaptions mature within 12 months.

Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 1 2.00 per cent above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.

The forward start period on swap/collar strategies to be no more than 24 months, unless the forward start swap/collar starts on the expiry date of an existing swap/collar/fixed rate debt instrument and has a notional amount which is no more than that of the existing swap/collar/fixed rate debt instrument.

To minimise concentration risk the LGFA require that no more than the greater of NZD $100 million or 33% of Councils borrowings from the LGFA will mature in any 12-month period.

5.1.4 Financial Investment Portfolio

Financial investments should be restricted to a term that meets future cash flow projections and be mindful of any forecast debt associated with future capital expenditure programmes.
as outlined within the LTP. Net Financial Investment Portfolio (NFIP) is defined as being funds net of working capital available for term (> 12 months) fixed interest investment.

The interest rate re-pricing percentages are calculated on the projected 12-month rolling Net Financial Investment Portfolio (NFIP) total. This allows for adjustments in advance of materially changing forecasts. When cash flow projections are changed, the interest rate re-pricing risk profile may have to be adjusted to comply with the policy limits.

<table>
<thead>
<tr>
<th>Interest Rate Re-Pricing Period</th>
<th>Minimum limit</th>
<th>Maximum Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 1 year</td>
<td>40% of NFIP</td>
<td>100% of NFIP</td>
</tr>
<tr>
<td>1 to 3 years*</td>
<td>200% of NFIP</td>
<td>800% of NFIP</td>
</tr>
<tr>
<td>3 to 5 years*</td>
<td>0%</td>
<td>70% of NFIP</td>
</tr>
<tr>
<td>5 to 10 years*</td>
<td>0%</td>
<td>60% of NFIP</td>
</tr>
</tbody>
</table>

*To ensure maximum liquidity, should suitable bonds be unavailable for investment purposes interest rate positions beyond 3 years may be made with acceptable financial instruments such as Investor Swaps.

- The re-pricing risk mix can be changed, within the above limits through sale/purchase of fixed income investments and/or using approved financial instruments such as swaps.

Special Funds/Reserve Funds

Given that the Council may require funding for capital expenditure cash shortfalls over the remaining life of the existing special/reserve funds, where such funds are deemed necessary they should be used for internal borrowing purposes when external borrowing is required. This will negate counterparty credit risk and any interest rate gap risk that occurs when the Council borrows at a higher rate compared to the investment rate achieved by Special / Reserve Funds.

- Liquid assets will not be required to be held against special funds or reserve funds unless such funds are held within a trust requiring such, instead, the Council will manage these funds using internal borrowing facilities.

- Reserves in funds will be created interest at the budgeted weighted average investment rate of return as specified in the annual plan. Reserves in deficit will be charged the budgeted weighted average investment rate of return plus a 1 per cent margin to reflect the opportunity cost to the Council through loss of liquidity.

Foreign Currency

- Council has minor foreign exchange exposure through the occasional purchase of foreign exchange denominated services and plant and equipment.

- Generally, all significant commitments (individual amounts of NZD100,000 or greater) for foreign exchange (excluding foreign exchange risk in any externally managed funds) are hedged using foreign exchange contracts, once expenditure is approved and the currency amount, and timing are known. Both spot and forward foreign exchange contracts can be used by Council.

- The Council shall not borrow or enter into incidental arrangements, within or outside New Zealand, in currency other than New Zealand currency.

5.2 Liquidity Risk/Funding Risk

5.2.1 Risk Recognition
Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, financial investments, loans and bank facilities. Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at the same or more favourable pricing (fees and borrowing margins) and maturity terms of existing facilities.

The management of the Council’s funding risks is important as several risk factors can arise to cause an adverse movement in borrowing margins, term availability and general flexibility including:

- Local Government risk is priced to a higher fee and margin level
- The Council’s own credit standing or financial strength as a borrower deteriorates due to financial, regulatory or other reasons
- A large individual lender to the Council experiences their own financial/exposure difficulties resulting in the Council not being able to manage their debt portfolio as optimally as desired
- New Zealand investment community experiences a substantial "over supply" of the Council investment assets;
- Financial market shocks from domestic or global events.

The management of Council’s funding risks is important to mitigate any adverse movement in borrowing margins, term availability and general flexibility.

Where possible, Council seeks a diversified pool of borrowing and ensures that bank borrowings are only sought from approved strongly rated New Zealand registered banks. Strongly credit rated banks have a short-term and long-term credit rating from Standard & Poor’s (or equivalent) of at least A-1 and A+ respectively.

A key factor of funding risk management is to spread and control the risk to reduce the concentration of risk at one point in time so that if any of the above events occur, the overall borrowing cost is not unnecessarily increased and desired maturity profile compromised due to market conditions.

### 5.2.2 Liquidity/Funding Risk Control Limits

- Alternative funding mechanisms such as leasing should be evaluated with financial analysis in conjunction with traditional on-balance sheet funding. -The evaluation should take into consideration, ownership, redemption value and effective cost of funds.
- **Term debt**, **liquid funds**, **term debt** and committed **bank** facilities together with **liquid investments** must be maintained at an amount in excess of 1.10 per cent of existing external debt.
- Council has the ability to pre-fund up to 12 months forecast debt requirements including re-financings. Debt re-financings that have been pre-funded, will remain including within the funding maturity profile until their maturity date.
- The CEO has the discretionary authority to re-finance existing debt on more favourable terms. Such action is to be reported and ratified by the Council at the earliest opportunity.
- The maturity profile of the total committed funding in respect to all loans and committed facilities, is to be controlled by the following system. **Risk control limits will apply once the 12 month forecast external debt exceeds $25 million**: 

<table>
<thead>
<tr>
<th>Period</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Treasury Risk Management Policy

<table>
<thead>
<tr>
<th>Counterparty/Issuer</th>
<th>Minimum long term/short term credit rating = stated (investments and possible interest rate risk management &lt;12 months)</th>
<th>Minimum long term credit rating (investments and interest rate risk management &gt;12 months)</th>
<th>Investments maximum per counterparty ($m)</th>
<th>Interest rate risk management instrument maximum per counterparty ($m)</th>
<th>Total maximum per counterparty ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ Government</td>
<td>N/A</td>
<td>N/A</td>
<td>Unlimited</td>
<td>none</td>
<td>Unlimited</td>
</tr>
</tbody>
</table>
| NZ Registered
Supranationals | A-1+                                           | AAA                                        | 20.0                                    | none                                           | 20.0                        |
| State Owned
Enterprises [name] | A/A1-1                                         | A                                          | 5.0                                     | none                                           | 5.0                         |
| NZ Registered
Bank (name)* | A-1                                            | AA-1/A1                                   | 2640.0                                  | 10.0                                          | 2640.0                      |
| NZ Registered       | A/A1-1                                         | A                                          | 2640.0                                  | 10.0                                          | 2640.0                      |

* Should the Council’s external debt exceed $50 million, this minimum will rise to 15 per cent.

A funding maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, a maturity schedule outside these limits for greater than 90-days will require specific Council approval.

The LGFA require that no more than the greater of NZD 100 million or 33% of a Council’s borrowings from the LGFA will mature in any 12-month period.

5.3 Counterparty Credit Risk

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. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

Credit risk will be regularly reviewed by the Council. Treasury related transactions would only be entered into with organisations specifically approved by the Council.

Counterparties and limits can only be approved on the basis of long-term credit ratings (Standard & Poor’s or equivalent Fitch or Moody’s) being A- and above or short term rating of A-1 or above; with the exception of New Zealand Local Authorities, who may be unrated.

Limits should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

The following matrix guide will determine limits (with the exception of externally managed funds which are governed by the appropriate SIPO):
Treasury Risk Management Policy

<table>
<thead>
<tr>
<th>Bank [name]*</th>
<th>Corporate Bonds/CP [names]**</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A/A+</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Local Government borrowings/ Bonds/FRN/CP [name]***</th>
<th>(if rated)</th>
<th>(if rated)</th>
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<th>none</th>
<th>20.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrated</td>
<td>Unrated</td>
<td>5.0</td>
<td>none</td>
<td>5.0</td>
<td></td>
</tr>
</tbody>
</table>

| Local Government Funding Agency (LGFA) | N/A | N/A | Unlimited | N/A | Unlimited |

Where NFIP is greater than $10 million then the following additional risk spreading limit shall apply:

* – Subject to a maximum exposure of 50% of the NFIP Council annual rates revenue in any single bank

** – Subject to a maximum exposure no greater than 40% of the NFIP being invested in corporate debt securities at any one point in time.

*** – Subject to a maximum exposure no greater than 60% of the NFIP being invested in Local Government debt at any one point in time.

This summary list will be expanded on a counterparty named basis which will be authorised by the CEO.

In determining the usage of the above gross limits, the following product weightings will be used:

- Investments (such as bank deposits) – Transaction Notional × Weighting 100% (unless a legal right of set-off over corresponding borrowings exits whereupon a 0% weighting may apply)

- Interest Rate Risk Management (such as swaps, FRAs) – Transaction Notional × Maturity (years) × 3%

Each transaction should be entered into a reporting spreadsheet and a quarterly report prepared to show assessed counterparty actual exposure versus limits.

Individual counterparty limits are kept on a register by management and updated on a day to day basis with specific approvals made by the Chief Financial Executive Officer, or equivalent. Credit ratings should be reviewed by the ASMManger, Finance on an ongoing basis and in the event of material credit downgrades; this shall be immediately reported to the Chief Financial Officer, or equivalent and the CEOChief Executive Officer and assessed against exposure limits. Counterparties exceeding limits should be reported to the Council.

Risk Management

To avoid undue concentration of exposures, financial instruments should be used with as wide a range of counterparties as possible. Where possible, transaction notional sizes and maturities should also be well spread. The approval process to allow the use of individual financial instruments must take into account the liquidity of the market the instrument is traded in and re-priced from.

6.0 POLICY REVIEW

This Treasury Risk Management Policy is to be formally reviewed on a triennial basis.

The Chief Financial Officer, or equivalent, has the responsibility to prepare a review report that is presented to the Council or the Council sub-committee. The report will include:

- Recommendation as to changes, deletions and additions to the policy
7.0 EXCEPTIONS TO THIS POLICY

This Treasury Management Policy will apply to all investment, borrowing and treasury related activity undertaken from 1 July 2015, the date adopted by Council (date to be inserted). In accordance with the Treasury Management Policy adopted prior to 30 June 2015, this date, the Council may hold legacy investments which may not conform with the revised policy. All non-conforming legacy investments will be transitioned in an orderly fashion, while taking into consideration risk factors and the maturity dates and the cost of (or losses on) redemption. All non-complying investments will be reported to the Council on a regular basis.

In the event the Council receives investments or equity which may be vested or previously held by the Council subsidiaries or associates, which do not conform to the Treasury Management Policy, with the approval of the Council, the investments will be transitioned to meet policy conditions over an orderly period. Consideration will be given to market conditions, risk/return considerations and the maturity dates and the cost of (or loses on) redemption.
Waikato Regional Council  
Private Bag 3038  
Waikato Mail Centre  
HAMILTON 3240  

Attention: Mr Mike Garrett, Chief Financial Officer  

19 January 2018  

Treasury Risk Management Policy Review  

Dear Sirs,  

PricewaterhouseCoopers (PwC) has pleasure in providing this letter outlining the observations and recommendations of the Treasury Risk Management Policy review as part of the second stage deliverables under our letter of engagement dated 6 November 2017. Our recommended changes have been included as marked-up changes to Council’s existing Treasury Risk Management Policy document.  

Observations and recommendations  

The review of Council’s current Treasury Risk Management Policy (Policy) was primarily focussed on ensuring that the document provided the necessary framework and controls in facilitating Council’s expectation of borrowing externally to fund upcoming asset renewal and capital expenditure requirements.  

Further additions to the Policy have been also been recommended to ensure that the document continues to represent best sector treasury management practice.  

Key amendments and recommended changes to the Policy are discussed below:
Section 3.1 – Debt ratios and limits

References within the Policy have been amended to distinguish between external and internal borrowing. Debt ratios and limits within the liability management policy have been amended to relate to external debt rather than net debt.

LGFA lending covenants have been added to the table within the Policy to illustrate limit thresholds for borrowing activity through the LGFA should Council undertake external funding through the LGFA (as indicated). As can also be seen in the Policy, Council’s own self-imposed borrowing limits are more stringent than the LGFA’s, ensuring compliance with the LGFA’s requirements.

The net external debt as a percentage of equity ratio is recommended to be removed, consistent with the majority of the local authority sector. The ratio is considered more appropriate for a corporate borrower whereas Council’s equity is largely infrastructure and underground assets. The ratio is also not a Local Government Funding Agency (LGFA) lending policy requirement.

The definition of liquidity has been amended to more accurately reflect liquid funds, that is, assets which are readily convertible to cash in a liquidity crisis scenario. The revised definition and specific detail of types of liquid funds indicates the percentage values which can contribute towards the ratio. The ratio has also been recommended to be revised lower from 120% currently to 110% to align with sector standards as well as LGFA lending requirements. As Council is currently a net investor, the reduced ratio will not require any immediate action from Council.

Section 3.6 – Guarantees/ contingent liabilities and other financial arrangements

Parameters around the granting of guarantees by Council have been included, incorporating types of guarantees which may be granted, restrictions and requirement to maintain sufficient funding to meet amounts guaranteed. Note that this Policy section is consistent with local authority peers.

Also noted in this section is the requirement for Council to become a Guarantor of the LGFA should funding of above NZD20 million be borrowed.

Section 4.0 - Investment Policy and limits

Additional rationale and objectives for investment by Council has been added to encompass other typical local authority investment motivation.

A section relating to the acquisition of new investments has also been made indicating procedures through which Council would undertake to change its investment mix.

The statement regarding internal borrowings in this section has been amended to articulate the preference of external borrowings to meet funding requirements.
**Section 4.2.6.3 – Internal borrowing**

The introduction to internal borrowings section has been amended to make objectives more principle based, articulating the types of activities which are permitted (e.g. working capital requirements, capital expenditure, asset renewals etc.) rather than listing specific projects.

The interest rate setting of internal borrowings is recommended to reflect actual interest income sacrificed as a result of the lending activity (i.e. the actual opportunity cost of foregone investment returns) and be charged annually in arrears. This recommended methodology would replace the current practice of charging an interest rate which reflects a three yearly average of cash and fixed interest returns through Council’s investment funds.

**Section 5.1.1 Interest rate risk recognition**

The identification of interest rate risk has been amended to also recognise risks associated with external borrowing activity and that this risk as well as interest rate risk on the financial investment portfolio will both be actively managed by Council. Interest rate risk on external borrowings will however, only have formal interest rate risk control limits applied once 12-month external core debt exceeds NZD25 million.

**Section 5.1.2 Approved financial instruments**

The list of approved cash management/ external borrowing, investment, interest rate risk management and foreign exchange risk management instruments have been updated to reflect typical mechanisms that local authorities utilise to fulfil these treasury functions.

**Section 5.1.3 Interest rate risk control limits**

Risk control limits which provide for a 'corridor of certainty' have been recommended. The 'corridor-style' interest rate risk management policy allows Council to position its interest rate fixing in the corridor between the declining wedge minimum and maximum policy parameters.

These Policy parameters are a function of the future debt forecast of Council for forward periods and decline over time to reflect the reduction in certainty in both debt forecast accuracy and interest rate market levels.

This style of Policy is easier to interpret for key stakeholders (i.e. the Council and those managing interest rate risk), providing a simple view of the overall interest rate risk position as well as being flexible, allowing Council to manage interest rate risk according to changing debt forecasts (rather than simply focusing on 12 month rolling debt forecast as it currently stands).
The ‘corridor’ style Policy also provides benefit in taking a longer term view of debt forecasts and manage interest rate risk accordingly.

PwC has completed thorough financial modelling and scenario testing which has shown that a ‘corridor’ styled interest rate risk management framework provides similar, if not better, interest cost outcomes to the current framework.

A 90-day period of non-compliance with the stated interest rate risk control limits is allowable should the period self-correct within this time frame. The inclusion of this Policy statement prevents restructures of the fixed interest rate portfolio for temporary breaches of policy parameters.

The Policy has been amended to allow interest rate hedging up to 16 years, consistent with Council’s ability to borrow from the LGFA at a fixed rate through to LGFA’s maximum tenor of April 2033.

**Section 5.1.4 – Financial Investment Portfolio**

The maximum limits for the Net Financial Investment Portfolio have been amended to ensure a mathematical consistency with the minimum limits of the portfolio.

**Section 5.2.1 – Liquidity risk recognition**

A Policy statement which highlights Council’s desire to obtain committed external funding from highly rated counterparties with bank lenders requiring a minimum long term credit rating of A+ (Standard & Poor’s).

**Section 5.2.2 – Liquidity risk/funding risk control limits**

Consistent with the changes made within the liability management Policy section, the liquidity ratio and liquid funds definition has been updated.

A section allowing Council to pre-fund upcoming debt maturities has also been included to allow forward management of debt re-financing- and re-pricing risks, particularly appropriate when market and credit conditions are amenable to such action.

The maximum funding maturity for the 5-years plus bucket has also been increased to 60% (from 40%), consistent with other local authorities in aligning the funding of Council’s long term infrastructure assets with the expected lives of these assets.

Consistent with interest rate risk control limits, funding risk control limits apply only when 12-month forecast core debt exceeds $25 million and a 90-day Policy non-compliance tolerance period also applies.
Notwithstanding the $25 million threshold level, at all times, no more than 33% of total committed funding is permitted to mature within a 12-month period.

**Section 5.3 – Counterparty Credit Risk**

The matrix of counterparty credit limits has been amended to separate short and long-term credit ratings as they apply to differing terms of investment or risk management instruments. The matrix is also to apply to internally rather than externally managed funds. We have recommended lifting the counterparty limits to AA and A rated banks.

PwC are available to discuss the recommendations of this review of Council’s Treasury Risk Management Policy as required.

Yours sincerely,

[Signature]

Stuart Henderson
Partner
Treasury Advisory
T: +64 9 425 0158
Disclaimer

This Letter has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose.

This Letter is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

To the fullest extent permitted by law, we do not accept a duty of care to any third party in connection with the provision of this Letter and/or any related information or explanation (together, the “Information”). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, we do not accept liability of any kind to any third party and disclaim all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of Waikato Regional Council (“WRC or Council”). Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this Letter are based on information available as at the date of the Letter.

We reserve the right, but will be under no obligation, to review or amend our Letter, if any additional information, which was in existence on the date of this Letter was not brought to our attention, or subsequently comes to light.

We have relied on forecasts and assumptions prepared by Council about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.

This Letter is issued pursuant to the terms and conditions set out in our engagement letter dated 6 November 2017 and the Terms of Business attached thereto.
STATEMENT OF PROPOSAL

Waikato Regional Council
Participation in New Zealand Local Government Funding Agency Limited

Date: February 2018
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Appendix 2 ............................................................................................................................................... 22
**Introduction**

The Waikato Regional Council is considering participating in the New Zealand Local Government Funding Agency Limited (LGFA), which is a council-controlled organisation (CCO).

Council is proposing it will participate as a Guaranteeing Local Authority but not as a Principal Shareholding Local Authority.

The LGFA is established by the local authority sector and the Crown to enable local authorities to borrow at lower funding margins than would otherwise be available. The LGFA is recognised in legislation.

All member local authorities are able to borrow from the LGFA, but different benefits apply depending on the level of participation. Generally local authorities borrowing from LGFA will have some shareholding and/or enter into guarantees in favour of the LGFA and other local authorities. This is certainly the case for Principal Shareholding and Guaranteeing Local Authorities. The exceptions apply to some local authorities with much lower levels of borrowing, but those local authorities will only be able to borrow a limited amount, and will be required to pay higher funding costs.

Principal Shareholding Local Authorities are required to invest capital in the LGFA, but are expected to receive a return on that capital.

An Information Memorandum, describing the arrangements in detail, is attached as Appendix 1, and forms part of this proposal. A number of terms which are used in this proposal are defined in that Information Memorandum.

**Summary of Proposal**

Given the short nature of this entire Statement of Proposal, Council is not producing a separate summary, this full version also serves as the summary.

**Statutory Considerations**

Section 56 of the Local Government Act 2002 (LGA 2002) provides that a proposal to establish a council-controlled organisation (CCO) must be adopted by special consultative procedure before a local authority may establish or become a shareholder in the CCO.

**Reasons for Proposal**

The Council is proposing participating in the LGFA Scheme because it believes it provides an opportunity that will enable it to borrow at lower funding margins than alternative sources in facilitating infrastructure and asset renewal requirements over the next LTP period. Council also believe that this funding cost benefit outweighs any costs and risks associated with the LGFA Scheme. A discussion of these costs and benefits is included as Part C of the Information Memorandum.

The Council is proposing however, that its participation is solely as a Guaranteeing Local Authority and not as a Principal Shareholding Local Authority for two reasons:

(a) Council’s funding requirement over the next long-term plan (LTP) period is in excess of the NZD20 million threshold and therefore necessitates Council to be a Guaranteeing member of the LGFA.

(b) Waikato Regional Council is not in a position to commit the required capital to be a Principal Shareholding Local Authority.
The Council is consulting on this proposal for the reasons set out above under "Statutory Considerations".

**Analysis of Reasonably Practicable Options**

The reasonably practicable options are as follows:

1. **Participate in the LGFA Scheme as a Principal Shareholding Local Authority.**

2. **Participate in the LGFA Scheme as a Guaranteeing Local Authority, but not a Principal Shareholding Local Authority.**

3. **Participate in the LGFA Scheme, but not as a Principal Shareholding Local Authority or as a Guaranteeing Local Authority.**

4. **Not participate in the LGFA Scheme.**

Part C of the Information Memorandum sets out an analysis of the costs and benefits of participating in the LGFA Scheme. That analysis is supplemented by some consideration of the Council's specific circumstances below.

**Q. Should the Council participate in the LGFA Scheme as a borrower?**

The annual interest cost savings based on an indicative debt funding strategy that Council could transact if it was a member of the LGFA are indicated below:

As a guaranteeing borrower, Council will stand to benefit from the LGFA via their current pricing scheme. For example, taking Council’s current $30 million FY18 funding requirement, Council could borrow from the LGFA for a five-year term at approximately 0.70% as compared with an approximate annual funding cost of 1.60% if Council were to meet its funding needs through bank debt. This saving of 0.90% per annum equates to an interest cost saving of approximately $2.7 million per year and $13.5 million over a five-year period.

**Consequently, the Council proposes that option (4) is NOT adopted.**

**Q. Should the Council participate in the LGFA Scheme as a Principal Shareholding Local Authority or as a Guaranteeing Local Authority?**

Investing in the LGFA Scheme as a Principal Shareholding Local Authority would provide the lowest cost option for borrowing for the following reasons:

(a) As discussed in the Information Memorandum (in Part C), a return will be paid on the capital investment made by Principal Shareholding Local Authorities.

(b) If the Council participates as a Principal Shareholding Local Authority, that increases the chance that the LGFA Scheme will be viable, and that the Council will be able to gain the benefits of participating in it.

However, there is an associated shared risk through:

- Participating Local Authorities (Guaranteeing Local Authorities) to guarantee the obligations of all other Guaranteeing Local Authorities and the obligations of the LGFA. The Guaranteeing Local Authorities will commit to contributing additional equity to the LGFA.
• If there is an imminent risk that the LGFA will default.

These risks are however, considered low. Were Council not to become a Guaranteeing Local Authority, the external funding requirements to meet infrastructure spending and asset renewals over the next LTP will not be able to be met fully through the LGFA scheme. The LGFA requires that any Council borrowing in excess of NZD20 million through the LGFA become a Guaranteeing Local Authority. With an anticipated borrowing programme in excess of NZD20 million, Council will not receive the full funding margin benefits as articulated in above.

However, at this time, it is not recommended that Council become a Principal Shareholding Local Authority as the level of investment required and associated rate of return are inferior to Councils current returns on investments held.

(Refer sections Summary of transactions a Council will enter into if it joins the LGFA Scheme in attached information memorandum for detail on what commitments will be made if participating as a Principal Shareholding Local Authority or as a Guaranteeing Local Authority.)

Consequently, the Council is proposing that option (1) and option (3) NOT be adopted.

Q. Should the Council participate in the LGFA Scheme without being a Guaranteeing Local Authority?

If Council were to join the LGFA Scheme without being a Guaranteeing Local Authority, the cost of participating would be less. However, it would face higher funding costs (0.10% higher) and would only have an ability to borrow up to NZD20 million, reducing the benefit of LGFA Scheme participation. The reduced benefits are however, associated with Council assuming fewer risks (risks as outlined in attached information memorandum, under sections on Uncalled capital and Guarantee).

Consequently, the Council is proposing that it will participate in the LGFA Scheme, as a Guaranteeing Local Authority but not as a Principal Shareholding Local Authority, (i.e. Option 2 is adopted).
**Investment Policy**

The Investment Policy includes a statement to make clear that Council's investment activity includes participation in the LGFA Scheme.

The primary objective for Council's interest in LGFA is to lower the Council's cost of borrowing.

**Liability Management Policy**

The Liability Management Policy makes it clear that the Council may participate in the LGFA Scheme, including borrowing from the LGFA and entering into the transactions relating to that borrowing described in paragraph 63 of the Information Memorandum.

The primary objective of these changes is to allow borrowing by the Council at lower funding margins than alternative external debt funding options would provide.

**Opportunity to Make Submissions**

This proposal will be distributed, and available for inspection and copying, as required by section 83 of the Local Government Act 2002.

This statement of proposal is available for inspection at Council’s main office (401 Grey Street, Hamilton and any other place the Council considers appropriate to ensure all interested persons have a reasonable opportunity to view the proposal e.g. on Council’s website http://www.waikatoregion.govt.nz/ltp/; and Libraries.

Submissions on this proposal must be addressed to the LTP project team. Submissions can be:

- Made online at http://www.waikatoregion.govt.nz/ltp/
- Emailed to haveyoursay@waikatoregion.govt.nz
- Posted to:
  - LTP project team
  - Waikato Regional Council
  - Private Bag 3038 Waikato
  - Mail Centre Hamilton 3240
- Delivered to a Waikato Regional Council office:
  - Hamilton 401 Grey Street
  - Paeroa 13 Opatito Road
  - Taupō Paora Hapi & Titiraupenga St
  - Whitianga 33-35 Albert Street

Submissions must be received no later than **4pm on Monday 16 April 2018**.

Any person or organisation who makes a submission has a right to be heard by the Council. Submitters who wish to be heard must request this in their submission.

Every submission will be:

- acknowledged by the Council in accordance with the LGA 2002,
- copied and made available to the public.

The LGA 2002 requires the Council to make all written submissions on this consultation available to the public. This requirement is subject to the provisions of the Local Government Official Information and Meetings Act 1987. If you consider there to be compelling reasons why your contact details and/or submission should be kept confidential, you should advise within your submission.
The consultation process dates are as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>13 March</td>
<td>Council meeting to adopt consultation document and supporting documents for consultation</td>
</tr>
<tr>
<td>16 March – 16 April</td>
<td>Consultation period</td>
</tr>
<tr>
<td>7 May – 11 May</td>
<td>Hearings week</td>
</tr>
<tr>
<td>28 May – 1 June</td>
<td>Deliberations week</td>
</tr>
<tr>
<td>26 June</td>
<td>Extraordinary Council meeting to adopt LTP</td>
</tr>
<tr>
<td>28 June</td>
<td>Council meeting – back-up for LTP adoption (if required)</td>
</tr>
</tbody>
</table>
PART A – INTRODUCTION AND PURPOSE

Purpose of Information Memorandum

1. This Information Memorandum provides a description of the structure for local authorities (LGFA Scheme), which is designed to enable participating local authorities (Participating Local Authorities) to borrow at lower interest margins than they would otherwise pay.

2. The purpose of this Information Memorandum is to provide information to supplement any consultation materials prepared by local authorities consulting on whether to participate in the LGFA Scheme.

3. This Information Memorandum is divided into three parts:

   (a) This Part A (Introduction and Purpose), which sets out the purpose of the Information Memorandum and provides some background on the purpose of, and rationale for, the LGFA Scheme.

   (b) Part B (How the LGFA Scheme Works), which sets out the characteristics of the LGFA Scheme, and the transactions that Participating Local Authorities enter into as part of their participation in the LGFA Scheme.

   (c) Part C (Local Authority Costs and Benefits), which sets out the costs and benefits to individual local authorities of participating in the LGFA Scheme.

Origin of the LGFA Scheme

4. The LGFA Scheme was developed by a group of New Zealand local authorities and central government. That development involved:

   (a) undertaking a detailed review and analysis of:

      (i) the borrowing environment in which New Zealand local authorities borrow; and

      (ii) centralised local authority debt vehicle structures that have been developed offshore to successfully lower the cost of local authority borrowing;

   (b) using this review and analysis to develop a funding structure (the LGFA Scheme), which is anticipated to deliver significant benefits to New Zealand local authorities;

   (c) confirming with rating agencies that the proposed LGFA Scheme can achieve a high enough credit rating to deliver the anticipated benefits;
(d) obtaining formal central government support to facilitate establishment of the LGFA Scheme.

**Rationale for LGFA Scheme**

**New Zealand Local Authority debt market**

5. New Zealand local authorities face a number of debt related issues.

6. First, local authorities have significant existing and forecast debt requirements.

7. Secondly, pricing, length of funding term and other terms and conditions vary considerably across the sector and are less than optimal. This is due to:

   (a) Limited debt sources – Local authorities’ debt funding options are limited to the banks, private placements and wholesale bonds (issuance to wholesale investors), and, to a lesser extent, retail bonds. Increasing local authority sector funding requirements and domestic funding capacity constraints are likely to further negatively impact pricing, terms and conditions and flexibility of local authority sector debt.

   (b) Fragmented sector – There are 78 local authorities. Individually, a significant proportion of these local authorities lack scale - the 10 largest account for ~70%

   (c) Regulatory restrictions - Offshore (foreign currency) capital markets are closed to local authorities and the process for local authority retail bond issuance is burdensome (Auckland Council excepted).

**Addressing the local authority debt issues**

8. Each of these issues needs to be addressed to rectify this situation. The LGFA Scheme rectified the situation by the following reasons:

   (a) Individually, local authorities were not able to attain significant scale (except organically in the long-term).

   (b) At a sector level it may be possible to address the issue regarding regulation, but regulators are likely to remain reluctant to significantly ease restrictions on financial management across the sector without gaining significant comfort as to the sophistication of the financial management of all local authorities. Even if this issue were addressed by regulators, this change alone would be insufficient to provide a major step change.

9. The LGFA Scheme was developed because of the homogenous nature of local authorities; the large sector borrowing requirements and the high credit quality / strong security position (i.e. charge over rates) of local authorities, created the opportunity for a centralised local authority debt vehicle to generate significant benefits.

10. There are numerous precedents globally of successful vehicles which pool local authority debt and fund themselves through issuing their own financial instruments to investors. Such vehicles achieve success through:
(a) “Credit rating arbitrage” – Attaining a credit rating higher than that of the individual underlying assets (local authority borrowers) and therefore being able to borrow at lower margins.

(b) "Economies of scale" – By pooling debt the vehicles can access a wider range of debt sources and spread fixed operating costs, thereby reducing the $ cost per $ of debt raised.

(c) “Regulatory arbitrage” – The vehicles can receive different regulatory treatment than the underlying local authorities, improving their ability to efficiently raise debt e.g. through access to offshore foreign currency debt markets.

11. The offshore precedents are typically owned by the local authorities in the relevant jurisdiction (often with central government involvement), and that is similar to the LGFA Scheme.

PART B – HOW THE LGFA SCHEME WORKS

Basic structure of the LGFA Scheme

12. The basic structure of the LGFA Scheme is that a company is established which will borrow funds and lend them on to local authorities at lower interest margins than those local authorities would pay to other lenders.

New Zealand Local Government Funding Agency Limited

13. LGFA was incorporated as a limited liability company under the Companies Act 1993 on 1 December 2011, and is subject to the requirements of the Local Government Act 2002. Its shares are held entirely by central government and by local authorities.

14. There are currently 31 shareholders comprising New Zealand Government at 20% and 30 Councils at 80%. As a result the LGFA is a council-controlled organisation.

15. The LGFA was established solely for the purposes of the LGFA Scheme, and its activities will be limited to performing its function under the LGFA Scheme.

16. A number of local authorities (Principal Shareholding Local Authorities) hold all, of those shares that are not held by central government. The Principal Shareholding Local Authorities have contributed capital and, as compensation for their capital contribution, will receive a pre-determined return on this capital. However, the overarching objective is that the benefits of the LGFA Scheme are passed to local authorities as lower borrowing margins, rather than being passed to shareholders as maximised profits.
Design to minimise default risk

18. One of the things which is critical to the LGFA Scheme delivering its anticipated benefits is the achievement of a high credit rating for the LGFA (to achieve the credit rating arbitrage referred to in paragraph 10(a)). Consequently there are a number of features of the LGFA Scheme which are included to provide the protections for creditors which rating agencies require before agreeing to a high credit rating. These features are described in paragraphs 19 to 54 below.

19. Before agreeing to a high credit rating, rating agencies will consider the risks of both short term and long term default. Short term default is where a payment obligation is not met on time. Long term default is where a payment obligation is never met. In many cases short term default will inevitably translate into long term default, but this is not always the case – a short term default may be caused by a temporary liquidity problem (i.e. a temporary shortage of readily available cash).

Features of the LGFA Scheme designed to reduce short term default risk

20. When a local authority borrows, the risk of short term default, although low, is probably significantly higher than its risk of long term default. In the long term it can assess and collect sufficient rates revenue to cover almost any shortfall, but such revenue cannot be collected quickly. Consequently, there is a risk that inadequate liability and revenue management could lead to temporary liquidity problems and short term default.

21. The principal asset of the LGFA will be local authority debt, so such temporary liquidity risks are effectively passed on to the LGFA. Consequently, the rating agencies will look for safeguards to ensure that liquidity problems of a Participating Local Authority will not lead to a default by the LGFA.

22. There are two principal safeguards that the LGFA has put in place to manage short term default (liquidity) risk:

(a) It holds a certain amount of cash and other liquid investments (investments which can be quickly turned into cash).

(b) It has a borrowing facility with central government which allows it to borrow funds from central government if required.

23. It is expected that these safeguards will sufficiently reduce any short term default risk.

Features of the LGFA Scheme designed to reduce long term default risk

24. There are a number of safeguards that the LGFA has put in place to manage long term default risk, the most important of which are set out below:

(a) The LGFA requires all local authorities that borrow from it to secure that borrowing with a charge over that local authority’s rates revenue (Rates Charge).

(b) The LGFA maintains a minimum capital adequacy ratio (or have some equivalent capital adequacy safeguard).
(c) The Principal Shareholding Local Authorities are required to subscribe for uncalled capital in an equal amount to their paid up equity contribution.

(d) The LGFA require most, or possibly all, Participating Local Authorities (Guaranteeing Local Authorities) to guarantee the obligations of all other Guaranteeing Local Authorities and the obligations of the LGFA.

(e) The Guaranteeing Local Authorities will commit to contributing additional equity to the LGFA if there an imminent risk that the LGFA will default.

(f) The LGFA hedge any exposure to interest rate and foreign currency fluctuations to ensure that such fluctuations do not significantly affect its ability to meet its payment obligations.

(g) The LGFA put in place risk management policies in relation to its borrowing and lending designed to minimise its risk. For example, it will impose limits on the percentage of lending which is made to any one local authority to ensure that its credit risk is suitably diversified.

(h) The LGFA ensure that its operations are run in a way that minimises operational risk.

25. Additional detail in relation to the features referred to in paragraphs 24(a) to 24(e) is set out below.

*Rates Charge*

26. All local authorities borrowing from the LGFA are required to secure that borrowing with a Rates Charge. Many but not all, local authorities have a Rates Charge in place already.

27. This is a powerful form of security for the LGFA, because it means that, if the relevant local authority defaults, a receiver appointed by the LGFA can assess and collect sufficient rates in the relevant district or region to recover the defaulted payments. Consequently, it significantly reduces the risk of long term default by a local authority borrower.

28. From a local authority's point of view it is also advantageous, because, so long as the local authority does not default, it is entitled to conduct its affairs without any interference or restriction. This contrasts with most security arrangements, which involve restrictions being imposed on a borrower's use of its own assets by the relevant lender.

*Minimum capital*

29. One important safeguard against long-term default for the LGFA will be having a minimum capital adequacy ratio (a ratio which measures the relative amounts of equity and debt-based assets which an entity has). This ratio is important, because it provides an indication of the ability of the LGFA to ultimately repay all of its debts despite local authorities that have borrowed from it defaulting or some other loss occurring.

30. The minimum capital adequacy ratio requirement is likely to be that the equity of the LGFA is an amount equal to at least 1.6% of its total assets.
Sources of equity for capital adequacy purposes

31. The equity held by the LGFA to ensure that it meets its minimum capital adequacy ratio requirement comes from two sources. First, central government and the Principal Shareholding Local Authorities contribute initial equity as the issue price of their initial shareholdings. Secondly, it is anticipated that each Participating Local Authority will, at the time that it borrows from the LGFA, contribute some of that borrowing back as equity.

32. The way the second source of equity works is that, whenever a Participating Local Authority borrows, it will not receive the full amount of the borrowing in cash. Instead, a small percentage of the borrowed amount will remain with the LGFA as equity. That percentage is to be 1.6% of the amount borrowed.

33. The equity contributed in this way is to be repaid when the borrowing is repaid, so, in effect, the amount which must be repaid will equal the cash amount actually advanced.

34. The equity is contributed by subscribing for “Borrower Notes”. The LGFA may convert borrower notes into redeemable shares

35. To illustrate with an example, if a local authority borrowed $1,000,000 for five years from the LGFA, it would receive $984,000 in cash and $16,000 of Borrower Notes. At the end of the five years, it would repay $1,000,000, but would simultaneously redeem its Borrower Notes for $16,000, meaning its net repayment was equal to the $984,000 it initially received in cash.

36. A return will be paid on the Borrower Notes, which will be in the form of a dividend if they are redeemable preference shares. The amount will be the LGFA cost of funds plus 2.00%. While it is anticipated that this return will be paid, it will be paid at the discretion of the LGFA.

37. There is some additional risk to Participating Local Authorities from this arrangement, because redemption of the Borrower Notes will only occur if the LGFA is able to pay its other debts. For example, if at the end of five years, the LGFA was insolvent, the local authority would have to repay $1,000,000, but would not receive its $16,000 back for redeeming its Borrower Notes.

Uncalled capital

38. Each Principal Shareholding Local Authority will be required to subscribe for uncalled capital which is equal in amount to its paid up equity contribution (Uncalled Capital).

39. It is anticipated that the Uncalled Capital will only be able to be called by the LGFA if it determines that there is a risk of imminent default if the call is not made. However, such a call is likely to be made before the Guarantee or additional equity commitment described below are utilised.

Guarantee

40. Participating Local Authorities are required to enter into a guarantee when they join the LGFA Scheme (Guarantee). Under the Guarantee the Guaranteeing Local Authorities guarantee the payment obligations of other Guaranteeing Local Authorities to the LGFA (Cross Guarantee), and guarantee the payment obligations of the LGFA itself (LGFA Guarantee).
41. The purpose of the Guarantee is to provide additional comfort to lenders (and therefore credit rating agencies) that there will be no long term default, though it may also be used to cover a short term default if there is a default which cannot be covered using the protections described in paragraphs 20 to 23 above, but which will ultimately be fully covered using the rates charge described in paragraphs 26 to 28. The Guarantee allows the LGFA to draw upon the resource of all Guaranteeing Local Authorities to avoid defaults.

Risk from Cross Guarantee

42. There are five factors which mitigate the risk to Guaranteeing Local Authorities under the Cross Guarantee:

(a) The risk only materialises if another Participating Local Authority defaults on its debt obligations. It is believed that no such default has ever occurred, which suggests that the risk of a local authority default is very low.

(b) If a Participating Local Authority defaults, but it is because of temporary liquidity problems only, the safeguards in place to cover temporary liquidity shortages may be sufficient for the LGFA never to have to call upon the Cross Guarantee. The detail of when the LGFA will be able to call upon the Cross Guarantee is not yet finalised, but it is likely that it will be restricted to situations in which there is a risk of an imminent default by the LGFA.

(c) It is anticipated that the Guarantee will only be called if a call on the Uncalled Capital does not generate sufficient funds to eliminate the risk of an imminent default by the LGFA.

(d) If a Participating Local Authority defaults, the burden will be shared by all Guaranteeing Local Authorities.

(e) If a Participating Local Authority defaults, the LGFA will exercise its rights under the Rates Charge to recover the payments defaulted on. The funds recovered through that exercise of rights will be passed on to the local authorities who have made payment under the Cross Guarantee, so those local authorities should, in the long term, be reimbursed for a significant portion, if not all, of the amount they have paid under the Cross Guarantee. The statutory processes involved in exercising these rights suggest that funds will be able to be recovered within 18 months of default.

LGFA Guarantee

43. The LGFA Guarantee will only ever be called if the LGFA defaults. Consequently, a call on the LGFA Guarantee will only occur if the numerous safeguards put in place to prevent an LGFA default fail. This is highly unlikely to happen.

44. If any such default did occur, and the Guaranteeing Local Authorities were called on under the LGFA Guarantee they could potentially be called on to cover any payment obligation of the LGFA. Such payment obligations may (without limitation) include obligations under the following transactions:

(a) A failure by the LGFA to pay its principal lenders.

(b) A failure by the LGFA to repay drawings under the liquidity facility with central government.
A failure by the LGFA to make payments under the hedging transactions referred to in paragraph 24(f).

**Guarantee risk shared**

45. There is a mechanism to ensure that payments made under the Guarantee are shared between all Guaranteeing Local Authorities. The proportion of any payments borne by a single Guaranteeing Local Authority is likely to be based on the number of ratepayers in its district or region, or on some other statistic which is a proxy for its relative ability to make payments.

**Rates Charge**

46. It is possible that Guaranteeing Local Authorities will be required to provide a Rates Charge to secure their obligations under the Guarantee.

**Benefits of being a Guaranteeing Local Authority**

47. Participating Local Authorities are permitted not to be Guaranteeing Local Authorities, it will be on the basis that their borrowings are only allowed to reach a limited level, less than $20,000,000. Such local authorities will also be required to pay higher interest margins.

48. Guaranteeing Local Authorities will, therefore, have the benefit of not having this low limit on borrowing, and will pay lower funding costs.

**Additional equity commitment**

49. In addition to the equity contributions made in conjunction with borrowing, all Guaranteeing Local Authorities are likely to be required to commit to contributing equity if required under certain circumstances. It is expected that calls on any such commitments will be limited to situations in which there is a risk of imminent default by the LGFA.

50. A call for additional equity contributions will only be made if calls on the uncalled Capital and on the Cross Guarantee will not be sufficient to eliminate the risk of imminent default by the LGFA. Consequently, the factors which limit the risk in relation to the Cross Guarantee also apply here.

52. If an additional equity contribution is required, the LGFA will lend the money required to make that contribution to the relevant local authority. For example, if $100,000 was required, the LGFA might issue $100,000 of shares to the local authority and, in return, the local authority would owe it a debt of $100,000. Consequently, there would be no requirement on the local authority to immediately make a cash payment. However, such a debt would ultimately have to be paid if the LGFA never regained a position in which it could buy back the shares.

53. It is possible that Guaranteeing Local Authorities will be required to provide a Rates Charge to secure their obligations to contribute additional equity.

**Initial purchase of a single share**

54. It is possible that Guaranteeing Local Authorities may be required to initially subscribe for 1 share in the LGFA. This is so that, if they have an ongoing commitment to subscribe for shares when required, they will already be a shareholder in the LGFA. The significance of this is that they will not be required,
when subscribing for further shares, to go through the special consultative process associated with becoming a shareholder in a council-controlled organisation.

**Characteristics designed to make the LGFA Scheme fair for all Participating Local Authorities**

55. The principal risk involved with the LGFA Scheme is that Participating Local Authorities will default on their payment obligations. The greater this risk is, the less attractive participation in the LGFA Scheme is for all Participating Local Authorities.

56. The Participating Local Authorities do not create this risk in equal amounts. There are some that carry a greater default risk than others, and therefore contribute disproportionately to the overall risk in the LGFA Scheme. Those local authorities are also the local authorities that would be likely to pay the highest interest margins if they borrowed outside the LGFA Scheme, and so potentially benefit the most from the LGFA Scheme.

57. To avoid, or at least minimise, what is effectively cross subsidisation of the higher risk local authorities by the lower risk local authorities different interest margins will be paid by different local authorities when they borrow from the LGFA, with those carrying the higher default risk paying the higher interest margins.

**Viability of the LGFA Scheme dependent on participation levels**

58. The modelling and other analysis done by Cameron Partners and Asia Pacific Risk Management (APRM – now PwC Treasury Advisory) suggests that the LGFA Scheme will be viable (in that it will deliver sufficient benefits to justify its establishment and continued existence) if:

(a) the LGFA maintains a high enough credit rating; and 

(b) sufficient funds are borrowed through it to obtain the economies of scale benefits referred to in paragraph 10(b).

59. An AA+ credit rating with Standard and Poor and Fitch is maintained.

60. Consequently, the participation of sufficient local authorities, both initially as Principal Shareholding Local Authorities (to contribute initial capital) and in meeting their ongoing borrowing requirements through the LGFA Scheme is critical.

61. The Principal Shareholding Local Authorities has collectively contributed $20 million by way of initial capital contribution. What this amounts to on a per-local authority basis will depend on the number of Principal Shareholding Local Authorities.

62. The Principal Shareholding Local Authorities are required to meet a certain proportion of their borrowing needs through the LGFA Scheme for an initial period, to ensure that the critical amount of utilisation is achieved.

**Summary of transactions a Council will enter into if it joins the LGFA Scheme**

63. If a Council joins the LGFA Scheme as a Principal Shareholding Local Authority, it will:

(a) subscribe for shares in the LGFA to provide it with capital (see paragraphs 16 and 31);
(b) possibly commit to meeting a certain proportion of its borrowing needs from the LGFA (see paragraph 62);

(c) borrow from the LGFA;

(d) subscribe for Uncalled Capital in the LGFA (see discussion in paragraphs 38 to 39 above);

(e) subscribe for Borrower Notes (see discussion in paragraphs 32 to 37);

(f) enter into the Guarantee (see discussion in paragraphs 40 to 45 above);

(g) commit to providing additional equity to the LGFA under certain circumstances (see discussion in paragraphs 49 to 53 above);

(h) possibly purchase one share in the LGFA at the time of joining the LGFA Scheme (see discussion in paragraph 54 above); and

(i) provide a Rates Charge to secure some or all of its obligations under the LGFA Scheme (see discussion in paragraphs 26 to 28, 46 and 53 above).

64. If a Council joins the LGFA Scheme as a Guaranteeing Local Authority, but not as a Principal Shareholding Local Authority, it will enter into the transactions described in paragraph 63, other than those described in paragraphs 63(a), 63(b) and 63(d).

65. If a Council joins the LGFA Scheme, but not as a Guaranteeing Local Authority (and therefore also not as a Principal Shareholding Local Authority) it will only enter into the transactions described in paragraph 63(e) and 63(i).

PART C - LOCAL AUTHORITY COSTS AND BENEFITS

66. The costs and benefits to a Participating Local Authority will depend on whether it participates as a Principal Shareholding Local Authority, a Guaranteeing Local Authority, or as neither.

Benefits to local authorities that borrow through the LGFA Scheme

67. The LGFA is able to borrow at a low enough rate for the LGFA Scheme to be attractive because of the three key advantages the LGFA will have over a local authority borrower described in paragraph 10. That is – exploiting a credit rating arbitrage, economies of scale and a regulatory arbitrage.

68. In addition, the LGFA provides local authorities with increased certainty of access to funding and terms and conditions (including the potential access to longer funding terms e.g. ~ 10 years plus).

69. The potential savings for a local authority in terms of funding costs will depend on the difference between the funding cost to that local authority when it borrows from the LGFA and the funding cost to the local authority when it borrows from alternative sources. This difference will vary between local authorities.

70. The funding costs each local authority pays when it borrows from the LGFA will be affected by the following factors, some of which are specific to the local authority:

(a) the borrowing margin of the LGFA;
(b) the operating costs of the LGFA;
(c) any price adjustment made by the LGFA for that specific local authority as a result of:
(i) the credit quality of the local authority;
(ii) the size of the borrowings of that local authority from the LGFA; and
(iii) the local authority being a Guaranteeing Local Authority or not.

71. A diagram which shows what will affect the amount of any funding cost savings is set out as Annex 1.

Costs to local authorities that borrow through the LGFA Scheme

72. The costs to Participating Local Authorities as a result of their borrowing through the LGFA Scheme take two forms:

(a) First, there are some risks that they will have to assume to participate in the scheme, which create contingent liabilities (i.e. costs which will only materialise in certain circumstances).

(b) Secondly, there is some cost associated with the Borrower Notes.

Risks

73. The features of the LGFA Scheme described above which are included to obtain a high credit rating are essentially steps which remove risk from lenders to make their residual risk low enough to justify the high credit rating. These features remove risk, in part, by transferring it to Participating Local Authorities.

74. These risks are that:

(a) in the case of Guaranteeing Local Authorities, a call is made under the Guarantee (see discussion in paragraphs 40 to 45 above);

(b) in the case of Guaranteeing Local Authorities, a call is made for a contribution of additional equity to the LGFA (see discussion in paragraphs 49 to 53 above); and

(c) in the case of all Participating Local Authorities, the LGFA is not able to redeem their Borrower Notes (see discussion in paragraphs 32 to 37).

75. Each of these risks is discussed in some detail in the paragraphs indicated next to the relevant risk. For the reasons set out in those discussions, it is anticipated that each of the risks is low.

Cost of Borrower Notes

76. As discussed in paragraphs 32 to 37, all Participating Local Authorities will be required to invest in Borrower Notes when they borrow from the LGFA. This carries a cost in addition to the risk referred to in paragraph 75(c), because the investment in Borrower Notes will be funded by borrowing from the LGFA, and the cost of this funding will be higher than the return paid on the Borrower Notes.
77. It is anticipated that the Borrower Notes will pay a discretionary payment equal to the LGFA’s own cost of funds. Any discretionary payment is likely to be capitalised until maturity.

78. As noted in paragraph 36, while it is the intention for the LGFA to always pay the proposed annual payment on the Borrower Notes, such payments are at the LGFA’s discretion so, in some situations, those payments may not be made.

Cost/benefit analysis for the investment by Principal Shareholding Local Authorities

79. In addition to those costs and benefits that all Participating Local Authorities are expected to receive in relation to their borrowing from the LGFA, Principal Shareholding Local Authorities will also hold shares in the LGFA (Establishment Shares).

80. Establishment shares will pay a discretionary annual payment, which is an amount up to the LGFA’s own cost of funds plus 200 bps1.

81. While it is the intention for the LGFA to always pay the annual payment on the Establishment Shares, this payment will not be made, or will be reduced, if the performance of the LGFA means that the LGFA does not consider it appropriate to make the payment.

82. Any local authority investor in Establishment Shares will also be required to subscribe for the same amount of Uncalled Capital in the LGFA. This Uncalled Capital can be called at the discretion of the LGFA under certain circumstances to ensure the ongoing viability of the LGFA. Once called the Uncalled Capital is called, it will have the same characteristics as Establishment Shares. This is an additional risk (and therefore contingent cost) for Principal Shareholding Local Authorities. Uncalled Capital is discussed in more detail in paragraphs 38 to 39 above.

1 A “bp” is a “basis point”, which is a term that means “0.01%”. 200 bps therefore refers to 2% of the amount invested.
Annex 1

DIAGRAM SHOWING FACTORS AFFECTING POTENTIAL SAVINGS

LGFA borrowing margin + LGFA operating costs + Return to LGFA Investors

LGFA pricing adjustment = Individual LG counterfactual borrowing margin = Potential LG savings
### TABLE SHOWING ANTICIPATED PRICING BENEFITS

<table>
<thead>
<tr>
<th>LA Borrowers</th>
<th>LGFA Borrowing Margin</th>
<th>Standalone LA Borrowing Rate</th>
<th>Potential LA Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA rated</td>
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<td>115</td>
<td>65</td>
</tr>
<tr>
<td>AA – rated</td>
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<tr>
<td>Unrated Guarantor</td>
<td>70</td>
<td>160</td>
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</tr>
<tr>
<td>Unrated Non-Guarantor</td>
<td>80</td>
<td>170</td>
<td>90</td>
</tr>
</tbody>
</table>

A “bp” is a “basis point”, which is a term that means “0.01%”
LIST OF ACTIONS FOR JOINING THE LGFA

1. LGFA notified of Waikato’s desire to join. This prompts LGFA to commence two processes:
   - The first is a credit analysis of Waikato, and the
   - Second is an application for Waikato to be accorded "Eligible Investor" status under the Securities Act.

   Credit analysis takes about a week, but that a lot longer can be required if more than one Council is joining at the same time. For example, 3-4 weeks was not enough for one Council because a number of other Councils were joining at the same time.

   The "Eligible Investor" application takes 2-3 weeks. Either way, the LGFA should be notified as soon as possible to get these processes under way.

2. Russell McVeagh (LGFA lawyers) are provided with Waikato’s Debenture Trust Deed and Registry Agreement, (refer to note 1) which they review and then provide a required list of amendments. Allow 2-3 weeks for this.

3. Then Council’s lawyers prepare the required amendments (if any). This can be done within a few days.

4. Amendments are negotiated with the Registrar and Trustee. This can be done within a few days.

5. Russell McVeagh prepare accession documentation and Council lawyers review. This can be done within a few days.

6. Council lawyers prepare various ancillary documentation and Russell McVeagh reviews. This can be done within a few days.

7. Council lawyers send all documents out for signing. Elected members need to sign some documents, so this is sometimes held up a bit by constraints on their availability.

8. Council lawyers and Russell McVeagh check all documents as they come back. This is usually done within a day.

9. Council lawyers arrange for security stock to be issued and get registrar extracts. This can be done within a day.

10. Waikato provides its Annual Rates Income number for the year ended 30 June. (This can be done any time in the process.)

11. Council lawyers prepare a legal opinion for the LGFA and the LGFA Security Trustee (Trustee Executors).

12. Council lawyers provide a conditions precedent sign-off to the LGFA Security Trustee.
Report to Audit and Risk Committee March 2018

Date: 23 February 2018
Author: Janine Becker, Manager, Finance
Authoriser: Mike Garrett, Chief Financial Officer
Subject: External audit update
Section: A (Committee has delegated authority to make decision)

Purpose

1. To provide the committee with an update on outstanding matters from previous audits and to seek approval for the Committee Chair to sign the Audit Arrangements Letter for the 2017/18 annual report audit when received.

Staff Recommendations:

1. That the report “External audit update” (Doc #11872058) dated 23 February 2018 be received for information.
2. That the Chair of the Audit and Risk committee be delegated authority to approve the Audit Arrangements Letter for the 2017/18 year

Background

2. An update on outstanding matters from previous audits is attached for information.

3. The Audit Arrangements Letter for the year ending 30 June 2018 has not yet been received. In light of this, staff request that the Chair of the Audit and Risk Committee is delegated authority to approve this letter once it is received from Audit New Zealand.

Attachments
Outstanding matters from previous audits (Doc #11869039)
# Audit - Outstanding Matters To Date

Audit NZ Management Report on the audit for the year ended 30 June 2017 - Status of previous recommendations

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<tr>
<th>Type</th>
<th>Status</th>
<th>Description</th>
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<tr>
<td><strong>Urgent</strong></td>
<td>Needs to be addressed urgently</td>
<td>These recommendations relate to a significant deficiency that exposes the regional council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm.</td>
</tr>
<tr>
<td><strong>Necessary</strong></td>
<td>Address at the earliest reasonable opportunity, generally within 6 months</td>
<td>These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency.</td>
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<tr>
<td><strong>Beneficial</strong></td>
<td>Address, generally within 6 to 12 months</td>
<td>These recommendations relate to deficiencies that result in the regional council falling short of best practice. These include weaknesses that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in our view it is beneficial for management to address these.</td>
</tr>
</tbody>
</table>

**Outstanding matters** (partly addressed or no progress made)

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Current status</th>
<th>Priority</th>
<th>Management’s proposed action</th>
</tr>
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</table>

Doc # 11885373
### Recommendation

<table>
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<th>Recommendation</th>
<th>Current status</th>
<th>Priority</th>
<th>Management’s proposed action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Detailed asset data on revalued assets</strong></td>
<td></td>
<td>Necessary</td>
<td>Staff have investigated this issue and will have a new process implemented for any future disposals. No depreciable assets have been disposed of yet for the 2018/19 period.</td>
</tr>
</tbody>
</table>

The Regional Council’s infrastructure assets were revalued as at 31 December 2013. After the revaluation, some assets were disposed. As per New Zealand International Accounting Standard 16 Property Plant and Equipment (NZ IAS 16(PBE)) paragraph 41, the revaluation surplus included in equity in respect of an item of property, plant and equipment is to be transferred directly to retained earnings when the asset is recognised. We recommend the relevant asset level information be maintained for infrastructural assets so their revalued components can be easily identified, and revaluation reserve adjustments made accordingly in future.

This year, the only previously revalued assets that were disposed were pump stations. The value of the disposal was $68,000 which was not material for further investigation. However, we noted that no adjustment was made to the revaluation reserve for the disposal of this asset. Hence we consider this matter remains outstanding.

Necessary | Staff have investigated this issue and will have a new process implemented for any future disposals. No depreciable assets have been disposed of yet for the 2018/19 period.
### Recommendation

<table>
<thead>
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<th>Service performance and associated systems and controls</th>
</tr>
</thead>
</table>

For the measure: “Percentage of resource consents processed in accordance with Resource Management Act 1991 timeframe discount regulations”, we selected a sample of consents processed during the year to test against the IRIS system and supporting documentation. In most instances, resource consents had extensions applied to them. While we could sight the extension approvals for our selected samples, there is not always clear documentation detailing when an extension was completed or removed. This evidence is crucial as it indicates when the timeframe for processing a consent resumes. We recommend adequate documentation is stored as evidence of when extensions on consent applications have been put in place and subsequently removed.

As noted in 2015/16, the resource consent confirmation letter (i.e. advising whether or not the consent has been granted) contains a clause that states that all previous timeframe extensions have ceased. This is consistent with our findings during testing performed. For our samples tested this year, we were able to sight the consent applications and evidence of any holds or extensions applied. We noted two instances where the date on the confirmation letter was different to the date recorded in IRIS (as “date decision served”). This date is effectively the “stop date” for processing a consent. In both instances, the overall results for this performance measure were not affected as both consents were still processed within the timeframe.

The Resource Use directorate manages more than 1,000 resource consent applications each year and the audit has found two incidents when documentation cross referencing between database had not occurred. Importantly the audit identified that these small oversights did not impact on achievement of the relevant performance measure. Staff endeavour to ensure this happens in all instances, and managers continue to reinforce this with staff.
### Recommendation

<table>
<thead>
<tr>
<th>Current status</th>
<th>Priority</th>
<th>Management’s proposed action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual leave balances</strong></td>
<td></td>
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<tr>
<td>In 2013/14, we noted 118 employees whose leave balances exceeded five weeks. The highest annual leave balance increase to 686 hours or 17.15 weeks. A regular and timely review of individual leave balances would help prevent annual leave accumulating to high levels. Employees with excessive leave balances should be encouraged to reduce their leave balances. High leave balances pose a significant liability to the Council, which increases with salary increments. In addition, for some staff (such as finance staff, staff involved with procurement and the senior management team), high annual leave balances may indicate a weakening of internal control by limiting the rotation of duties.</td>
<td>There are 114 employees with high annual leave balances, This has decreased from prior year. The highest balance has increased to 688 hours (approximately 4.5 months). We note three employees have balances over 500 hours (approximately three months). We acknowledge that there is considerable focus on managing high leave balances, with ongoing reporting to the Audit and Risk Committee on this matter.</td>
<td>Beneficial</td>
</tr>
<tr>
<td>This year, we noted that there are 125 employees whose leave balance exceeds five weeks. There are 114 employees with high annual leave balances, This has decreased from prior year. The highest balance has increased to 688 hours (approximately 4.5 months). We note three employees have balances over 500 hours (approximately three months). We acknowledge that there is considerable focus on managing high leave balances, with ongoing reporting to the Audit and Risk Committee on this matter.</td>
<td>There are now 85 employees with high annual leave balances (five weeks or more), this has decreased by 29 from the prior year, a 25% reduction. The highest balance has decreased to 688 hours to 554 hours. Two employees have balances over 500 hours (approximately three months leave). There is considerable focus on managing high leave balances, with ongoing reporting to the Audit and Risk Committee on this matter.</td>
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</table>

### Matters Resolved

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructural assets</strong></td>
<td>Infrastructure assets were revalued this year. We reviewed the valuation and confirmed that all land had been included. We did not note any other assets that were missing from the valuation.</td>
</tr>
<tr>
<td>Not all infrastructural land had been included in the revaluation. New Zealand International Accounting Standard 16 Property Plant and Equipment (NZ IAS 16(PBE)) paragraph 36 states if an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which the asset belongs shall be revalued. We recommend the Regional Council ensures all infrastructural land is revalued in future revaluations.</td>
<td></td>
</tr>
</tbody>
</table>
Report to Audit and Risk Committee

Date: 28 February 2018

Author: Sarah Jones, Senior Legal Advisor

Authoriser: Karen Bennett, Manager Chief Executive’s Office

Subject: Internal Audit Programme Update

Section: A (Committee has delegated authority to make decision)

Purpose
1. To provide the Audit and Risk Committee a status update on the internal audit programme.

Executive Summary

Staff Recommendation:
That the report “Internal Audit Programme Update” (Doc#11437580 dated 28 February 2018) be received.

Status Report Internal Audit Actions
3. Outlined in Appendix 1 is a status report on the internal audit actions for:
   - Legislative Compliance Framework;
   - Regulatory Decision Making for the Bond Regime; and
   - Asset Management Review – Flood Protection (the full audit report with the agreed management actions is outlined in Appendix 3).

KPMG Audit Activity Update Report
4. A summary of internal audit activity for the period December 2017 to March 2018 is attached at Appendix 2.

Business Continuity Management Assessment Report
5. A copy of the KPMG Business Continuity Management Assessment Report is attached at Appendix 4.

Resource Use Directorate Invoicing Review
6. A copy of the KPMG Resource Use Directorate Invoicing Review is attached at Appendix 5.

Attachments
Appendix 1 – Internal Audit Actions Status Report
Appendix 2 – KPMG Audit Activity Update Report doc# 11905151
Appendix 3 – KPMG Asset Management Review – Flood Protection (with Agreed Management Actions) doc#11810493.
Appendix 4 – KPMG Business Continuity Management Assessment Report doc#11904301
Appendix 5 – KPMG Resource Use Directorate Invoicing Review doc #11905215

Doc # 11437580
## Appendix 1: Internal Audit Actions - Status report

### A. Legislative Compliance Framework Review

<table>
<thead>
<tr>
<th>Outstanding Actions</th>
<th>Status as at 28 February 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong> Formalise and Strengthen Governance and Oversight</td>
<td></td>
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</tbody>
</table>
1.1 Strengthen reporting to the Audit and Risk Committee by developing a similar dashboard to that used with Health and Safety to give a comprehensive status overview of the compliance program. | ComplyWith have advised that an enhanced “review results” function (which is like a dashboard with some additional features) will be available by May 2018. It is anticipated that the full reporting function will be ready around August 2018. The existing reporting functionality will also still be available to use. |
| **2** Training Needs |  
2.1 Perform a training need analysis of key legislations pertaining to the business units. | Completed |
| 2.2 Develop an on-going training programme to ensure that staff receive legislative compliance training at induction and ongoing refresher sessions as rolled out by WRC’s People and Capability Section’s learning and development program. This learning and development program should ensure training is aligned according to the risk assessment of the legislation i.e. put most effort into biggest areas of risk. | Underway and Ongoing |

**B. Regulatory Decision Making for Bond Regime Review**

| |  
1 Formalise a clear system for the bond process to ensure accountability, consistency in decision making and continuity of process | Completed and Ongoing |
<p>| 1.1 Augmentation of existing procedures to provide more guidance on the factors to consider when making recommendations on whether or not to include a bond, and on the preferred form of conditions if a bond is considered appropriate, the type of bond, procedures to assess bonds, the level of documentation required in IRIS and Discover, reporting, auditing and review requirements. This will occur by 30 March 2018. | The Consent Processing Guidelines have been updated to provide additional guidance to staff. ProMapping of the matters to consider when drafting conditions of consents has commenced. A document detailing standard conditions for the various bonds will be drafted and linked via the ProMapp process. A technical session is planned for staff on applicable bond conditions to apply once the document above has been completed. |
| 1.2 Updating guidance for staff who monitor consents that include a bond condition. This will occur by 30 March 2018. | Completed |
| 2 Review data capture relating to bonds to enable more transparency and better monitoring | ProMapping of how to monitor all bonds required via a consent condition has been completed. |</p>
<table>
<thead>
<tr>
<th>No.</th>
<th>Section</th>
<th>Description</th>
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<tbody>
<tr>
<td>2.1</td>
<td>Undertake a review of the functionality of IRIS to determine if it can be modified to better record and report data relating to bonds. If this is not possible, alternative mechanisms for recording and easy reporting of the data will be identified and implemented. This will occur by 31 December 2017.</td>
<td>Completed&lt;br&gt;Provision for a relevant data field in IRIS has been made. A report titled “Audit and Risk Committee” can now be generated detailing relevant information. A spreadsheet is still currently held that also details the required data.</td>
</tr>
<tr>
<td>3</td>
<td>Improve the Peer Review of Bond Decisions</td>
<td>Underway&lt;br&gt;A Resource Use Directorate Compliance Monitoring Procedures document is currently in draft and this matter will be captured as part of finalising this document.</td>
</tr>
<tr>
<td>3.1</td>
<td>Review compliance monitoring protocols for those sites that include a bond condition.</td>
<td>Underway</td>
</tr>
<tr>
<td>4</td>
<td>Strengthen controls over the monitoring of consent conditions secured with Bonds</td>
<td>Completed and Ongoing&lt;br&gt;A task in IRIS has been created for each site with an applicable bond requirement for monitoring staff to complete. The due date for this task to be completed is 30 June 2018. A task will be created for each site with an applicable bond requirement for the next financial year once the first task is completed.</td>
</tr>
<tr>
<td>4.1</td>
<td>Updating guidance for staff as per 1 above.</td>
<td>Completed and Ongoing&lt;br&gt;A task in IRIS has been created for each site with an applicable bond requirement for monitoring staff to complete. The due date for this task to be completed is 30 June 2018. A task will be created for each site with an applicable bond requirement for the next financial year once the first task is completed.</td>
</tr>
<tr>
<td>5</td>
<td>Clarify Delegated Authority for Bonds</td>
<td>Completed&lt;br&gt;The following delegation is now in place: Delegation to approve a bond quantum and its form now lies with the Manager – Industry and Infrastructure and above (e.g. Director – Resource Use and CE).</td>
</tr>
<tr>
<td>5.1</td>
<td>Implement any necessary changes to procedural delegations once the amended procedural guidance has been completed.</td>
<td>Completed</td>
</tr>
<tr>
<td>C.</td>
<td>Asset Management Review – Flood Protection</td>
<td>Underway&lt;br&gt;Work has progressed in this space with the hiring of the new Asset Management (AM) Team lead and their focus for the first 100 days being how to enact the recommended changes.</td>
</tr>
<tr>
<td>1.1</td>
<td>Continue the implementation of the new asset management initiatives to achieve the targeted intermediate asset management maturity level by 2019.</td>
<td>Underway&lt;br&gt;Work has progressed in this space with the hiring of the new Asset Management (AM) Team lead and their focus for the first 100 days being how to enact the recommended changes.</td>
</tr>
<tr>
<td>1.2</td>
<td>Implement actions to improve the maturity level of asset management processes relating to governance and reporting, levels of service (Los) and performance measurement, demand forecasting, lifecycle management, business continuity management and continuous improvement.</td>
<td>Underway&lt;br&gt;A draft change plan has been developed and will be reviewed at monthly Integrated Catchment Management (ICM) Asset Management Programme Control Group Meetings. Additional council resource has been approved by council for inclusion in the Long term Plan budget.</td>
</tr>
</tbody>
</table>
1.3 Define and document the responsibilities and accountabilities for each element of the Asset Management System (AMS).

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<tbody>
<tr>
<td>Completed</td>
<td>Redevelopment of the Regional Asset Management Plan (RAMP) has occurred, to include two sections detailing roles and responsibilities, one at AMS level and one at business process / operational level.</td>
</tr>
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### 2 Asset Management Plan and Policy Alignment

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<tbody>
<tr>
<td><strong>2.1</strong> Establish a transition plan for integration of the ICM function with the AM function.</td>
<td>Underway</td>
</tr>
<tr>
<td><strong>2.2</strong> Resolve the areas of misalignment in the AM policy and RAMP.</td>
<td>Not yet Started</td>
</tr>
<tr>
<td><strong>2.3</strong> Create clear linkages between the Strategic Direction Community Outcomes and the RAMP LoS.</td>
<td>Completed</td>
</tr>
<tr>
<td><strong>2.4</strong> Finalise key AM documents currently in draft including the infrastructure strategy, the RAMP and the Zone Management Plans (ZMP’s).</td>
<td>Underway</td>
</tr>
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</table>

### 3 Demand Management

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<tbody>
<tr>
<td><strong>3.1</strong> Review Demand levers and what internal and external regional issues / hazards / changes could or will cause a change in the demand for flood mitigation services.</td>
<td>Underway</td>
</tr>
<tr>
<td><strong>3.2</strong> Apply demand forecasting to each scheme areas to understand their effect on settlements, roads, rails, wetlands and other life line utilities.</td>
<td>Not yet Started</td>
</tr>
<tr>
<td><strong>3.3</strong> The Demand section of the RAMP is extended to include demand for AM services that support ICM objectives including biodiversity, biohazards and environmental improvement.</td>
<td>Completed in part</td>
</tr>
</tbody>
</table>

### 4 Levels of Service and Performance Reporting

<p>| | |</p>
<table>
<thead>
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<tbody>
<tr>
<td><strong>4.1</strong> Establish common LoS requirements for asset management across the zones, and consider how to make closer links to Strategic Direction Community Outcome statements, in particular economic, community resilience to natural</td>
<td>Completed</td>
</tr>
<tr>
<td></td>
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<td>---</td>
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</tr>
<tr>
<td>hazards, environment and iwi co-management teams.</td>
<td>zone specific measure is warranted. This has been made clear in the RAMP.</td>
</tr>
</tbody>
</table>
| 4.2 | Develop a LoS measure that recognises the difference in criticality for certain areas of the region. | Completed
New LoS measurement has been recommended to recognise the criticality of urban areas (based on recommendations out of Edgecumbe report) and that a higher level of stopbank performance is needed. |
|   |   |   |
| 5 | Asset Data, Condition Assessment and Risk |   |
| 5.1 | Review of demand and hazard measures that determine criticality and various risk factors for each individual asset can be captured in conquest, or future corporate system. | Not Yet Started
On hold until 2018/19, once Reliability Engineer started. |
| 5.2 | Review Risk Matrices and guidelines used within ICM to include biodiversity, community resilience, and items of national significance. | Not Yet Started
On hold until 2018/19, once Reliability Engineer started. |
| 5.3 | Review how asset condition and asset performance is measured for key asset types. | Not Yet Started
On hold until 2018/19, once Reliability Engineer started. |
| 6 | Capital Investment Decision Making |   |
| 6.1 | Define and structure the capital investment decision making framework to make it transparent on how decisions are reached and priorities of works. | Underway
Ongoing improvement project in place.
Project Control Groups in place for scheme works oversight, building rigor into project gating processes for capital works and renewals.
Using software (P-Soda) to provide transparency from project scope through to close out. |
| 6.2 | Prioritisation be applied to the asset portfolio by site and/or major asset category to identify the investment priority of all locations and assets. | Underway
Draft process has been developed. The finalised process that will be followed still needs defining, reviewing, approval by the ICM SLT, and documenting. |
| 6.3 | The prioritisation results, and potential intervention options for any given year are maintained as a record of process compliance. | Underway
Scenario planning has been introduced to interrogate potential capital renewal versus maintenance options for the pump stations and floodgates in an effort to review the capital expenditure required and find alternative solutions where possible without excessively endangering landowner’s investments, people or the environment. |
| 6.4 | Review Asset Failure Rates, to determine if maintenance is effective and if Capital Renewal timings are optimal. | Not Yet Started
On hold until 2018/19, once Reliability Engineer started. |
| 7 | Operations and Maintenance Planning and Delivery |   |
| 7.1 | Extend the use of current in-field tools to improve data capture around completed tasks, asset failures or defect issues. | Underway | Fulcrum is deployed, and will be enhanced during 2018 with the ability to capture in the field data on actions underway and close those actions as they are completed. |
| 7.2 | Review the operational planning section of the RAMP to integrate land drainage activities in with already captured flood protection and river management activities. | Not Yet Started | This review will take place in 2019. |
| 7.3 | Clarify the roles and responsibilities of landowners, the District Councils and the Catchment Liaison Committees for the planning and delivery of maintenance works. | Underway | Discussions started between WRC, Hauraki District Council, and Waikato District Council on informing each other on works occurring and defining when each party needs to be involved. Formal agreements / MoU to be considered. Discussions not planned to occur with other groups and District councils until 2019. |
| 7.4 | Continue development of BCM processes along with additional training for staff involved with the managing of events. | Underway | The Natural Hazards Team will continue to develop the BCM processes for managing major events. Issue: Finding and training internal staff to be Regional Flood Controllers, only 2 of 4 required roles currently filled. |

### 8 Financial and Funding Strategies

| 8.1 | Finalise the “Infrastructure Assets Accounting Policy and Guidelines” July 2017. | Completed | The Guidelines have been updated, signed off and are now in use. |
| 8.2 | Finalise the financials chapter of the RAMP including discussion of all activity areas. | Underway | Operations and Commentary complete, just requires signed off capital budgets included once LTP adopted. |
| 8.3 | Complete a detailed review of future funding options and levels for all ICM activity areas. | Underway | Finance have commenced discussions with SLT and Council around future funding options; and funding for a project to start in 2018-19 included in LTP. |

### 9 Asset Management Teams

| 9.1 | Ensure the scope of the AM Team leader role is adequately scoped and supported to achieve a transition to the targeted intermediate AM maturity level by 2019. | Underway | The AM Team Leader role was filled in September 2017; job description will be reviewed to ensure role meets this objective. |
| 9.2 | Widen the definition of AM roles to include key members of operations, projects, engineering, environmental management and the finance team. | Completed | The RAMP has been expanded to include a Responsible, Accountable, Consulted, Informed (RACI) matrix focusing on all key areas of AM, including who is accountable for overall delivery, who is responsible for day to day activities, and who needs to be consulted. |
| 9.3 | Review qualification, experience, and key competence areas needed for different roles | Not yet started | Review planned for mid / late 2018 |
within ICM to ensure intermediate AM maturity level can be reached and maintained

10  Asset Management Plans

10.1 Finalise the RAMP, ZMP’s, and the 50 year horizon Infrastructure Strategy.

**Completed in part**

Infrastructure strategy has been reviewed by NZ Audit, and will be formally adopted by Council through the LTP process.

Waihou-Piako ZMP been to scheme committee for ratification, Lower Waikato ZMP nearing final draft stage.

The RAMP is completed as far as possible and is being used to inform the ZMP’s. It will be finalised once the Infrastructure strategy is formally adopted by Council.

10.2 Review AM plans for managing critical assets – Dams, Floodgates, Pump Stations, Weirs, and Stopbanks

**Underway**

Started first asset category reviewing Dams.

11  Information Systems

11.1 Explore methods for replacing Oracle and Conquest systems that allow for integration between AM and financial information.

**Underway**

The replacement of Conquest and Oracle is being scoped now (RFP and requirement documents being drafted) with a plan for this to go live in 2 years’ time.

11.2 Explore methods to allow better maintenance planning and scheduling of works, so capture works occurring, time and cost of works, and can future forecast needs of each scheme.

**Underway**

An interim subscription based solution is being investigated to manage maintenance planning and scheduling, while technical specification is being written for inclusion as part of corporate system replacement project.

11.3 Review opportunities to systemise or streamline the update of project information into Conquest, Oracle, and Document Library.

**Not Yet Started**

Will begin exploring options mid-2018.

12  Service Delivery Models

12.1 Implement using PMO principles for all major capital, technical, maintenance, and investigatory projects within ICM.

**Underway/Completed in Part**

PMO is continuing to be used across all major capital works, with the principles and templates to be rolled out in 2018 to manage larger non-capital projects, starting with scheme reviews, cross sectional surveys, and structural audits.

12.2 Continue to develop and implement procurement strategies for when scoping, planning and sourcing external contracting services.

**Underway/Completed in Part**

2017 saw procurement practices formalised and made visible for large capital renewals projects. This will continue to be embedded in 2018, and look to procurement opportunities with the next level of projects.

12.3 Develop methodologies for determining better cost estimation of future works.

**Completed in part**

Models now exist and are in use for determining the cost of pump station replacements and stopbank top-ups, but need
ongoing review and refinement to drive down the variables affecting project costs.

<table>
<thead>
<tr>
<th>13</th>
<th>Quality Assurance and Continuous Improvement</th>
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<tbody>
<tr>
<td>13.1</td>
<td>An integrated improvement plan is put in place, and reporting of progress against plan is undertaken to the ICM director.</td>
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<tr>
<td></td>
<td><strong>Underway</strong></td>
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<tr>
<td></td>
<td>Improvement plan is drafted, timing of works are being debated, consistent with staff availability and budget constraints.</td>
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<tr>
<td>13.2</td>
<td>Review the level of resources to deliver AM improvements.</td>
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<td></td>
<td><strong>Underway / Completed in part</strong></td>
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<tr>
<td></td>
<td>Gaps assessed, and LTP Business Plan raised to council for 2 new roles (Maintenance Planner and Reliability Engineer) and funding for investigation and improvement works to resource the improvement plan.</td>
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</tbody>
</table>
Waikato Regional Council

Audit and Risk Committee Internal Audit update

March 2018

kpmg.com/nz
Contents

1 FY2017/18 Internal Audit Plan 1
   1.1 FY 2017/18 Engagement Status 1
   1.2 Details of Completed Engagements 2
   1.3 Details of Engagements in Progress 2

2 Other Activities 3
   2.1 Fraud Risk Assessment 3
   2.2 Risk training session 3
   2.3 Annual risk assessment 3
1 FY2017/18 Internal Audit Plan

We are pleased to provide a summary of our internal audit activity for the period December 2017 to March 2018.

Waikato Regional Council’s (WRC’s) internal audit plan for 2017/18 included four engagements with two reviews being carried forward from 2016/17.

1.1 FY 2017/18 Engagement Status

Focus for Q2 2017/18 was on the two remaining reviews postponed from 2017, along with the planned IT strategy and governance review. An additional review was requested by management to assess the processes and controls for the recovery of costs incurred by RUD when processing resource consents.

A summary of our progress on the internal audit plan is shown below:

Key: Activity complete Activity in progress Activity not yet started

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<tbody>
<tr>
<td>FY2016/17 Internal audit plan</td>
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<tr>
<td>5 Business continuity review</td>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
<td>Repeatable/Developing</td>
</tr>
<tr>
<td>6 Asset Management – flood protection</td>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
<td>Developing</td>
</tr>
<tr>
<td>FY2017/18 Internal audit plan</td>
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</tr>
<tr>
<td>1 IT strategy and governance review</td>
<td>Q1</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2 Health and Safety – Contractor management</td>
<td>Q3</td>
<td></td>
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<tr>
<td>3 Stakeholder engagement and communication</td>
<td>Q3</td>
<td></td>
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<tr>
<td>4 Cyber security follow-up review</td>
<td>Q4</td>
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<tr>
<td>Additional reviews</td>
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</tr>
<tr>
<td>5 Recovery of costs within RUD</td>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
<td>Developing</td>
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</table>

2 - Planning is now underway for the Health and Safety review.

3 – A scope of work has been drafted for the stakeholder engagement and communication review with fieldwork planned to commence mid to late March.
1.2 Details of Completed Engagements

Asset Management Review

Management have provided their responses for this review and the report has been finalised. Only minor changes have been made to the recommendations that were reported at the December 2017 ARC meeting.

Business Continuity Review

The report for this review has been agreed and finalised with management.

The maturity of WRC’s business continuity management framework has been assessed as ‘Repeatable’ (equivalent to KPMG’s internal audit rating of ‘Developing’). Whilst a business continuity framework was delivered two years ago with the assistance of external support, the framework has not been effectively implemented and embedded across the Council.

The following five key areas were identified for improvement to move WRC to a ‘Defined/Managed’ level of maturity:

- Understanding of the organisation – Review and update the existing business impact analyses to strengthen WRC’s business continuity planning.
- BCM Maintenance – Conduct a Business continuity management (BCM) exercise and carry our preventive and corrective actions to show continual improvement.
- BCM Programme Management – consideration of WRC’s outsource providers having the appropriate continuity arrangement and establish a formal funding mechanism for the BCM programme.
- BCM Culture – Engage and provide adequate training to business stakeholders (not limited to senior management) to raise awareness of BCM at WRC and ensure alignment with Council’s BCM Framework programme.
- BCM Response - Refresh and evaluate the adequacy of the BCM response plan for individual directorates at WRC and taking into consideration Council’s latest risk appetite.

Based on our experience, we note that the improvement opportunities highlighted in the report are common across similarly sized NZ organisations.

Recovery of Costs within RUD

Our report has been agreed and finalised with management.

Earlier in 2017 WRC undertook an internal project to identify impediments to the monitoring and invoicing of consent related costs and recommended the introduction of a number of performance indicators. Our review raised five observations (three of which were rated ‘High’ importance) that validated the findings of the internal review, particularly in the need to introduce structure to the invoicing process and the implementation of performance standards to ensure accountability for the management of billable costs incurred on consent related projects.

Once process expectations are clarified and performance indicators introduced, Council may also see benefit in re-assessing the risk surrounding the collection of deposits and in investigating the introduction of automated billing. It would also be beneficial to clarify billing related controls for preventing inadvertent errors so that these can be considered for the new corporate system to be implemented in 2018.

1.3 Details of Engagements in Progress

IT Strategy Review

A draft report has been issued and has been discussed with management. The report is being updated and we aim to have this finalised for reporting at the next ARC meeting.
2 Other Activities

The following activities have occurred or are in planning since the last meeting.

2.1 Fraud Risk Assessment
WRC have requested KPMG to assist in the development of a fraud risk register by way of facilitating a fraud risk assessment workshop to identify fraud and corruption risks. No date has been set for this workshop at this time, however it is expected to be held in early April 2018 alongside the risk training session below.

2.2 Risk training session
WRC have requested KPMG to deliver an ongoing series of risk training modules to all staff with the intention that the training will give staff a strong understanding of:

- their roles and responsibilities within the risk management framework, and
- simple to use tools to operationalise the policy and framework (eg bowtie analysis).

Dates for these sessions will be confirmed once staff availability has been determined. It is intended to hold the first session in early April 2018.

2.3 Annual risk assessment refresh
Each year KPMG facilitates a reassessment of the Councils risks. This session is typically held in March, the results of which feed into the internal audit plan development for the following financial year. Whilst a date is yet to be confirmed we intend to hold this workshop after the adoption of the LTP.
This report is delivered subject to the agreed written terms of KPMG’s engagement.

This report provides a summary of KPMG’s findings during the course of the work undertaken for Waikato Regional Council under the terms of the engagement letter/contract dated March 2017. The contents of this report do not represent our detailed findings, which will only be contained in our final detailed report. This report should be read in conjunction with our full report.

This report is provided solely for the benefit of the parties identified in the engagement letter/contract and is not to be copied, quoted or referred to in whole or in part without KPMG’s prior written consent. KPMG accepts no responsibility to anyone other than the parties identified in the engagement letter/contract for the information contained in this report.
1. Executive Summary

Background and Objectives
The Waikato Regional Council (WRC) is responsible for the management of multiple flood protection schemes and supporting flood protection infrastructure across the Waikato region. In accordance with WRC’s Internal Audit Plan for FY2017, approved by the WRC Audit and Risk committee, WRC’s flood protections practices have been reviewed.

The objectives of this review were to:
• Assess the adequacy and effectiveness of WRC’s framework and associated processes and control to manage and monitor flood protection assets.
• Provide recommendations for improvement where opportunities have been identified.

Purpose
The purpose of this document is to summarise the key findings and observations following KPMG’s assessment of WRC’s flood protection practices. While onsite, KPMG conducted interviews with eight WRC representatives involved with flood protection and management across the Waikato region. Representatives spoken to include those from:
• Integrated Catchment Management Directorate (ICM);
• Waikou Piako Catchment Committee;
• Asset Management;
• Hauraki Zone Management;
• Business and Technical Services;
• Technical Services; and
• Finance.

Key supporting documentation relating to WRC flood management practices were also reviewed subsequent to these interviews.

This document presents the key findings and recommendations arising from the review including an assessment of the strengths and weaknesses of the Asset Management System (AMS).

It is to be noted that the review process is a sampling exercise, and whilst every effort is made to be comprehensive in our review the findings represent the priority issues, which represent the greatest value opportunity areas for improved asset management performance.

Key Findings and Recommendations
Key findings and recommendations have been summarised in section 3 of this report. They follow the structure of the International Infrastructure Management Manual (IIMM) and are aligned with the requirements of ISO55001, the international standard for asset management. Risk ratings have been assigned to each area of the IIMM considered as part of this review. These ratings are outlined on page 4.

WRC controls were rated as High Risk in five areas, Medium Risk in five areas and Low Risk in three areas considered as part of this review. Whilst all the requisite elements of an AMS are present the combination of new initiatives not yet fully implemented and weaknesses arising from process areas that are less well developed result in an audit rating of ‘Developing’ for WRC’s asset management (AM) processes as a whole.

Refer to Appendix 1 for the classification of the internal audit ratings.

General Comments and Themes
Previous asset management maturity reviews noted WRC’s practices as ‘core’ against the IIMM framework. We agree with this assessment, but note the multiple improvement initiatives currently underway which, once completed and fully implemented, will progress WRC to an ‘intermediate’ maturity rating against this framework. Notable initiatives are the asset data quality improvement, the identification of critical assets, and the implementation of the risk management framework for investment prioritisation. WRC have also identified opportunities for improvement in the delivery of works programmes, and have established a project management office (PMO) to improve the flow of projects from planning to fruition and improve the scoping and tendering of works packages.

With continued progress on current initiatives WRC are on track to meet this increased level of expectation by 2018, but at present there are still a number of works in progress and there are further opportunities to improve the overall framework.

The findings from this review can be grouped into three general themes as summarised overleaf.
1. Executive Summary (Continued)

• Asset management practices have made great advances, however community expectations and the presence and awareness of risk have increased faster:
  WRC have made great strides in their practices and approach to integrated portfolio wide asset management, the full benefits of which are yet to be realised. However, it has been a turbulent time in infrastructure asset management, arguably none so much as in the area of flood mitigation. As a result of recent notable asset failures and the very real impact of climate change, public awareness of flood risk is significantly heightened. Freshwater quality too has also become a priority issue reflecting an increased environmental consciousness and demand for sustainable management practices. As a result the practices of old are no-longer adequate, and WRC should place significant emphasis on the improvement of its systems of management, particularly in the area of risk.

• A time of transition and a work in progress:
  There are three significant change initiatives currently disrupting the business-as-usual approach for the WRC AM function. These are the reorganisation of flood management activities from a siloed zonal to a regional portfolio approach, the integration of ICM objectives including soil conservation, biodiversity, and biosecurity, and the need for more proficient risk management as noted above. These change initiatives require the AM team to rethink and modify their management systems and processes in a fundamental way. As a result there are a number of areas of the asset management system (AMS) that are a work in progress and either noted as draft, misaligned with other areas of the AMS, or awaiting content. WRC should take the opportunity to reflect on the AMS as a whole and re-consider areas of it that are no longer effective.

• To be truly effective Asset Management should employ a range of strategies:
  At present the WRC regional asset management plan (RAMP) takes an essentially asset-centric view of the function of asset management; its primary focus is the flood protection works and the processes that facilitate their sustainment. However, asset management is about the delivery of services and the realisation of outcomes. By putting assets at the centre of asset management, the opportunity to utilise non-asset based solutions is often obscured. Demand is a management lever too - we are often drawn to supply side solutions to infrastructure problems, however the management of demand for asset services presents a significant opportunity for achieving service outcomes and a balance of cost vs risk. Finally, Levels of Service (LoS) need to engage communities and connect up the asset objectives with service delivery. They are the touchpoint for the customer need, and must reflect customer desires in language they can understand; if not asset management will fail to deliver on community expectations.
## 2. Summary of Review Findings

The below table shows the risk ratings related to all areas considered from the IMM framework as part of this review. Detailed findings and recommendations are detailed in section 3 of this report. Definitions for the risk and audit ratings are included in Appendix I.

<table>
<thead>
<tr>
<th>#</th>
<th>Description of internal audit findings</th>
<th>Risk Rating</th>
<th>Page</th>
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<tbody>
<tr>
<td>1</td>
<td>Standardised Asset Management Process (IMM Reference: 2.1)</td>
<td>Medium</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Asset Management Plan and Policy Alignment (IMM Reference: 2.1)</td>
<td>High</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>Demand Management (IMM Reference: 2.3)</td>
<td>High</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Levels of Service and Performance Reporting (IMM Reference: 2.2)</td>
<td>High</td>
<td>8</td>
</tr>
<tr>
<td>5</td>
<td>Asset Data, Condition Assessment, and Risk (IMM Reference: 2.4, 2.5 &amp; 2.6)</td>
<td>High</td>
<td>9</td>
</tr>
<tr>
<td>6</td>
<td>Capital Investment Decision Making (IMM Reference: 3.1 &amp; 3.4)</td>
<td>Medium</td>
<td>10</td>
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<tr>
<td>7</td>
<td>Operations and Maintenance Planning and Delivery (IMM Reference: 3.2 and 3.3)</td>
<td>Low</td>
<td>11</td>
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<tr>
<td>8</td>
<td>Financial and Funding Strategies (IMM Reference 3.5)</td>
<td>Low</td>
<td>12</td>
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<td>9</td>
<td>Asset Management Teams (IMM Reference: 4.1)</td>
<td>Medium</td>
<td>13</td>
</tr>
<tr>
<td>10</td>
<td>Asset Management Plans (IMM Reference: 4.2)</td>
<td>Medium</td>
<td>14</td>
</tr>
<tr>
<td>11</td>
<td>Information Systems (IMM Reference: 4.3)</td>
<td>Medium</td>
<td>15</td>
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<tr>
<td>12</td>
<td>Service Delivery Models (IMM Reference: 4.4)</td>
<td>Low</td>
<td>16</td>
</tr>
<tr>
<td>13</td>
<td>Quality Assurance and Continuous Improvement (IMM Reference: 4.5)</td>
<td>High</td>
<td>17</td>
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</table>
# 3. Detailed Findings

## Standardised Asset Management Process
IIMM Reference: 2.1

### Findings(S) and Impact

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Agreed Management Action(S)</th>
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</table>

WRC’s AM framework is based on the industry standard IIMM approach, and it is clear that much work has been undertaken over the years to improve asset management practices in line with the targets to achieve intermediate maturity by 2018. Notable initiatives are the asset data quality improvement, the identification of critical assets, and the implementation of the risk management framework for investment prioritisation. These initiatives are described in the RAMP, but not yet embedded in asset management processes that inform investment priorities. When fully implemented these aspects of the asset management system (AMS) will be in line with an intermediate maturity grading.

Other AM processes are less well developed, including governance, roles and responsibilities, reporting, demand forecasting, levels of service, performance measurement, lifecycle management, business continuity management, and continuous improvement. Furthermore, the integration of the ICM functions with the legacy asset management framework is also presenting some challenges for the design of asset management processes that have not yet been overcome. Details of improvement opportunities in these areas are included in subsequent findings of this report.

The AM processes fail to connect the governance and management responsibilities held by WRC with the operational delivery of services provided by the field based teams. There is a risk that investment is misdirected and inefficient, and that organisational understanding of asset liabilities, risk, resilience, and funding requirements is limited.

We recommend WRC:

1. Continue the implementation of the new asset management initiatives to achieve the targeted intermediate asset management maturity level by 2018.
2. Implement actions to improve the maturity level of asset management processes relating to:
   - Governance & reporting
   - Level of service & performance measurement
   - Demand forecasting
   - Lifecycle management
   - Business continuity management; and
   - Continuous improvement
3. Clarify the relationship of AMS elements and processes within and across departments and committees following changes brought about by the integration of the ICM directorate. Consider publishing a separate AMS document to sit alongside the RAMP, thereby allowing the RAMP to focus on plans and performance.
4. Define and document the responsibilities and accountabilities for each element of the AMS.

### Actions:

1. Continue the implementation of the new asset management initiatives to achieve the targeted intermediate asset management maturity level by 2019.
2. Implement actions to improve the maturity level of asset management processes relating to governance and reporting, levels of service and performance measurement, demand forecasting, lifecycle management, business continuity management and continuous improvement.
3. Define and document the responsibilities and accountabilities for each element of the Asset Management System.
## 3. Detailed Observations and Findings

### Asset Management Plan and Policy Alignment

<table>
<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
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<tbody>
<tr>
<td>At the time of this review many of the key reviewable documents including the RAMP, Infrastructure Strategy, and Zone Management Plans (ZMP) were in production as draft versions and yet to be populated with critical information. The document hierarchy and structure was also undergoing transition from a legacy asset management approach focussed on the sustainment of built infrastructure to an Integrated Catchment Management approach focussed on the delivery of holistic objectives including environmental protection and flood impact mitigation. The transition to an integrated approach is progressive and is thoroughly endorsed throughout the river management sector, however, it also is presenting a challenge to the asset management function and has led to misalignment between elements of the AM policy and the RAMP. An example of this misalignment is provided below:</td>
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<td>• An objective of the AM Policy states “Ensure that an integrated catchment management approach is taken to the planning, delivery, operation, renewal and disposal of infrastructure assets”. In certain areas of the RAMP ICM activities have been written out of the document scope (including the LoS), in other areas ICM activities are still referenced. Irrespective of whether ICM appears in the RAMP WRC’s AM policy requires that an integrated catchment approach is taken to the lifecycle management of the assets. Whilst WRC advise that ICM related assets are managed appropriately, it is not possible to verify this by reference to the RAMP documentation. Also, the alignment of the LoS to guiding documents, such as the Strategic Direction, is at the level of the three themes only (i.e. healthy environment, strong economy, and vibrant community). This results in a superficial linkage. Alignment at the level of the community outcome statements would create more effective LoS.</td>
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<td>There is a risk that community objectives will not be effectively realised through the asset investment and management activities of the ICM Directorate. Also, the impetus to realign legacy LoS is hindered by the lack of alignment with the community outcome statements. The opportunity to test alternative intervention strategies, including non-asset solutions, may be missed as a result.</td>
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<td>We recommend WRC:</td>
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<td>5. Establish a transition plan for integration of the ICM function with the asset management function, including the establishment of parallel asset management workstreams for ICM activities in the areas of asset inventory and data capture (including natural capital and ecosystem services), condition assessment, demand, risk assessment, LoS establishment, and performance measurement.</td>
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<td>6. Resolve the areas of misalignment in the AM policy and RAMP either by bringing them together, or by setting out a roadmap in the RAMP for when they will come together.</td>
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<td>7. Create clear linkages between the Strategic Direction Community Outcomes and the Regional Asset Management Plan (RAMP) LoS.</td>
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<td>8. Establish performance measures for new or revised LoS and collate baseline data on performance.</td>
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<td>9. Finalise key AM documents currently in draft, including the infrastructure strategy, the RAMP, and the Zone Management Plans.</td>
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<tr>
<td>Actions:</td>
<td></td>
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<td>1. Establish a transition plan for integration of the ICM function with the AM function.</td>
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<td>2. Resolve the areas of misalignment in the AM policy and RAMP.</td>
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<td>3. Create clear linkages between the Strategic Direction Community Outcomes and the Regional Asset Management Plan (RAMP) LoS.</td>
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<td>4. Finalise key AM documents currently in draft including the Infrastructure Strategy, the RAMP, and the Zone Management Plans.</td>
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## 3. Detailed Observations and Findings

### Demand Management

**IMM Reference:** 2.3

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<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
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| Demand for flood protection is considered within the RAMP at both a regional and zone level. Guidance related to the management of key flood protection drivers (e.g. land use and future population change) is provided to a high level, but there is no information provided on specific land use or population drivers within the areas protected by WRC's flood management schemes. In addition, drivers of ICM intervention are not considered by the RAMP. Technical guidance material relating to demand for flood mitigation services is included within documents such as the “Waikato Regional Council Climate Change Guideline: Integrated Catchment Management, July 2017”. This is a useful addition to the demand analysis for elements of the flood protection schemes, but does not address the full range of demand drivers for flood mitigation. Demand forecasting (section 4.2) and Demand management plan (section 4.3) of the RAMP are the least developed sections of the RAMP. WRC may wish to consider demand for flood mitigation services from the perspective of the sensitive receptors along the flood zone, e.g. settlements, state highways, railway lines, wetland reserves etc as well as establishing the change in demand for flood mitigation from climate change and land use based on real data on the annual exceedance probability (AEP) of significant rainfall events vs the actual observed incidence of historic events (i.e. the actual return period of events such as a 1 in 10 yearly rainfall event may have occurred 3 times (say) in the last decade, and the lag time between rainfall event and peak flows may be in flux). This will inform future scheme design and current management priorities to maintain the LoS to the community. There is a risk that changes in demand have already altered the requirements for the schemes from the original concepts designed and developed. These changes may not be apparent other than when the capacity of the schemes is exceeded, and some damage or loss is incurred. | We recommend:  
10. **WRC address demand for flood mitigation services at the level of the scheme and discrete sensitive receptors along the flood zone including settlements, roads, rail, wetlands, and other lifeline utilities.**  
11. Demand forecasting is undertaken to a core (or better) asset management standard utilizing demand drivers including real observed localised climate change trend data, regional level forecast climate change data from the recent WRC Climate Change Guideline document, and current and forecast land use change (including type of agriculture and resilience to flood events) for each area of land protected by the schemes.  
12. The demand section of the RAMP is extended to include demand for the asset services that support the ICM objectives including biodiversity, biohazards, and environmental improvement. Consider how demand for these services is expected to change in time.  
13. Opportunities to influence the demand for flood mitigation services are identified in the RAMP and further evaluation is undertaken of the potential for flood impact mitigation through non-asset solutions.  
Whilst the population of the areas served by the flood protection schemes are relatively stable, there are numerous dynamic elements to demand that require active management and constant realignment of the schemes. | Actions:  
1. Review Demand levers and what internal and external regional issues / hazards / changes could or will cause a change in the demand for flood mitigation services.  
2. Apply demand forecasting to each scheme area to understand their effect on settlements, roads, rails, wetlands and other life line utilities.  
3. The Demand section of the RAMP is extended to include demand for AM services that support ICM objectives including biodiversity, biohazards and environmental improvement. |
### Levels of Service and Performance Reporting

#### IMM Reference: 2.2

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<tr>
<th>FINDINGS(S) AND IMPACT</th>
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<th>AGREED MANAGEMENT ACTION(S)</th>
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<tr>
<td><strong>The levels of service (LoS) section of the RAMP was still under development at the time of this review. Updates to the RAMP post fieldwork have confirmed the levels of achievement against the majority of LoS with the majority of reported measures achieved, and three measures noted as ‘tbc’. The LoS for Flood Protection are primarily the mandatory requirements set out by the DIA at December 2013, which relate to the maintenance and repair of the flood protection works in accordance with the local authority’s key standards. WRC’s performance measures are based on design flood levels (DFL) of stopbanks (i.e. an input measure), but do not relate the observed incidence of floods to land under flood protection (i.e. an outcome measure). Both measures are mandatory requirements, and the latter is more relevant to the scheme as a whole as opposed to stopbanks per se.</strong></td>
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<td><strong>The mandatory LoS do not convey the whole AM situation and would benefit from augmentation with more risk related LoS, particularly with respect to critical assets. Whilst WRC’s target rate of 93% stopbanks maintained above the DFL is excellent evident of active asset renewal, it does not indicate what risk is presented by the deficient 7%, nor does it address risk posed by other asset classes.</strong></td>
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<td><strong>There are three LoS measures included for ICM activities, however the measures included are all input measure related and do not address actual water quality or soil conservation levels and the change from any given baseline. Measurement of input data only will limit the understanding of the effectiveness of management activities, and may lead to ineffective investment strategies.</strong></td>
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<td><strong>Scheme level LoS are provided in Appendix B of the RAMP. Whilst it is noted that the most asset intensive schemes are reasonably similarly described, there is considerable variation in the type of LoS and the terminology used between schemes. Whilst the schemes may have different focus on outcome, as opposed to asset, orientation requires that a consistent set of LoS and measures (for outcomes at the very least) should be employed. This will allow clear and consistent reporting and identification of LoS gaps across all responsibility areas.</strong></td>
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<tr>
<td>We recommend WRC:</td>
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<td><strong>14.</strong> Establish closer LoS links to Strategic Direction Community Outcome statements, in particular economic, community resilience to natural hazards, environmental, and Iwi co-management themes.</td>
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<td><strong>15.</strong> Consider the use of non-technical measures for all activity areas. An example of such measures is; the number of protected properties, or land area, flooded during a 1 in 10, 50 and 100 year flood event, and/or the impact of flooding to the region each year. This will aid understanding of the value of the schemes by the community.</td>
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<td><strong>16.</strong> Consider augmenting the mandatory LoS with risk and criticality related LoS for scheme performance.</td>
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<td><strong>17.</strong> Establish water quality and soil conservation LoS outcome measures to complement the three input measures. Compile baseline data, and report on progress towards WRC’s a healthy environment objective within the RAMP.</td>
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<td><strong>18.</strong> Align the terminology and measurement of LoS between schemes and report LoS outcomes for all schemes.</td>
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<td><strong>Actions:</strong></td>
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<td><strong>1.</strong> Establish common LoS requirements for asset management across the zones, and consider how to make closer links to Strategic Direction Community Outcome statements, in particular economic, community resilience to natural hazards, environment and Iwi co-management teams.</td>
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<td><strong>2.</strong> Develop a LoS measure that recognises the difference in criticality of certain areas of the region.</td>
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<td><strong>Not completing:</strong></td>
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<td>Water quality and soil conservation measures will not be developed in the near future. They require more thought on how they would be measured, implemented, and cost of compliance.</td>
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### 3. Detailed Observations and Findings

#### Asset Data, Condition Assessment, and Risk

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<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
<th>Actions:</th>
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<tr>
<td>It is clear that significant improvements have been made in the area of data collection, condition assessment and risk management over the past 5 years. However, it is also important to note that as a result of recent failures there is a heightened awareness and level of expectation in the management of asset risk in the flood management sector. With continued progress on current initiatives WRC are on track to meet this increased level of expectation by 2018, but at present there are still a number of works in progress with respect to data completeness and risk and criticality assessment. Asset data confidence and completeness is reported in the RAMP. None of the five asset categories have achieved the target level of completeness as yet, and three of the five categories have not achieved the level of confidence sought. These gaps have implications for the effectiveness of management decisions taken on the portfolio, and are an area of risk in their own right. Asset data collection has been enhanced recently through the use of the Fulcrum application. There is an intent to extend the use of this application to other areas of field operations. Condition inspection guidelines have been released for stopbanks to aid the standardisation of data collection. Similar guidelines are planned, but not yet in use, for floodgates and pump stations. Methodologies have recently been developed for the assessment of asset criticality and applied to floodgates, pump stations, and stopbanks (erroneously detailed at section 5.3.2 of the RAMP under Land Drainage). The approach is asset-centric, rather than impact-centric. Either, or both, approaches can be employed, however a singular asset-centric approach requires a detailed understanding of every asset to identify the weak link in the chain or single failure point. Given the distributed nature of the flood protection asset portfolio such a knowledge may hard to attain and maintain. The risk management approach is also not yet fully embedded in asset investment decision making, hasn’t yet been validated against historical failure data as a reliable means of determining risk, and doesn’t incorporate ICM related environmental consequences of asset ‘failure’. Gaps in asset data and the early stage of risk management process implementation may result in asset risk issues not being identified or mitigated effectively.</td>
<td>19. Maintain the current data improvement and risk management improvement initiatives to achieve intermediate AM maturity by the targeted date of 2018. 20. Define the criticality score for different asset classes in a consistent and quantifiable manner (i.e. explain the impact of floodgate and pump station criticality scores of high, medium, and low). 21. Determine what other assets have a critical function in flood impact mitigation, i.e. telemetry, detention dams etc. 22. Overlay an impact-centric view of criticality and direct risk management efforts at areas of highest risk. 23. Integrate ICM risk criteria within the definition of asset failure noting any adverse impacts from asset function. 24. Test and validate the risk assessment process against historical failure information to confirm it is capable of pre-empting failure events. 25. Apply risk assessment results to the investment prioritisation process and update the programme of works for renewal and maintenance. 26. Report on the residual risk and timeframe to mitigate these risk issues for consideration at a governance level.</td>
<td>1. Review if demand and hazard measures that determine criticality and various risk factors for each individual asset can be captured in conquest, or future corporate system 2. Review Risk Matrices and guidelines used within ICM to include biodiversity, community resilience, and items of national significance 3. Review how asset condition and asset performance is measured for key asset types</td>
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</table>
### 3. Detailed Observations and Findings

#### Capital Investment Decision Making

**IIMM Reference:** 3.1 & 3.4  
**RISK RATING:** MEDIUM

<table>
<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
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| Capital works programming is currently undertaken via committee processes involving representatives from Asset Management, Technical Services, and Zone Management. The process followed for asset investment decision making is largely undocumented, although efforts are currently in progress to document capital investment decision making processes. As a result, the criteria for planning capital investment is unclear and appears to be governed by budget rather than need. Major investments, once identified, are consulted on as part of the LTP process, which allows public scrutiny of the proposals. However, the process by which the investment priority was identified is not clear. The basis of an investment prioritisation framework is presented in chapter 9 of the RAMP which includes catchment prioritisation, infrastructure prioritisation (stopbanks only), and investment prioritisation. However, it is unclear how stringently this framework is applied and how the derived lifecycle management works plans relate to the priority framework. It is noted at section 9.3 that the programming of investments is heavily influenced by many other factors (which are then loosely specified in list format). | We recommend WRC:  
27. Define and structure the capital investment decision making framework to inform the development of capital works programmes in a transparent manner.  
28. Prioritisation be applied to the asset portfolio by site and / or major asset category to identify the investment priority of all locations and assets.  
29. The prioritisation results for any given year are maintained as a record of process compliance.  
30. Intervention options are considered to mitigate the asset issue or risk. These options should be reviewed on a whole of life cost basis, and the preferred option identified.  
31. The portfolio of projects and preferred options be identified and a budget threshold be determined based on need. Where this budget is in excess of available funding consider options to increase funding or defer works (and communicate residual risk to the community). Record the results of this process. | Actions:  
1. Define and structure the capital investment decision making framework to make it transparent on how decisions are reached and priorities of works  
2. Prioritisation be applied to the asset portfolio by site and/or major asset category to identify the investment priority of all locations and assets  
3. The prioritisation results, and potential intervention options for any given year are maintained as a record of process compliance  
4. Review Asset Failure Rates, to determine if maintenance is effective and if Capital Renewal timings are optimal |

The draft 50 year investment strategy (2018 – 2067) indicates an exceptionally high period of capital expenditure is proposed for the three years from 2018/19 to 2020/21. The rationale for this expenditure is not made clear but, given the early stage of development of the criticality and risk assessment framework and the lack of evidence of any LoS or condition score gap, the need for substantially increased funding at the present time requires more justification. There is a risk that the asset portfolio may be either over maintained, or equally that deferred maintenance issues are allowed to accumulate and the risk of asset failure is not being effectively mitigated. Works programmes will also be vulnerable to challenge at times of budget constraint and the value proposition of any particular project is unclear.
### FINDING(S) AND IMPACT

There are well established systems for operations and maintenance (O&M) works for the flood protection assets that would appear to work well from a system continuity and reliability perspective. These systems have been developed and refined over a large number of years and appear well suited to the requirements of the portfolio. Periodic maintenance tasks are scheduled and completion rates of tasks are recorded and reported to the catchment liaison committees.

It is noted that there are occasions when works are undertaken by field operatives that have not been specified at a central asset management level. Such practices are taken to reflect the good intent of field operatives, however there is a loss of useful asset data when activities are undertaken on an ad-hoc basis in the field that would help inform practices elsewhere, and/or enable better cost control.

Tracking and reporting of work undertaken in the field is improving through the use of the Fulcrum application. Further developments are planned for this application that will improve the close out of asset data from field operatives.

The RAMP describes O&M works under Chapter 7 - Lifecycle Management. Whilst ICM activities are discussed at section 7.2 the lifecycle programmes of work have not been integrated into the section headings for the other activity areas. There is also limited discussion of operational planning for land drainage assets in the RAMP. Clarification of these arrangements and the roles and responsibilities of landowners, the District Councils, and the Catchment Liaison Committees for the planning and delivery of these works would help ensure there are no grey areas of accountability.

Business continuity management (BCM), or major event management, is an area of operations that has been tested recently during the multiple flood events in April 2017. The debrief from these events notes the system performed well in the circumstances, but that resources were stretched and protocols absent in some areas of operation. This is a critical and core competency activity area for WRC.

### RECOMMENDATION(S)

We recommend WRC:

32. Extend the use of field operative tools to improve data capture around completed tasks, asset failure or defect issues, and cost of operational service delivery.

33. Review the operational planning sections of the RAMP to integrate ICM and Land Drainage activities with Flood Protection and River Management activities.

34. Clarify the roles and responsibilities of landowners, the District Councils, and the Catchment Liaison Committees for the planning and delivery of these works using a RACI (Responsible, Accountable, Consulted, Informed) matrix or similar and include in the RAMP.

35. Consider more formal documentation of BCM processes along with additional training for staff in the management of major events.

### AGREED MANAGEMENT ACTION(S)

Actions:

1. Extend the use of current in-field tools to improve data capture around completed tasks, asset failures or defect issues.

2. Review the operational planning section of the RAMP to integrate land drainage activities in with already captured flood protection and river management activities.

3. Clarify the roles and responsibilities of landowners, the District Councils and the Catchment Liaison Committees for the planning and delivery of maintenance works.

4. Continue development of BCM processes along with additional training for staff involved with the managing of events.
### FINDING(S) AND IMPACT

Financial and asset information is currently held in separate systems (Oracle and Conquest respectively), limiting integration and visibility between both systems. Low integration between the asset and financial databases increases the risks of discrepancies emerging – ultimately compromising the integrity of data used to inform maintenance investment decision making. We understand that WRC is currently in the early stages of looking for alternative financial and asset systems.

A draft version of the ‘Infrastructure Assets Accounting Policy and Guidelines’ July 2017 was sighted as part of the review. This document sets out procedures for capitalisation, treatment of depreciation, and valuation. Work is being undertaken to understand depreciation rates used within the asset portfolio and improve their accuracy over time. The handling of asset information updates between the asset management and financial systems is discussed and whilst noted as labour intensive, is attended to in a structured manner.

The draft version of the RAMP provided following the review had only placeholder text for the financial chapter. Whilst it is not possible to comment further on this aspect, we refer to our comments relating to previous sections that discussion should include reference to all activity areas, not solely flood protection works.

The funding of works is via targeted and general rates mechanisms. It is felt by WRC that the allocation of costs versus benefits is becoming increasingly inequitable due to the requirement to integrate wider environmental and biodiversity benefits alongside traditional flood protection objectives that the rates were originally established to provide. A review of funding levels and mechanisms is required once the cost and value of the ICM directorate activities is fully understood. Notwithstanding the need for this review the current funding arrangements appear to be effective in providing for future works requirements.

### RECOMMENDATION(S)

We recommend WRC:

36. Continue to explore options to replace Oracle and Conquest with systems that enable simpler integration between finance and asset databases.

37. Finalise the draft version of the ‘Infrastructure Assets Accounting Policy and Guidelines’ July 2017 and compliance against the guidelines tested.

38. Finalise the Financials chapter of the RAMP including discussion of all activity areas.

39. Complete a detailed review of future funding options and levels for all ICM activity areas.

### AGREED MANAGEMENT ACTION(S)

**Actions:**


2. Finalise the financials chapter of the RAMP including discussion of all activity areas.

3. Complete a detailed review of future funding options and levels for all ICM activity areas.

**Note:**

An action around Oracle system is located in Information Systems section.
3. Detailed Observations and Findings

Asset Management Teams
IIMM Reference: 4.1

Finding(s) and Impact

The WRC asset management policy (2015) sets out responsibilities for AM for the flood protection, river management and land drainage infrastructural assets portfolio. Overall responsibility for AM policy and procedures sits with the ICM Director. Implementation of these AM policies and procedures is the responsibility of the Business Services Manager. The Zone Manager is identified as the team member responsible for the development of Zone and AM plans, and the AM Team Leader is responsible for the maintenance of asset data and information support to the Zone Managers, and the infrastructure strategy. The AM team leader has also now assumed responsibility for the AM Plan. This structure represents a reasonable level of commitment to asset management by the organisation. We note however that the AM Team Leader role has been vacant for much of 2017, and understand that filling this vacancy is a priority for WRC.

The roles are reasonably defined around a core asset management maturity level team structure. As part of the target to achieve an intermediate asset management maturity level it would be helpful to widen the definition of asset management roles and responsibilities to include key members of the operations team, the projects team, the engineering team, the environmental management team, and the finance team. This will clarify the expectations on other parties and provide a broader perspective on effective management of the asset portfolio. It may also be beneficial to consider more integrated and longer-term relationships with key suppliers of consulting and contract services.

Currently the WRC AM team is focused heavily towards data collection, data management, data analysis and reporting of flood protection assets. With the vacant AM Team Leader role filled WRC should consider how best to engage other parts of the business in asset management improvement initiatives, and embed intermediate asset management maturity. In tackling this challenge there is a need for strong leadership to promote the role of AM in the organisation, define the AM value proposition, set effective levels of service, understand and manage demand, gather meaningful and reliable data, embed performance management, integrate environmental management, and provide insightful reporting that guides good decision making.

We recommend WRC:

40. Ensure the scope of the Asset Management Team Leader role is adequately scoped and supported to achieve a transition to the targeted intermediate asset management maturity level by 2018.
41. Widen the definition of asset management roles to include key members of the operations, projects, engineering, environmental management, and the finance team.
42. Review key service provider relationships and evaluate opportunities for more integrated and longer-term engagements.

Actions:

1. Ensure the scope of the AM Team leader role is adequately scoped and supported to achieve a transition to the targeted intermediate AM maturity level by 2018
2. Widen the definition of AM roles to include key members of operations, projects, engineering, environmental management and the finance team.
3. Review qualification, experience, and key competence areas needed for different roles within ICM to ensure intermediate AM maturity level can be reached and maintained

Note:
There is no plan at this stage to review service provider relationships, there are other higher priorities, and as such this will be done on an ad hoc basis as needed.
### 3. Detailed Observations and Findings

#### Asset Management Plans

**IIMM Reference:** 4.2

<table>
<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The WRC AMP builds on a legacy of a number of generations of competent and detailed asset management documents. The current version AMP is however a significant change in document focus. Asset management planning has historically been embedded within WRC’s Zone Management Plans (ZMPs). Within these documents asset management information was split up among the various ZMPs and not brought together as a regional portfolio. The change to a single Regional AMP is a positive one and offers an opportunity for standardisation, cost savings, and clearer management and governance of the portfolio. At the time of the review the RAMP was still in development and included a number of editorial comments, gaps in information and analysis, and areas of scope inconsistency. In its current format the RAMP would not be considered effective, however the framework for the RAMP is appropriate for the type and extent of assets within the WRC flood protection portfolio, and based on our understanding of the work underway, the final version is capable of achieving an ‘Effective’ audit rating. One area of challenge that does require further effort is the consistency of scope and remit for the RAMP. As part of the initiative to bring together all catchment management activities into one holistic activity area the flood protection asset management plans have taken on elements of the ICM function, including biodiversity, biosecurity, and soil management objectives. The process of integration has not been straightforward and impacts a number of processes and sections of the RAMP. A concerted effort is required to fully integrate ICM and flood protection processes and align all sections of the RAMP. Further details of the specific areas where integration is required are provided throughout this report.</td>
<td>We recommend WRC: 43. Review the integration issues for successful merging the flood protection and ICM activity areas (plus river management and land drainage activity areas). 44. Finalise the RAMP document and other asset management artefacts including the ZMPs in draft and the 50 year horizon Infrastructure Strategy.</td>
<td>Actions: 1. Finalise the RAMP, ZMP’s, and the 50 year horizon Infrastructure Strategy. 2. Review AM plans for managing critical assets – Dams, Floodgates, Pump Stations, Weirs, and Stopbanks</td>
</tr>
</tbody>
</table>
### FINDING(S) AND IMPACT

The key IT systems used by the AM team are **Conquest** and **Fulcrum**. **Conquest** is the AM team’s asset data repository and has been used with limited success for work order management. The system includes all parameter data for the asset portfolio and stores condition assessment data and asset updates following project works. The system is not integrated with other systems, such as the financial system. **Fulcrum** is a mobile field tool application, which has been configured to support onsite data collection and queries.

The lack of integration functionality of the **Conquest** system is a known weakness that requires WRC AM team members to manually manage and transfer data, and fail to capture valuable data from field staff. There is a higher risk of data inaccuracies as a result, and the process takes valuable staff resources that could otherwise be applied to higher value tasks such as data analysis and reporting. It is noted, that an assessment of the adequacy of the **Conquest** system is due to commence in the near future.

There is anecdotal evidence that the use of the **Fulcrum** system has increased data collection and entry rates from teams in the field – increasing the overall accuracy and integrity of WRC asset management data whilst also reducing the requirement for discrete asset management inspections.

### RECOMMENDATION(S)

<table>
<thead>
<tr>
<th>Recommendation(s)</th>
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<tbody>
<tr>
<td>45. We recommend WRC.</td>
</tr>
<tr>
<td>46. Explore methods for replacing the Oracle and Conquest systems with systems that allow for integration between asset and financial information. (see recommendation #36).</td>
</tr>
<tr>
<td>47. Support further field data gathering applications on the Fulcrum (or alternative) system to support quality and completeness goals for asset datasets.</td>
</tr>
<tr>
<td>48. Review opportunities to systemise or streamline the update of asset information from project teams through the Conquest system and then on to the Oracle system. Redeploy any recovered resource time into data integration initiatives for the ICM dataset.</td>
</tr>
</tbody>
</table>

### AGREED MANAGEMENT ACTION(S)

<table>
<thead>
<tr>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Explore methods for replacing Oracle and Conquest systems that allow for integration between AM and financial information.</td>
</tr>
<tr>
<td>2. Explore methods to allow better maintenance planning and scheduling of works, so capture works occurring, time &amp; cost of works, and can future forecast needs of each scheme.</td>
</tr>
<tr>
<td>3. Review opportunities to systemise or streamline the update of project information into Conquest, Oracle, and Document Library.</td>
</tr>
</tbody>
</table>
### 3. Detailed Observations and Findings

#### Service Delivery Models
  IIMM Reference: 4.4

<table>
<thead>
<tr>
<th>FINDINGS(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
</tr>
</thead>
</table>
| Physical works are carried out utilising a combination of direct labour (i.e. WRC Operations team) and contracted resources. WRC's own operations team tend to undertake small scale maintenance and inspection duties whilst larger renewal and asset development works are competitively tendered and delivered by specialist contractors. | We recommend WRC.  
48. Finalise the implementation of the PMO and roll out the project management framework for major works to provide a level of assurance around project delivery processes.  
49. Continue to implement the procurement strategy when scoping, planning and sourcing external contracting services.  
50. Complete the RAMP Chapter II, Financials, including analysis of maintenance, renewals and new development costs to allow internal benchmarking and better cost estimation for future physical works. | Actions:  
1. Implement using PMO principles for all major capital, technical, maintenance, and investigatory projects within ICM.  
2. Continue to develop and implement procurement strategies for when scoping, planning and sourcing external contracting services.  
3. Develop methodologies for determining better cost estimation of future works. |

WRC have identified opportunities for improvement in the delivery of works programmes, and have established the basis of a project management office (PMO) to improve the flow of projects from planning to fruition and improve the scoping and tendering of works packages. This was one of the key drivers for the establishment of a new project management framework (currently in development) and development of a procurement strategy document (published earlier in 2017) incorporating recommendations for achieving good value from tendered works.

Whilst there are acknowledged opportunities for improving the cost and quality of service delivery, and there have been some project failures and overruns, the process of delivery is generally to an appropriate standard and with good opportunity taken to reflect on alternative means to engage contractors and designers that will enhance value for money.

The level of cost reporting by WRC’s own direct labour appears to be variable with the true cost of works undertaken not being fully understood. This may impact budgeting for future works and presents an area of cost escalation risk for WRC. Analysis of service delivery costs would appear to be undertaken in the Financials Chapter of the RAMP, however this section of the RAMP was not yet complete and so we are unable to comment further on the assessment of value for money undertaken within the RAMP.
3. Detailed Observations and Findings

Quality Assurance and Continuous Improvement
IIMM Reference: 4.5

FINDINGS(S) AND IMPACT

WRC regularly undertake IIMM AM framework reviews. The most recent review was completed in 2014. This review highlighted 16 improvement opportunities. Whilst there have been some excellent successes in past years, at the end of Q2 FY 16/17 achievement against the plan was limited, and may indicate the need for better resourcing or goal management of improvement actions.

Data quality analysis and confidence level evaluations are undertaken for the portfolio, however whilst these are reported in the RAMP as below target the actions, resources, programme, and sense of urgency to address data quality gaps is not evident.

Reviews of the flood protection scheme performance are also undertaken in the wake of large scale events. A recent example of such a review is the March and April 2017 Flood Events: Recommendations and Implementation Plan document which makes a series of recommendations to further improve how WRC manages and responds to significant flood events. The report recommendations were extensive and significant however it was not clear what mechanism WRC have for collating the review results and closing out the feedback.

Effective processes are required to collate, approve, assign and track continuous improvement actions as part of the AM system. A more stringently managed AM improvement plan would satisfy this requirement and ensure progress is made towards the improvement of WRCs assessed AM maturity level.

We do find that there is a culture of continuous improvement and that opportunities for improvement are viewed positively. However, the level of resources and adequacy of the management systems has led to the relatively low level of completion of those improvement opportunities.

RECOMMENDATION(S)

We recommend:

51. A formal project structure is placed around the delivery of agreed improvement actions, responsibilities are assigned, along with a timeframe, budget of cost, and expected benefits. Reporting of progress against plan is undertaken to the ICM director.

52. Review the level of resources and management systems to close out improvement actions.

AGREED MANAGEMENT ACTION(S)

Actions:

1. An integrated improvement plan is put in place, and reporting of progress against plan is undertaken to the ICM director.

2. Review the level of resources to deliver AM improvements.
Appendix 1 - Classification of Review Ratings
## Classification of Review Ratings

### Risk Rating

The risk rating assigned to the findings is determined based on an assessment of the impact of the business and the likelihood of the risk occurring, defined as follows:

<table>
<thead>
<tr>
<th>RATING</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>HIGH</td>
<td>Matters which are fundamental to the system of internal control. The matters observed can seriously compromise the system of internal control and data integrity and should be addressed as a matter of urgency.</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>Matters which are important to the system of internal control and should be addressed as soon as possible.</td>
</tr>
<tr>
<td>LOW</td>
<td>Matters which are unlikely to have a significant impact on the system of internal control but should be addressed as part of continuous improvement.</td>
</tr>
</tbody>
</table>

### Audit Rating

Audit ratings have been assigned to assess current processes related to each of the relevant areas of the IIMM framework considered as part of this review. Audit ratings have been assessed as:

<table>
<thead>
<tr>
<th>RATING</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOOD</td>
<td>The controls are fit for purpose and are being performed in a manner which effectively mitigates the identified risks.</td>
</tr>
<tr>
<td>EFFECTIVE</td>
<td>Despite the fact that some control weaknesses were identified, existing controls within the audited process are considered to be generally adequate, appropriate and effective. They ensure that the audited business processes will achieve their control objectives.</td>
</tr>
<tr>
<td>DEVELOPING</td>
<td>Control weaknesses were identified which, if not appropriately addressed, could in the future result in the audited business processes not achieving their control objectives.</td>
</tr>
<tr>
<td>NOT EFFECTIVE</td>
<td>Existing controls are considered to be inadequate and ineffective to ensure that the audited business processes will achieve their control objectives. Significant improvements are required to improve the adequacy and effectiveness of the control environment.</td>
</tr>
</tbody>
</table>
Appendix 2 - Interview Participants
We would like to thank those who participated in the series of interviews completed as part of this review. A list of those who participated in interviews is included below.

<table>
<thead>
<tr>
<th>#</th>
<th>Interview participants</th>
<th>Team / Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Clare Crickett</td>
<td>Director Integrated Catchment Management</td>
</tr>
<tr>
<td>2</td>
<td>Robert Hicks</td>
<td>Chair, Waihou Piako Catchment Committee</td>
</tr>
<tr>
<td>3</td>
<td>Gareth Langdon</td>
<td>Asset Management Coordinator</td>
</tr>
<tr>
<td>4</td>
<td>Bruce Peploe</td>
<td>Manager, Business and Technical Services</td>
</tr>
<tr>
<td>5</td>
<td>Karen Botting</td>
<td>Zone Manager, Hauraki</td>
</tr>
<tr>
<td>6</td>
<td>Adrian Stockill</td>
<td>Acting Team Leader Asset Management</td>
</tr>
<tr>
<td>7</td>
<td>Mike Garrett</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>8</td>
<td>Janine Becker</td>
<td>Manager, Finance</td>
</tr>
<tr>
<td>9</td>
<td>Kelly Stokes</td>
<td>Project and Programme Manager, Technical Services</td>
</tr>
</tbody>
</table>
Appendix 3 - Documents Reviewed
## Documents Reviewed

The below tables lists all documents reviewed to inform this report.

<table>
<thead>
<tr>
<th>#</th>
<th>Document Reviewed</th>
<th>Version or Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Report to Waikato Piako Catchment Committee May 2017</td>
<td>May 2017</td>
</tr>
<tr>
<td>2</td>
<td>Minutes of Waikato Regional Council Tenders Board</td>
<td>28 November 2016</td>
</tr>
<tr>
<td>3</td>
<td>Overview of state, management and value proposition of New Zealand’s river control, flood protection and drainage scheme – Final Draft</td>
<td>March 2017</td>
</tr>
<tr>
<td>4</td>
<td>Steering Group: Terms of Reference Integrated Catchment Management Hauraki Zone Programme</td>
<td>5.0 – 12/12/2016</td>
</tr>
<tr>
<td>5</td>
<td>Asset Attributes Report for North Road Pumpstation</td>
<td>27/07/2017</td>
</tr>
<tr>
<td>6</td>
<td>Review of Contract Prices and Summary of Market Influences</td>
<td>12 February 2016</td>
</tr>
<tr>
<td>7</td>
<td>Regional Asset Management Plan (DRAFT)</td>
<td>1 August 2017</td>
</tr>
<tr>
<td>8</td>
<td>ICM Organisation Structure</td>
<td>12 June 2017</td>
</tr>
<tr>
<td>9</td>
<td>WRC AM 3 Year Improvement Programme</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Lake Taupo asset management plan</td>
<td>2015/04</td>
</tr>
<tr>
<td>11</td>
<td>Procurement Management Plan Capital Works Programme 2016/2017</td>
<td>Version 3</td>
</tr>
<tr>
<td>12</td>
<td>Portfolio Summary Report May 2017</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Infrastructure strategy 2015 – 2045 – flood protection and control works</td>
<td>2014/09</td>
</tr>
<tr>
<td>15</td>
<td>Integrated Catchment Management (ICM): Contracting Principles &amp; Principles</td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Infrastructure Strategy 2018 – 2067: Flood protection and land drainage assets</td>
<td>July 2017</td>
</tr>
</tbody>
</table>
The below tables lists all documents reviewed to inform this report.

<table>
<thead>
<tr>
<th>#</th>
<th>Document Reviewed</th>
<th>Version or Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Financial Delegation Manual</td>
<td>June 2017</td>
</tr>
<tr>
<td>18</td>
<td>Infrastructure Assets Accounting Policy and Guidelines (Working Draft)</td>
<td>Version 2</td>
</tr>
<tr>
<td>19</td>
<td>Asset Management Policy – Flood Protection, river management and land drainage infrastructural assets</td>
<td>2015/01</td>
</tr>
<tr>
<td>20</td>
<td>2017/2018 Programmes Capital Renewal Assets with value exceeding $100,000</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Waihou Piako Zone specific Level of Service measures</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Tauhei Flood Protection Works Business Case</td>
<td>16 May 2014</td>
</tr>
<tr>
<td>23</td>
<td>Infrastructure Asset Valuation: Valuation of Waikato Regional Council Infrastructure Assets as at 31st December 2016</td>
<td>15 June 2017</td>
</tr>
<tr>
<td>24</td>
<td>Conquest to Oracle reconciliation 30 June 2017</td>
<td>30 June 2017</td>
</tr>
<tr>
<td>26</td>
<td>Conquest Procedures: Adding New Assets</td>
<td>October 2014</td>
</tr>
<tr>
<td>27</td>
<td>Conquest: Add Proposed Asset Form</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>March and April 2017 Flood Events: Recommendations and Implementation Plan</td>
<td>23 May 2017</td>
</tr>
<tr>
<td>29</td>
<td>Conquest: Add Existing Asset Form</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>WRC Project Management Framework: An overview</td>
<td>V1.0 – June 2017</td>
</tr>
<tr>
<td>31</td>
<td>Report to Waihou Piako Catchment Committee May 2017</td>
<td>6 May 2017</td>
</tr>
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Appendix 1: Internal audit objectives and scope (extract) 10
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## Disclaimers

### Inherent Limitations

This report has been prepared in accordance with our Engagement Letter dated July 2017. The services provided under our engagement letter (“Services”) have not been undertaken in accordance with any auditing, review or assurance standards. The term “Audit/Review” used in this report does not relate to an Audit/Review as defined under professional assurance standards.

The information presented in this report is based on that made available to us in the course of our work (publicly available information) provided by Waikato Regional Council. We have indicated within this report the sources of the information provided. Unless otherwise stated in this report, we have relied upon the truth, accuracy and completeness of any information provided or made available to us in connection with the Services without independently verifying it.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Waikato Regional Council expert consulted as part of the process.

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This report is solely for the purpose set out in Section (refer to “Scope” section) of this report and for Waikato Regional Council information, and is not to be used for any other purpose or copied, distributed or quoted whether in whole or in part to any other party without KPMG’s prior written consent.

Other than our responsibility to Waikato Regional Council, neither KPMG nor any member or employee of KPMG assumes any responsibility, or liability of any kind, to any third party in connection with the provision of this deliverable. Accordingly, any third party choosing to rely on this deliverable does so at their own risk.
1. Executive summary

Introduction
We have completed a gap analysis of Waikato Regional Council’s (“WRC”) Business Continuity Management (BCM) process as per the 2016/17 Internal Audit Plan approved by the Audit Committee.

Objectives
The objectives of this Internal Audit were to assess the adequacy and appropriateness of WRC’s BCM processes to ensure that these are adequately designed and operating effectively to mitigate key business continuity risks.

The focus of the review was to assess whether WRC’s business continuity management processes are suitable and fit for purpose. Although not specifically benchmarked against, we have taken guidance from ISO 22301/ISO 22313 Business continuity, which is the international standard.

The scope and approach of this Internal Audit together with the terms of reference for this Internal Audit are in accordance with the terms of KPMG’s internal service agreement with Waikato LASS agreement detailed in Appendix 1. These were agreed with WRC management. A list of WRC staff interviewed during the internal audit is provided in Appendix 3.

Overall rating
Based on our assessment, we have rated WRC’s Business Continuity Management framework maturity as ‘Repeatable’. Refer to Appendix 2 for the definition of each level of maturity within the BCM Maturity framework.

Business Continuity Management

<table>
<thead>
<tr>
<th>Business Continuity Management</th>
<th>Repeatable</th>
</tr>
</thead>
</table>

The maturity assessment rating equates to KPMG’s internal audit rating of “developing” which means that WRC’s BCM journey is heading in the right direction. Refer to Appendix 4 for the definition of each classification within KPMG’s internal audit rating.

Based on our experience, we note that the improvement opportunities highlighted in the report are common across similarly sized NZ organisations. Varying degrees of maturity in different parts of the organisation and inconsistent understanding and awareness of BCM at lower level of staff are commonly noted themes.

We understand that WRC had sought external assistance to formulate a business continuity framework and conduct a brief business impact analysis initiated by IT two years ago. Whilst a business continuity framework was delivered at the time, it was not effectively implemented and embedded across the Council. There were also delays in testing due to time and resource constraints. This was mainly because of its practical relevance and applicability to WRC. It was pleasing to note during the Internal Audit that Management recognises the importance of Business Continuity and are keen to enhance and further mature their Business Continuity programme across the Council.

Our review has highlighted key focus areas and improvement opportunities which are detailed in this report. These recommendations are provided to help ensure WRC continues to develop a business-focused “fit for purpose” approach to BCM.

Key strengths

- WRC has a good understanding of the core tasks across the Council by having specialists represented in each field, and it was evident that the Directorates work collaboratively across the Council.

- WRC has a well-established Civil Defence and Emergency Management (CDEM) team as part of the Waikato CDEM group in addressing major events that may disrupt Council’s normal operation. This experience can easily be adopted and applied in an event related to business continuity.

- There is a strong tone at the top and a desire to further commit to Business Continuity Management. A continuous improvement culture to ensure the continuity of Council’s business and the safety of its people was apparent.
BCM gap analysis results

Our detailed assessment of WRC’s Business continuity management programme shows that the maturity level varies across the different domains (see Figure 1 below). The definition of each level of colour maturity within the BCM Maturity framework is detailed in Appendix 2 and the definition of each domain is detailed in Appendix 5. For the purposes of the maturity assessment, we have taken guidance from ISO 22301/ISO 22313 Business continuity which is the international standard.

The next section highlights our detailed observations and improvement opportunities.

Key areas highlighted for improvement are:

The recommendations set out in this report have been designed to take WRC to a Defined/Managed level of maturity:

— **Understanding of the Organisation**: Review and update the existing business impact analysis (BIA) to strengthen WRC’s business continuity planning.

— **BCM Maintenance**: Conduct a BCM exercise as part of the BCM exercise cycle and carrying out preventive and corrective actions to show continual improvement.

— **BCM Programme Management**: Consideration of WRC’s outsource providers having the appropriate continuity arrangement and establish a formal funding mechanism for the BCM Programme.

— **BCM Culture**: Engage and provide adequate training to business stakeholders (not limited to senior management) to raise awareness of BCM at WRC and ensure alignment with council’s BCM Framework programme.

— **BCM Response**: Refresh and evaluate the adequacy of the BCM Response Plan for individual directorates at WRC and taking into consideration council’s latest risk appetite.

Overall management comments

Management thanks KPMG for a thorough review of BCP documentation and follow up interviews with staff.

All recommendations are accepted and will form the basis of an action plan to lift WRC’s performance from repeatable to a defined level of maturity.

Through the LTP, the Council is proposing to engage a dedicated staff member to support the council’s risk management activities including BCP.
1. Understanding of the Organisation

**Risk Rating: Medium**

*Understanding of the organisation* relates to identifying resource requirements and recovery options by assessing the risk and impact to critical business functions in the event of a crisis/disaster. The impact results could act as a catalyst for change required when issues around resilience and recovery capabilities are highlighted.

**Review and update existing business impact analysis (BIA) to strengthen WRC’s business continuity planning**

Business Impact Analysis (BIA) is a critical part of an effective Business Continuity Management (BCM). The BIA is one of the most difficult and important activities in the BCM process. The results will provide current information about WRC’s ability to deal with disruption and the potential impacts that may be experienced if one occurs.

**WRC’s essential services and interdependencies between Council’s directorates**

In the initial stages of BCM, WRC identified 24 essential services for which Individual Response Plans were created. The assessment for each essential service by the Council was done in isolation rather than also considering them as a whole through a Council-wide lens. Following our discussion with the individual Response plan owners, there were varying levels of agreement on the criticality of the services chosen. For example, under the Resource Use Directorate, the Criminal Court obligations services would not be regarded an essential service in the event of a major event at the Council.

**Essential services risk appetite and restoration time**

Currently, acceptable downtime has been determined for the essential duties of the critical service. This timing has been self-determined by the respective Directorate. We noted an inconsistent understanding of the definition of acceptable downtime which has led to the misunderstanding of the criteria. An enterprise-wide view of the essential services will help determine the priorities of each service and map a complete picture of the restoration times and process.

**Improvement opportunities**

- Revisit and refresh essential services required under the Councils’ Business Continuity Plan (BCP). This should be from a ‘top down’ WRC perspective.
- Review the existing BIA information and define the required recovery times and prioritisation. The acceptable recovery time and maximum satisfactory threshold to WRC should be aligned and linked to Council’s risk appetite statement.
- Ensure that the risk appetite statement relating to business continuity is clearly defined and understood by the business.
- Identify interdependencies between different directorates and systems to ensure BCM is considered as a whole rather than in silos.
We further noted that WRC does not have formal risk appetite in place for business continuity. Understanding of risk appetite and a clear linkage between risk appetite and BIA is critical in assisting not only with the prioritisation of applications and systems but also restoration time in the event of a crisis or disaster. In the absence of a formal definition of risk appetite, while staff may be able to complete the BIA including prioritisation of system restoration, this may not be in line with the expectations of IT, WRC and the public.

**Agreed Management Actions**

A review of WRC’s BCP, including BIA and organisation-wide prioritisation, will be undertaken.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager CE Office</td>
<td>June 2018</td>
</tr>
</tbody>
</table>
2. BCM Maintenance

BCM Maintenance relates to an organisation’s BCM exercise cycle and programme to ensure that an organisation’s BCM programme is validated and are kept up to date effectively.

**Conduct a BCM exercise as part of the BCM exercise cycle and carrying out preventive and corrective actions to show continual improvement**

WRC has planned to perform testing of the Business Continuity Plan (BCP), however this did not proceed due to unforeseen circumstances including unplanned staff absence, lack of availability of contractors at the time and testing of the BCP as a whole.

The maintenance of the BCP is critical to the success of actual recovery and to ensure the ability to continue to deliver key services in the event of an emergency. The purpose of this exercise programme is to test the robustness of BCPs and enable WRC to cope effectively with disruptions to the provision of critical services. It should not be about passing or failing, but it is all about the learning process.

There is a close synergies between response plans and BCPs and therefore these should be considered when learning the lessons from the exercises and making changes as a result. It is important that business continuity planning and exercising are not done in isolation from wider response planning work. In part, BCP is in place to ensure the council can deliver their emergency functions in the event of an emergency.

**Agreed Management Actions**

A schedule of BCP exercises aligned to the prioritisation of services will be mapped out and undertaken following the review (above) and confirmation of a new staff member.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Manager CE Office</th>
<th>Target Date</th>
<th>June 2018 Ongoing</th>
</tr>
</thead>
</table>

**Improvement opportunities**

- Plan BCM exercise for WRC in stages rather than on an organisation-wide basis, focusing on essential services as a priority followed by non-essential services.
- Identify preventive and corrective actions post each BCM exercise for continual improvement. The results of the BCM exercises should also be reported to the ARC on the outcome and steps taken for future improvement.
3. BCM Programme Management

BCM Programme Management refers to the organisation’s approach to business continuity which involves reviewing the governance implementation and ongoing management of the BCM programme; ensuring that the BCM is appropriately documented.

<table>
<thead>
<tr>
<th>Consideration of WRC’s outsource providers having the appropriate continuity arrangement and establish a formal funding mechanism for the BCM programme</th>
<th>Improvement opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Third party service provider - Contingency Planning and Periodic testing.</strong></td>
<td>— Ensure contracts with outsource providers to have appropriate continuity arrangement. Senior management to evaluate the adequacy of assurance contingency planning performed by third parties.</td>
</tr>
<tr>
<td>There has not been any critical consideration and evaluation of contingency planning on WRC’s third party service providers, including periodic testing as per the council’s business continuity plan. We noted WRC has engaged several outsource service providers in providing support on Council’s various essential services. Council’s operation has a dependency on such services and are outside the WRC’s control. One example is SilverStripe that supports WRC’s website. The essential services at WRC are those that are required to be operating in the shortest period (currently between immediate response and two weeks) of any disruptive event.</td>
<td>— Establish formal mechanism to budget, allocate and account for funds provided to business continuity program.</td>
</tr>
<tr>
<td><strong>Formal Budget</strong></td>
<td>— Monitor and evaluate the BCM program at regular intervals to ensure it is kept up to date addresses WRC wide disruption risks.</td>
</tr>
<tr>
<td>There is no formal budget and allocation for funds provided to the business continuity programme although WRC has placed importance in their business continuity programme. Funding should extend beyond simply agreeing to a business continuity plan/policy and initial funding but also to include the development of the infrastructure that supports the policy, ongoing maintenance of the overall programme and ongoing provision of resources (e.g. Finance Directorate, Resource Use Directorate, Community &amp; Services Directorate).</td>
<td></td>
</tr>
</tbody>
</table>

**Agreed Management Actions**

Staff resource, if approved following public consultation, will address this recommendation.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July 2018 Ongoing</td>
</tr>
</tbody>
</table>
4. BCM Culture

BCM Culture relates to the awareness of BCM policy, principles and monitoring the skills training of staff in BCM practices. A strong BCM culture helps to encourage preparedness as an organisation and the ability to respond to a disruptive event seamlessly.

Engage and provide adequate training to business stakeholders (not limited to senior management) to raise awareness of BCM at WRC and ensure alignment with council’s BCM Framework programme

<table>
<thead>
<tr>
<th>Improvement opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Train key staff to be familiar with the existing established BCM programme</td>
</tr>
<tr>
<td>— Establish BCM awareness and induction training to be included as part of WRC’s training policy designed for the intended audience.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Engage and provide adequate training to business stakeholders (not limited to senior management) to raise awareness of BCM at WRC and ensure alignment with council’s BCM Framework programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is no formalised process for providing training and awareness to staff responsible for the recovery and running of critical processes in the event of a disaster or major system outage.</td>
</tr>
<tr>
<td>While we noted that certain parts of the Council are more mature than others (such as Community and services directorate and parts of Resource Use and Finance), there is a need to enhance awareness and understanding of BCM in other parts of the organisation. Staff, in certain areas of Council, interviewed during the review demonstrated a lack of clarity and awareness in their understanding of Council’s BCM and plan.</td>
</tr>
<tr>
<td>A higher level of understanding and awareness of BCP was noted at the senior levels. However, given recent turnover of key staff at WRC, there is a need to reinforce the fundamental understanding of BCM to them by providing the necessary training and the need to revisit any related documents/plans applicable to their department/Directorate.</td>
</tr>
<tr>
<td>Staff who are trained in the principles of BCM will be better able to guide WRC through the process of delivering an effective and relevant BCM Programme.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agreed Management Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>The review and schedule of BCP exercises will assist with awareness raising and training.</td>
</tr>
<tr>
<td>Additionally, the risk management training programme will cover BCM.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manager CE Office</td>
<td>Risk management training due to start March 2018</td>
</tr>
</tbody>
</table>
5. BCM Response

**BCM Response** refers to the development and implementation of appropriate plans and arrangements to ensure continuity of critical activities and the management of an incident. The range of threats to be planned for should be determined by the organisation’s risk appetite.

**Refresh and evaluate the adequacy of the BCM Response plan for individual directorates at WRC and taking into consideration council’s latest risk appetite**

Existing response plans that were developed by the council have not been refreshed since their creation. During the interview sessions, it was found that there have been a number of changes within the Directorates, including Business Owners. For example, the current business owner of the Facilities department is not familiar with the department response plan because he was not involved in the initial drafting of the response plan and previous training/workshops.

Further to the previous issue noting absence of BCM risk appetite, similarly the BCM response plan should also be aligned to the risk appetite. This will ensure the continuity of critical activities remains relevant and reflect any non-critical services that may need to be enhanced, reduced or suspended depending on the nature of each Directorate’s function.

**Improvement opportunities**

- Refresh and update the BCM Response Plans for changes within Directorates and where there are changes in Business Owners.
- Considerations in developing BCM Response plans should include:
  - Keeping the response plans short, simple and user friendly
  - Ensuring assumptions contained are realistic
  - Reference to other sources of information and supporting documentation
  - Appropriate action plans and checklists to be included
  - Ownership of key tasks
  - Version control
  - Reference to WRC’s Risk appetite.

**Agreed Management Actions**

Actions to address this recommendation will be incorporated into quarterly review of directorate risk registers in light of organisation wide review and refresh.

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Advisors</td>
<td>July 2018 Ongoing</td>
</tr>
</tbody>
</table>
Appendix 1: Internal audit objectives and scope (extract)

**Internal audit objectives**

The objectives of this internal audit were to:

- Confirm whether controls are adequately designed, appropriate, and operating effectively to mitigate key business continuity risks; and
- Provide recommendations for improvement where opportunities exist.

**Internal audit scope**

**Key Risks**

Failure of BCM systems resulting in short/long-term interruptions to business operations.

**Scope**

Taking into account, guidance from relevant standards and best practice, this gap analysis took stock of WRC’s current BCP processes and procedures and assessed whether they were fit for purpose and suitable. The following were areas of focus:

- Overall governance structure including management support and commitment;
- Risk assessment and risk mitigation;
- Business impact analysis;
- Business recovery and continuity strategy;
- Crisis communication plan;
- Awareness and training;
- Coverage and frequency of testing of the plans;
- Assessment of appropriateness of management actions to address any gaps identified from testing undertaken;
- Maintenance of the BC Plan through regular updates and improvements; and
- Linkages between IT Disaster Recovery (DR) Plan and BCM.

**Out of scope**

The following areas were out of scope:

- Testing of WRC’s BCM and DR plans.
### BCM Maturity framework level

The BCM Maturity framework level defines the following five levels of maturity on the continuum:

<table>
<thead>
<tr>
<th>Maturity Level</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimised</td>
<td>The fifth phase of BCM maturity symbolises organisations that use their BCM programme as a source of competitive advantage.</td>
</tr>
<tr>
<td>Managed</td>
<td>This phase is the fourth phase of BCM maturity and symbolises an environment where Business Continuity risks are measured and managed quantitatively and aggregated enterprise-wide.</td>
</tr>
<tr>
<td>Defined</td>
<td>The third phase of BCM maturity is characterised by institutionalisation of policies, procedures, standards and guidelines for the BCM programme.</td>
</tr>
<tr>
<td>Repeatable</td>
<td>This is the second phase of BCM maturity and indicates a state where processes are established and reliance on key people is reduced. However, these processes exist in a fragmented state and are not institutionalised.</td>
</tr>
<tr>
<td>Initial</td>
<td>This phase is the level on the BCM maturity continuum and is characterised by ad-hoc and chaotic nature of BCM processes that are dependent on heroics. An organisation in this maturity level lacks the institutional capability of BCM.</td>
</tr>
</tbody>
</table>
## Appendix 3: Interview list

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vaughan Payne</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Karen Bennett</td>
<td>Manager (Office of the Chief Executive)</td>
</tr>
<tr>
<td>Dean King</td>
<td>Business Support Manager (Resource Use)</td>
</tr>
<tr>
<td>Zak</td>
<td>Environmental Support (Resource Use)</td>
</tr>
<tr>
<td>Caroline</td>
<td>Courts Support (Resource Use)</td>
</tr>
<tr>
<td>Ed Brown</td>
<td>Environmental Monitoring Manager (Science and Strategy)</td>
</tr>
<tr>
<td>Paul Kennett</td>
<td>Environmental data team leader (Science and Strategy)</td>
</tr>
<tr>
<td>Nick Ollington</td>
<td>People and Capability Manager (Community and Services)</td>
</tr>
<tr>
<td>John Crane</td>
<td>Chief Information Officer (Community and Services)</td>
</tr>
<tr>
<td>Billy Michels</td>
<td>Information Communication Technology Team Leader (Community and Service)</td>
</tr>
<tr>
<td>Gill Lawrence</td>
<td>Spatial Information Manager (Science And Strategy)</td>
</tr>
<tr>
<td>Rick Liefting</td>
<td>Regional Hazards and Environment Compliance (Integrated Catchment Management)</td>
</tr>
<tr>
<td>Trevor Martin</td>
<td>Facilities Manager (Finance)</td>
</tr>
<tr>
<td>Kim Jonson</td>
<td>Communication Team Leader (Community and services)</td>
</tr>
<tr>
<td>Nicola Chrisp</td>
<td>Customer and Engagement Manager (Community and services)</td>
</tr>
<tr>
<td>Neville Williams</td>
<td>Director (Community and services)</td>
</tr>
</tbody>
</table>
Appendix 4: Ratings and classifications

### Audit rating

The audit ratings are defined as follows:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOOD</td>
<td>The controls are fit for purpose and are being performed in a manner which effectively mitigates the identified risks.</td>
</tr>
<tr>
<td>EFFECTIVE</td>
<td>Despite the fact that some control weaknesses were identified, existing controls within the audited process are considered to be generally adequate, appropriate and effective. They ensure that the audited business processes will achieve their control objectives.</td>
</tr>
<tr>
<td>DEVELOPING</td>
<td>Control weaknesses were identified which, if not appropriately addressed, could in the future result in the audited business processes not achieving their control objectives.</td>
</tr>
<tr>
<td>NOT EFFECTIVE</td>
<td>Existing controls are considered to be inadequate and ineffective to ensure that the audited business processes will achieve their control objectives. Significant improvements are required to improve the adequacy and effectiveness of the control environment.</td>
</tr>
</tbody>
</table>

### Risk rating

The risk rating assigned to the findings is determined based on an assessment of the impact of the business and the likelihood of the risk occurring, defined as follows:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOW</td>
<td>Matters which are unlikely to have a significant impact on the system of internal control, but should be addressed as part of continuous improvement.</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>Matters which are important to the system of internal control and should be addressed as soon as possible.</td>
</tr>
<tr>
<td>HIGH</td>
<td>Matters which are fundamental to the system of internal control. The matters observed can seriously compromise the system of internal control and data integrity and should be addressed as a matter of urgency.</td>
</tr>
</tbody>
</table>
Appendix 5: BCM framework domain definition

<table>
<thead>
<tr>
<th>BCM Framework domain</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCM Policy</td>
<td>BCM Policy refers to the business continuity requirements and policies in place and identifies the scope of the BCM programme in an organisation. It addresses the linkage of the Business Continuity policy to the rest of the organisation and includes the consideration of outsourced providers.</td>
</tr>
<tr>
<td>BCM Programme Management</td>
<td>BCM Programme Management refers to the organisation’s approach to business continuity which involves reviewing the governance implementation and ongoing management of the BCM programme; ensuring that the BCM is appropriately documented.</td>
</tr>
<tr>
<td>Understanding of the organisation</td>
<td>Understanding of the organisation relates to identifying resource requirements and recovery options by assessing the risk and impact to critical business functions in the event of a crisis/disaster. The impact results could act as a catalyst for change required when issues around resilience and recovery capabilities are highlighted.</td>
</tr>
<tr>
<td>Strategy Options</td>
<td>Strategy Options relates to an organisation choosing the appropriate continuity strategy options as a result of the analysis conducted in “understanding the organisation” domain to meet its objective. The range of factors to be considered includes maximum tolerable period of disruption of the critical activity, cost of implementing a strategy or strategies and the consequences of inaction.</td>
</tr>
<tr>
<td>BCM Response</td>
<td>BCM Response refers to the development and implementation of appropriate plans and arrangements to ensure continuity of critical activities and the management of an incident. The range of threats to be planned for should be determined by the organisation’s risk appetite.</td>
</tr>
<tr>
<td>BCM Maintenance</td>
<td>BCM Maintenance relates to an organisation’s BCM exercise cycle and programme to ensure that an organisation’s BCM programme are validated and are kept up to date effectively.</td>
</tr>
<tr>
<td>BCM Culture</td>
<td>BCM Culture relates to the awareness of BCM policy, principles and monitoring the skills training of staff in BCM practices. A strong BCM culture helps to encourage preparedness as an organisation and the ability to respond to a disruptive event seamlessly.</td>
</tr>
</tbody>
</table>
Contact us

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E davidsutton@kpmg.co.nz
Waikato Regional Council

Resource Use Directorate Invoicing Review
December 2017
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2. Summary of Internal Audit Findings 03

3. Detailed findings and recommendations 04

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Appendix 2 – Internal Audit approach 14

Appendix 3 – Classification of Internal Audit ratings 14

DISCLAIMER

Inherent Limitations
This report has been prepared as outlined in our scope document dated July 2017. The procedures outlined in the Scope of Services Section constitute neither an audit nor a comprehensive review of operations. The term “Audit/Review” used in this report does not relate to an Audit/Review as defined under professional assurance standards. The findings in this report are based on a review of Waikato Regional Council’s (WRC’s) processes, documentation and discussions with relevant team members. No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, WRC management and personnel consulted as part of the process. KPMG has indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report. KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form. The findings in this report have been formed on the above basis.

Third Party Reliance
This report is solely for the purpose set out in Scope of Services Section of the engagement letter and for WRC’s information, and is not to be used for any other purpose or distributed to any other party without KPMG’s prior written consent. This report has been prepared at the request of WRC in accordance with the terms of KPMG’s engagement document dated July 2017. Other than our responsibility to WRC, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party’s sole responsibility. This report has been prepared as outlined in our scope document dated July 2017. The procedures outlined in the Scope of Services Section constitute neither an audit nor a comprehensive review of operations. The term “Audit/Review” used in this report does not relate to an Audit/Review as defined under professional assurance standards.
OBJECTIVE AND SCOPE

In accordance with our engagement letter dated 27 July 2017, Waikato Regional Council (WRC) requested KPMG to perform a review to evaluate the effectiveness of internal controls over Resource Use Directorate (RUD) for the invoicing and collecting of revenue associated with the granting of resource consents. The overall objective of this review was to:

1) Assess the adequacy and effectiveness of controls to:
   - Track and manage costs incurred during the granting of resource consents.
   - Invoice the costs incurred in the granting of resource consents.
   - Monitor and manage outstanding resource consent invoices.
2) Assess the revenue and invoicing processes for compliance monitoring costs and annual consent holder charges.
3) Understand and assess the adequacy of the interface between RUD and Finance, including the stage at which responsibility transfers to Finance.

REVIEW ACTIVITIES

The review was carried out over two stages:

Stage 1: Understand the process
Gained a high level understanding of the processes performed by the Resource Use Directorate and the Finance team to:
   - Track and manage costs incurred in the granting and monitoring of resource consents.
   - Invoice costs incurred.
   - Manage the receipting of revenue and any outstanding invoices.

Stage 2: Assess the effectiveness of the process
   - Perform testing of key controls identified within the process to assess the effectiveness of such controls
   - Identify potential opportunities to improve the effectiveness and efficiency of the invoicing and revenue collection process.

OVERALL RATING

Based on the results of this Internal Audit, the control environment over the procedures in place at WRC over the invoicing and collecting of revenue associated with the granting and monitoring of resource consents is rated as ‘Developing’.

Resource consent revenue process

| Developing |

Refer to Appendix 2 for the classification of the internal audit ratings.

CONCLUSION

Approximately 1,300 resource consents are issued each year by WRC with a significant number requiring ongoing monitoring activity as a condition of the consent. Costs incurred during the consent granting and monitoring processes are monitored through project codes within Oracle.

The management of consent related costs is a complex task particularly with the need to balance Resource Management Act requirements, customer expectations, the Council’s objectives for customer satisfaction, and good financial practices. These complexities have contributed to current unbilled costs (incurred more than one year ago) to be approximately $470k.

Of this, $71k relates to 225 projects with incorrect billing due to systems issues that needs to be corrected. Of the remaining $399k outstanding to invoice, $348k is related to farm water (v6) consents of which there are $319,976 deposits held against, and $27k other water (v6) consents which have $17,500 deposits held against them. Leaving approximately $64k exposure in the greater than 1 year unbilled costs.

Earlier this year WRC undertook a project to identify impediments to the monitoring and invoicing of consent related costs and recommended the introduction of a number of performance indicators.

This review has validated the need to introduce structure to the invoicing process and recommends the implementation of performance standards to ensure accountability for the management of billable costs incurred on consent related projects. In addition the introduction of tools and financial training may also assist the Resource Officers (ROs) and RUD Billing Services in the management of billable costs through the proactive management of project codes and the regular generation of invoices.

Once process expectations are clarified and performance indicators introduced Council may see benefit in re-assessing the risk surrounding the collection of deposits and in investigating the introduction of automated billing. It would also be beneficial to clarify billing related controls for preventing inadvertent errors so that these can be considered for the new corporate system to be implemented next year.
# 2. Summary of internal audit findings

The table below shows the risk ratings of the findings. Detailed findings and recommendations are included in this report:

<table>
<thead>
<tr>
<th>#</th>
<th>Description of internal audit findings</th>
<th>Rating of internal audit findings</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MONITORING OF CONSENT AND MONITORING COSTS</td>
<td>High</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>Deposits for Resource Consent Applications</td>
<td>High</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>Process to Manage Variation 6 Consents</td>
<td>High</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Recording of Deposits Received Within IRIS</td>
<td>Medium</td>
<td>9</td>
</tr>
<tr>
<td>5</td>
<td>Closing of Project Codes Within Oracle</td>
<td>Medium</td>
<td>11</td>
</tr>
</tbody>
</table>
1. MONITORING OF CONSENT AND MONITORING COSTS

<table>
<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is considerable judgement applied by the Resource Use Directorate (RUD) team when invoicing billable costs accumulated on resource consent granting and monitoring projects. Whilst Resource Officers (ROs) have tended to focus on managing the invoicing of large projects, smaller projects have often received less oversight and over time has contributed to approximately $470k of billable costs being older than one year. There are also few guidelines available to the ROs that clarify expectations for billing, nor structured training provided to ensure they have adequate knowledge around the wider financial implications of actions (or inactions) performed, including the impact on cash flow reporting when transferring billable costs to be non-billable after month end.</td>
<td>RO’s must be encouraged to recognise that as project managers they are responsible for the monitoring of the project as a whole, including being held accountable for the timely invoicing of costs incurred. The following should be considered to facilitate this: 1. Standardise the expectations for the regular monitoring of costs. This should include the regular review of costs incurred on the project, including assessing the appropriateness of billable vs non-billable costs prior to month end along with an expectation for monthly billing for full costs incurred. 2. RUD Senior Management should be held accountable to drive and facilitate a culture of regular reviewing and invoicing of project costs. 3. Ensure ROs invoice costs incurred on a monthly basis and request explanations where projects with a billable amount greater than $500 have not been invoiced. 4. Provide tools to assist ROs to determine appropriate invoice amounts. Such tools may include a spreadsheet that could be used by the ROs to calculate a suggested billable amount based on the total expected consent costs, deposit received and previously billed amounts. See Appendix 1 for a proposed example) 5. Investigate the possibility of recording the estimated consent cost against the RC code in Oracle so that this can be included in reports and assist when determining invoice amounts. 6. Consider creating a report to identify what billable transactions have subsequently been moved to non-billable the following month.</td>
<td>1. Action - The following standards were identified before the review and will now be implemented. We have been waiting for the review’s recommendations to progress these further. RUD Business Support will prompt and support this process. - Monitoring costs should be invoiced if they are over $500.00 or 2 months old. - Ongoing consenting costs should be billed if they are over their deposit value by $500 and 3 months old. - Final consenting invoices – These should be created as soon as possible but within 30 days of a consent being granted. This will be reported monthly and will need a report to be built (Business Solutions and Jane McMullan). 2. Action – the culture of regular reviewing and invoicing will be promoted as part of the role of Resource Officers as is being customer centric, processing consents within timeframes, monitoring consents, meeting contract and Health and Safety requirements. This will be reviewed by the RUD Senior Leadership Team. 3. Action – the standards outlined above will address this recommendation. 4. No Action – now that there is the relatively new unbilled report this will assist with this. 5. No Action – this would require system changes to Oracle that are not planned or priority given the pending changes to our corporate Finance system.</td>
</tr>
</tbody>
</table>
### 3. Detailed Findings and Recommendations

**1. MONITORING OF CONSENT COSTS (continued)**

<table>
<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Create an alert mechanism to remind ROs to manage ‘billable’ versus ‘non billable’ costs and for the raising of invoices prior to each month end.</td>
<td>6. No report required as Team Leaders will manage this as they sign off any changes and there are insufficient resources currently available in our Business Solutions team to prioritise.</td>
<td></td>
</tr>
<tr>
<td>8. Introduce regular training sessions (facilitated by Finance) to increase the financial knowledge of staff involved throughout the RUD billing processes. The regular meetings between Finance and RUD Business Services should be used to identify issues experienced and training topics to deliver.</td>
<td>7. No alert required as this can be managed through actions one and two above. Business Support Team Leader will work with Industry and Infrastructure teams supporting their billing to consider other ways of achieving this.</td>
<td></td>
</tr>
<tr>
<td>8. Action – Finance are available to discuss any financial implications with the Industry and Infrastructure Section and Farming Sections to ensure everyone understands the big picture.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**RESPONSIBILITY**

1 - Industry and Infrastructure Section Manager through Team Leaders (supported by RUD Business Support).

2 - RUD Senior Leadership Team have oversight. Industry and Infrastructure Section Manager and Farming Services Manager Farming Services for implementation.

8 - Finance – Manager Finance Office.

**TARGET DATE**

1 - Immediate and ongoing with a monthly review of financials.

2 - Immediate and ongoing, to be reviewed Quarterly.

8 – Immediate and ongoing with a monthly review of financials.
2. DEPOSITS FOR RESOURCE CONSENT APPLICATIONS

FINDING(S) AND IMPACT

A deposit is required for all resource consent applications as a means of mitigating the risk of WRC’s inability to recover costs incurred during the processing of the resource consent.

Whilst the RMA allows for a deposit to be requested of up to 50% of the expected costs, WRC typically requests a set deposit (previously $500) for each consent application regardless of whether the estimated consent costs are expected to be $1,000 or $10,000. Therefore the percentage of expected costs covered by the deposit varies considerably across consents.

We note that the amount of deposit requested has been recently increased to $1,000, however this continues to be a standard deposit requested regardless of the estimated consent cost or the perceived risk of the applicant.

Risk

WRC may not be adequately protected against the ability to recover costs incurred during the consent granting process.

RECOMMENDATION(S)

1. Vary the consent deposits requested according to predefined guidance such as:
   - Request 50% of the expected cost as a deposit. This would be particularly relevant where the consent applicant is unknown to WRC or where there is a history of non (or late) payment for consent granting or monitoring invoice. This approach may require a request for a further deposit after the expected costs are estimated. The request could be made through the acknowledgement letter sent to the applicant.
   - For standard consents where there is a history of good payment from the consent applicant and the consent costs are well known, the deposit could remain at the minimum (e.g $1,000).

2. Consider having Finance staff flag high risk consent holders (e.g, where there is a history of non-payment of consent monitoring invoices) within IRIS to assist with determining of higher risk applicants requiring a higher deposit to be obtained.

RESPONSIBILITY

2 – Finance – Debt management office.

TARGET DATE

2 – Immediate and ongoing.
3. Detailed Findings and Recommendations

### 3. PROCESS TO MANAGE VARIATION 6 CONSENTS

**FINDING(S) AND IMPACT**

Certain consent applications relating to a variation of council policies, referred to as 'Variation 6,' often impact a large number of consent holders. In 2012 a Variation 6 to the Waikato Regional Plan was introduced; the purpose of which was to set out how the Council would manage water allocation within the region.

WRC agreed with consent holders to spread the costs relating to this variation across all consent applications, however considerable issues have been experienced with doing so as the approach for managing this activity was not determined in advance of the project.

Our testing identified an example where costs were incurred on a V6 related project in 2013 and 2016. Although it is acknowledged that the consent has not been granted at the time of this review, these costs have not been invoiced. At the time of this review, there was approximately $470,000 of unbilled costs incurred more than one year ago, $308k (65%) of which related to costs associated with the Variation 6 project.

In addition, system limitations have created complexity as to how V6 project costs are invoiced. Currently, V6 consents are invoiced through RUD Billing (Oracle project accounting module) for the full amount of costs deemed billable on the project code. This amount is then fully credited against the consent holder and instead a manual invoice for the standardised amount is created. However, visibility of invoiced amounts are lost to the RO’s as the manual invoice is created directly in Oracle GL and not in the project accounting module (which the RO’s have access to via RUD Billing screens).

We understand another Variation 6 project relating to Healthy Rivers is due to come into effect later this year.

**RECOMMENDATION(S)**

1. Conduct upfront analysis of how the Healthy Rivers and other V6 projects are to be managed. This analysis should clarify at a minimum:
   - A business case outlining decisions around the management of costs and billing throughout the life of this project.
   - An agreed project cost monitoring and invoicing method.
   - Agreed reporting procedures including the possibility of reporting periodically on the complexity of early consents processed. For example, a number of easy consents processed early in the project has the potential to imply a lower average cost of consents.

**AGREED MANAGEMENT ACTION(S)**

1. Action – We agree that “An agreed project cost monitoring and invoicing method” should be undertaken and suggest this could include the other recommendations.

### Risk

Inadequately managed Variation 6 projects may create additional complexity and confusion around the invoicing process, and could lead to the Council overstating revenue and impacting the accuracy of cash flow forecasts.
3. Process to Manage Variation 6 Consents (continued)

Rating of Internal Audit Finding: High

Responsibility
Team Leader RUD Farming Services – Plan Implementation.

Target Date
31 December 2018.
3. Detailed Findings and Recommendations

4. RECORDING OF DEPOSITS RECEIVED WITHIN IRIS

RUD Business Support are responsible for identifying and applying deposits received from applicants by reconciling funds received to consent applications received. There are times however that deposits are difficult to identify such as when the deposit has been made electronically from an individuals bank account but which apply to an application submitted from a trust or a company name. In these cases deposits can take more than three days to identify.

Following this, the ROs are prompted within IRIS to check a task box “Check for Sufficient Funds” to indicate that a deposit has been received from the applicant. This task box is routinely checked even if the deposit had been unable to be located, as the ROs believed that without doing so they would be unable to proceed within IRIS.

In addition, a letter sent to the consent applicant to provide an acknowledgement of the receipt of their application and an estimate of the expected costs also thanks the applicant for their deposit, indicating that one has been received when this may not be the case.

Risk

For some consents IRIS may incorrectly show that a deposit had been received.

Acknowledging the receipt of a deposit when one may not have been received may make it difficult to request this money if it is subsequently determined that no deposit was received. Where the applicant is able to provide evidence that funds were submitted, WRC may incur considerable time and cost to prove otherwise.

<table>
<thead>
<tr>
<th>FINDING(S) AND IMPACT</th>
<th>RECOMMENDATION(S)</th>
<th>AGREED MANAGEMENT ACTION(S)</th>
</tr>
</thead>
<tbody>
<tr>
<td>RUD Business Support are responsible for identifying and applying deposits received from applicants by reconciling funds received to consent applications received. There are times however that deposits are difficult to identify such as when the deposit has been made electronically from an individuals bank account but which apply to an application submitted from a trust or a company name. In these cases deposits can take more than three days to identify. Following this, the ROs are prompted within IRIS to check a task box “Check for Sufficient Funds” to indicate that a deposit has been received from the applicant. This task box is routinely checked even if the deposit had been unable to be located, as the ROs believed that without doing so they would be unable to proceed within IRIS. In addition, a letter sent to the consent applicant to provide an acknowledgement of the receipt of their application and an estimate of the expected costs also thanks the applicant for their deposit, indicating that one has been received when this may not be the case.</td>
<td>1. Ensure that RO’s do not tick the “Check for sufficient funds” task box within IRIS without confirmation of funds having been received. 2. Remove or alter the wording of the acknowledgement letter where the deposit has not been identified. 3. Contact applicant to request details of deposit submission if the deposit has not been able to be identified. This could be done by RUD Business Services staff after the daily reconciliation. 4. Review the efficacy of requiring consent deposits.</td>
<td>1. Action – Review whether this task is still required under IRIS. 2. Action – remove the wording from the template with respect to deposits. 3. Action – Agreed RUD Business Support will action this. 4. Action - Finance and RUD to work together to review the efficacy of requiring consent deposits.</td>
</tr>
</tbody>
</table>
### 3. Detailed Findings and Recommendations

#### 4. RECORDING OF DEPOSITS RECEIVED WITHIN IRIS (continued)

<table>
<thead>
<tr>
<th>RESPONSIBILITY</th>
<th>TARGET DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 – Resource Officers with process review support from RUD Team Leader Business Support.</td>
<td>1, 2 and 3 – 2 March 2018.</td>
</tr>
<tr>
<td>2 and 3 – RUD Team Leader Business Support.</td>
<td></td>
</tr>
</tbody>
</table>
5. CLOSING OF PROJECT CODES WITHIN ORACLE

**FINDING(S) AND IMPACT**

ROs are required to inform the RUD Billing team when an invoice is to be the final invoice so that the project code can be closed within Oracle. This however is not always done and as a result some completed project codes remain open with the deposit not applied.

The RUD billing screen is used by the ROs to view project codes assigned to them. However ROs can filter this screen to hide codes with no current billable costs, thereby also hiding open codes with deposits still unapplied.

Furthermore, management have identified 225 projects with approximately $71k of unbilled costs due to system limitations. To date it has been identified that 70 of these projects had late timesheet entries applied after the final invoice was processed but before the code could be closed. These are in the process of being corrected. The remaining 155 projects had billable costs changed to non-billable and the project code closed before the overnight Oracle processes had run, therefore those costs still appear as billable.

**Risk**

Revenue may be overstated and liabilities may be understated where deposits have not been applied to the final bill. In addition, timesheet entries and external costs (such as consultants and lawyer fees) may be incorrectly applied to an incorrect code, creating additional work to move those costs to the appropriate code. System limitations can also contribute to inaccurate reflection of revenue.

**RECOMMENDATION(S)**

1. Introduce a report to identify RC codes where the consent has been granted and no new costs incurred for 30 days, but which a deposit is still sitting on the code – these could indicate codes that have been final billed but which were not informed to RUD billing that it was the case. Deposits should be applied and the code closed immediately.

2. Clarify billing related controls for preventing inadvertent errors for consideration during the corporate system replacement project.

**AGREED MANAGEMENT ACTION(S)**

1. Action – Agree as per standards identified in 1.1. Business Support already check deposit for final invoices and check closed codes.

**RESPONSIBILITY**

1 – RUD Team Leader Business Support.

2 – Manager Finance Office.

**TARGET DATE**

1 – Immediate and ongoing.

Appendix 1 - Example Tools
## Example Invoice Estimation Tool

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>A - manually entered Expected cost of resource consent</td>
<td>$2,100</td>
</tr>
<tr>
<td>B - manually entered Deposit</td>
<td>$500</td>
</tr>
<tr>
<td>A-B = C Uncovered cost of resource consent</td>
<td>$1,600</td>
</tr>
<tr>
<td>D - manually entered Previously billed</td>
<td>$900</td>
</tr>
<tr>
<td>E - manually entered Current 'Billable' amount on project code</td>
<td>$650</td>
</tr>
<tr>
<td>D+E = F Previously billed + current 'billable'</td>
<td>$1,550</td>
</tr>
<tr>
<td>IF 'F' &lt; 'C' then bill 'E', otherwise bill 'C'-D</td>
<td>TO INVOICE $650</td>
</tr>
<tr>
<td>'Billable' amount remaining on code</td>
<td>$-</td>
</tr>
<tr>
<td>Bringing total invoiced to:</td>
<td></td>
</tr>
<tr>
<td>F Previously billed + current 'billable'</td>
<td>$1,550</td>
</tr>
<tr>
<td>B + deposit</td>
<td>$500</td>
</tr>
<tr>
<td>F+B=G Total 'invoiced' to date</td>
<td>$2,050</td>
</tr>
<tr>
<td>G/A % invoiced to date</td>
<td>98%</td>
</tr>
<tr>
<td>H - manually entered % complete of project:</td>
<td>90%</td>
</tr>
</tbody>
</table>

Ensure this is adjusted throughout the consent process to reflect updated expectations

24% Calculation to highlight percentage of costs mitigated

Where any billable amount remains, consider adjusting the 'Expected Cost'

Where this is below the % invoiced consider adjusting the 'Expected Cost'
Appendix 2 -
Internal Audit Objectives,
Scope and Approach
Internal Audit Objective and Scope

OBJECTIVE AND SCOPE

In accordance with our engagement letter dated 27 July 2017, Waikato Regional Council (WRC) requested KPMG to perform a review to evaluate the effectiveness of internal controls over the Resource Use Directorate for the invoicing and collecting of revenue associated with the granting of resource consents. The overall objective of this review was to:

— Track and manage costs incurred during the granting of resource consents
— Invoice the costs incurred in the granting of resource consents
— Monitor and manage outstanding effectiveness of key controls over bus revenue collection and recording processes.
— Identify potential gaps in internal controls and processes that could result in revenue leakage or loss.

The review focused upon the following process areas and encompassed activities performed by WRC’s Industry and Infrastructure, Business Support and Finance divisions. KPMG has been engaged to assess the revenue and invoicing processes for compliance monitoring costs and annual consent holder charges and understand and assess the adequacy of the interface between RUD and Finance, including the stage at which responsibility transfers to Finance.

OUR APPROACH

The review was carried out using the following approach:

— Interviewed key WRC staff and performed walkthroughs of WRC processes to mitigate risks around costs incurred, subsequently invoiced and collected.
— Findings were discussed with the process owner and a report provided to the process owner and a report detailing the findings and recommendations was drafted.
— Issued final report outlining our findings, recommendations, and process owner’s action.
Appendix 3 - Classification of Internal Audit Ratings
## Audit Rating

The audit ratings are defined as follows:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adequate</td>
<td>Despite the fact that some control weaknesses were identified, existing controls within the audited process are considered to be generally adequate, appropriate and effective to ensure that the audited business processes will achieve their control objectives.</td>
</tr>
<tr>
<td>Developing</td>
<td>Control weaknesses were identified which, if not appropriately addressed, could in the future result in the audited business processes not achieving their control objectives.</td>
</tr>
<tr>
<td>Not Effective</td>
<td>Existing controls are considered to be inadequate and ineffective to ensure that the audited business processes will achieve their control objectives. Significant improvements are required to improve the adequacy and effectiveness of the control environment.</td>
</tr>
</tbody>
</table>

## Risk Rating

The risk rating assigned to the findings is determined based on an assessment of the impact of the business and the likelihood of the risk occurring, defined as follows:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Matters which are fundamental to the system of internal control. The matters observed can seriously compromise the system of internal control and data integrity and should be addressed as a matter of urgency.</td>
</tr>
<tr>
<td>Medium</td>
<td>Matters which are important to the system of internal control and should be addressed as soon as possible.</td>
</tr>
<tr>
<td>Low</td>
<td>Matters which are unlikely to have a significant impact on the system of internal control, but should be addressed as part of continuous improvement.</td>
</tr>
</tbody>
</table>
Report to Audit and Risk Committee

Date: 26 February 2018
Author: Greg Ryan, Manager Business and Technical Services
Authoriser: Clare Crickett, Director Integrated Catchment Management
Subject: Waikato Regional Council flood protection asset risk management
Section: A (Committee has delegated authority to make decision)

Purpose

1. The purpose of this report is to provide the Committee with an overview of the work areas currently underway to manage the risk associated with the flood protection assets managed by the Waikato Regional Council, and in particular the progress that has been made since the last report (October 2017). This report includes:
   a. An update on the work recently undertaken to assess the Waikato Regional Council assets that protect urban areas.
   b. An update on other asset management projects, including the Waikato Regional Council Infrastructure Strategy 2018 – 2067, responses to the recently completed asset management review by KPMG, work to improve the management of dam safety in relation to council owned dams, and the management response to liability issues in relation to the operation and maintenance of pump stations.

Staff Recommendation:

That the report “Waikato Regional Council flood protection asset risk management” (Doc #11874812 dated 23 February 2018) be received.

Part A: Waikato Regional Council flood protection in urban areas

Background

2. After the April 2017 Edgecumbe flood event, council directed staff to undertake a qualitative assessment of council’s flood protection infrastructure in Ngatea, Thames, Paeroa, Te Aroha, Otorohanga and Huntly. This assessment consisted of council operational staff and a contracted engineer undertaking a “sunny day” asset walkover and visual assessment to identify issues such as:
   • General signs of instability or stress
   • External erosion
   • Over-steepened slopes; and
   • Encroachments (e.g. construction works, builds and trees).

3. The outcome of this assessment was the identification/recording of any observed asset defects, along with a preliminary assessment of the impact of that defect on the vulnerability of the asset to failure.
## Issues identified and progress made

<table>
<thead>
<tr>
<th>Issue</th>
<th>Progress (Oct 2017 to Feb 2018)</th>
</tr>
</thead>
</table>
| Remediation of damaged flood protection assets required, specifically in relation to: | • Council is addressing identified stopbank/floodwall defects as part of routine maintenance and renewals.  
• The sub-standard re-habilitation of stopbanks in Huntly has been remedied in two cases, and is expected to be completed by April 2018 for the remaining site (noting that design details have been agreed to in the meantime).  
• Remedial options are being explored regarding the encroachment of dwelling foundations into a stopbank footprint (also in Huntly).  
• Trees encroaching into the stopbank in Paeroa have been removed and the structure reinstated.  
• This overall work programme has been included in the scope of the Asset Management Programme Control Group (see below) for oversight, with monthly reporting to the ICM Programme Steering Group.  
• In lieu of any outstanding tasks, site-specific temporary emergency response plans are in place.  
• It is expected that all work will be completed by June 2018. |
| • Damage to stopbank crests, resulting in localised low points that may (to varying degrees) compromise the level of protection provided.  
• Vegetation encroaching onto stopbanks that may compromise structural integrity and impede inspections and maintenance.  
• Penetration of stopbanks by pipes (by third parties) that may (unless done properly) compromise structural integrity.  
• Over steepened stopbank batters that may increase vulnerability to failure.  
• Erosion around outlets. |                                                                                                                                                                |
| A need for council to focus on:                                        | • Council has agreed a procedure with the Waikato District Council to ensure that any work undertaken or permissions granted in the vicinity of flood protection assets preserves the structural integrity and level of service provided (primarily through ensuring communication with relevant ICM staff). Further work is underway regarding the sharing of standard design information to assist this process.  
• Council will undertake a broader communications initiative to raise community awareness of flood protection infrastructure, the level of service provided and the importance of working with council when doing work in the vicinity of this infrastructure. This is expected to occur in April 2018.  
• Council is currently exploring options regarding the use of land that stopbanks are located on (e.g. where grazing is permitted through a land licence, consideration is being given to retiring this land use and implementing alternatives such as hay/silage production).  
• Council will continue to take a more risk adverse approach to managing urban flood protection infrastructure, including requiring |
communication strategies, emergency response and civil defence planning.

condition-driven renewal to occur earlier than less critical assets (i.e. at condition 3, rather than 5). All assets are inspected annually, with a further and more thorough assessment every 10 years, and under “condition 3” (where renewal is deemed necessary in an urban setting, assets are only observed to have “minor defects and normal weathering/deterioration that will have minimal effect on the overall performance of the asset”.

• In addition to this, it is expected that the inclusion of new expertise in the Asset Management Team (i.e. Reliability Engineer and Maintenance Planner) will provide council with the opportunity to further test the appropriateness of this approach and implement additional measures where necessary to manage the higher risk.

Part B: Other work areas related to flood protection asset management

Waikato Regional Council Infrastructure Strategy 2018 – 2067

4. Further to the last update to the committee, the Waikato Regional Council Infrastructure Strategy 2018 – 2067 has now been completed and has been adopted by council (22 February 2018 meeting) as a supporting document for the proposed 2018 – 2028 Long Term Plan. This approval was subject to the resolution of any issues raised by Audit NZ (which to date have been minor), along with an update of financial information to reflect the latest Long Term Plan budgets (with inflation applied).

Asset management review – flood protection (KPMG)

5. Further to the last update to the committee, staff have provided responses to the areas for improvement that were identified. These responses are included in a separate report to the sub-committee as part of this agenda (Internal Audit Actions).

6. Also of note, a business case to increase the resourcing provided to the Asset Management Programme has been accepted by council and funding included in the proposed 2018 – 2028 Long Term Plan. This business case acknowledges the areas for improvement recommended by this audit, along with the additional resourcing needed to respond to these recommendations, including:

• A new “Reliability Engineer” role to provide a more consistent focus on the strategic issues that impact our assets.

• A new “Maintenance Planner” role to improve our capacity to forward plan, monitor and streamline the maintenance of our assets (tasks that currently fall on our operations teams, thereby reducing their capacity to undertake the work).

• An additional “bolt-on” module to our asset management system to enable maintenance scheduling, monitoring and reporting. This functionality is expected to be a requirement of the corporate system review. However, given the expected timing of this larger project, an interim solution is required (e.g. a potentially short-term subscription service).

• Additional funding to make other asset management and operational maturity improvements.
Asset management maturity and improvement plan

7. Further to the last update provided to the sub-committee, the review of the 2014 improvement plan has now been completed as part of the development of the Regional Asset Management Plan. The reviewed draft improvement plan, which includes issues noted in the above audit, has been incorporated into the Regional Asset Management Plan (noting that this improvement plan is reliant on the additional resources, noted above).

8. Also of note is the establishment of an Asset Management Programme Control Group to provide better oversight and control of asset management and improvement projects (e.g. scheme reviews, dam safety (see below) and urban flood risk management (see above). This group reports to the Integrated Catchment Management (ICM) Programme Steering Group (alongside other zone-specific programme control groups that oversee operations, maintenance and renewal work).

Waikato Regional Council dam safety (council owned assets)

9. Further to the last update provided to the Committee regarding improvements that council is undertaking with regard to the management of council owned dams, the programme of work is now underway and is expected to be completed by June 2018. The programme includes:
   • Data collection (visual inspections completed, CCTV inspections underway, detailed survey requirements being scoped).
   • Systems and documentation (overview, operational maintenance and surveillance, and emergency assessment preparedness documents drafted for review)
   • Detailed design and construction remedial work (pending completion of the above inspections).
   • Reprioritisation of outstanding maintenance tasks.

Follow-up to legal advice regarding council liability in relation to the maintenance and operation of pump stations

10. Previously, the Committee was provided with legal advice regarding the liability of council in relation to the maintenance and operation of pump stations. The issues of particular concern are listed below, along with the management response.
   • The use of volunteers to assist with pump station maintenance and operation.
   • The existence of any private flood protection schemes that may compromise council’s flood protection plan.
   • The need to ensure the community is aware of the level of service that is provided by this infrastructure.
   • The need to ensure the requirements of council’s Asset Management Plan in relation to regular inspections and maintenance.
   • The monitoring of the arrangement with Otorohanga District Council in relation to flood protection infrastructure in Otorohanga.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Management response</th>
</tr>
</thead>
<tbody>
<tr>
<td>The use of volunteers to assist with pump station maintenance and operation.</td>
<td>This issue relates to those pump stations in the Lower Waikato Zone only, and in this regard the risk is managed by ensuring volunteers are trained in applying the relevant standard operating procedure (and also by ensuring the above is documented/retained by council). It should be noted that the extent of volunteer involvement is restricted to the clearing of weed screens, all other operation and maintenance</td>
</tr>
</tbody>
</table>
activities are undertaken by council staff and contractors.

The existence of any private flood protection schemes that may compromise Council’s flood protection plan.

None are identified.

The need to ensure the community is aware of the level of service that is provided by this infrastructure.

See above regarding communications initiative that will include addressing the level of service provided by flood protection infrastructure.

The need to ensure the requirements of Council’s Asset Management Plan in relation to regular inspections and maintenance.

While Council is confident the required work is being undertaken (as per the schedule of inspections and tasks provided by the Asset Management System to operations staff), reporting assurance has been identified as an area for improvement in the Asset Management Audit. Consequently, Council are seeking additional resources to enable this improvement (a new “maintenance planning” role and an addition to Council’s Asset Management System to schedule, monitor and report on regular inspections and maintenance).

The monitoring of the arrangement with Otorohanga District Council in relation to flood protection infrastructure in Otorohanga.

Council can confirm that the Service Level Agreement with Otorohanga District Council is actively managed by staff from both councils, including an annual asset inspection, regular correspondence between Council and Otorohanga District Council operational staff (including the resolution of any issues), and additional liaison during flood events (e.g. April 2017). In undertaking the above, council is confident that the requirements of the Service Level Agreement are being met, noting that no significant concerns have been raised to date.

**Overall conclusion**

11. The effective management of flood risk by the Waikato Region Council requires the coordination of a number of responsibilities that relate to matters such as land use, flood protection assets and emergency response. This coordination needs to focus on both the maintenance and upkeep of existing efforts to manage flood risk, while also monitoring, reporting and responding to changing expectations and emerging issues.

12. The information provided in this report provides the committee with an update regarding the areas of current focus and progress being made (all of which remains on-track, with no issues for the attention of the Committee).
Report to Audit and Risk Committee

Date: 26 February 2018
Author: Tariq Ashraf, Acting Principal Advisor Integrated Catchment Management
Authoriser: Clare Crickett, Director Integrated Catchment Management
Subject: Tauhei Flood Control Project
Section: A (Committee has delegated authority to make decision)

Purpose
1. The purpose of this report is to outline:
   • the factors that contributed to an increased project cost estimate for the proposed Tauhei project
   • a chronology of reporting to council, and landowners
   • business improvement measures taken as lessons learnt

Executive Summary
2. The estimated cost of proposed flood control works in Tauhei increased over time. The reasons include:
   • the use of "rough order" and "indicative" figures in the initial project cost estimate;
   • expansion of the overall scope of the project, in response to landowner demand;
   • improved understanding of on-site conditions and construction requirements;
   • professional advice in early 2016 that construction costs were expected to increase by 15 per cent over the following two years;
   • the commencement of optioneering to meet specific flood return periods in 2016/17, which enabled an improved understanding of proposal requirements and elements; and
   • community requests outside council's formal processes for specific works beyond original scope.

3. As the increases and the reasons for them became known, they were reported to council, and Tauhei landowners. Further consultation continues through the Long term plan process.

4. A complex governance environment exists for new works projects involving multiple levels of interest and responsibility i.e. targeted group of ratepayers, committees, and council.

5. Key improvement measures that the Directorate are implementing include:
   • major projects will be reported separately and at an appropriate level of detail to the relevant committee to improve the ability to track progress, variations and expenditure
   • more explicit reporting of assumptions, cost, breakdown of costs and total (multiyear) costs on a regular basis to committees and communities for new works and prominent projects
   • key project information will be described and reported consistently against the typical project development process, with scope, budget allocation, expenditure and gating for each step to aid decision-making and project tracking.

Staff Recommendation:
That the report “Tauhei Flood Control Project” (Doc# 11530178 dated 26 February 2018) be received for information.
Background

6. At its meeting on 19 September 2017 the Finance Committee received the report “Tauhei Flood Protection Scheme project update” (Doc # 11064567). The report set out the recent consultation history and progress on the Tauhei flood control project. It is appended to this report (Appendix A).

7. At its meeting on 1 November 2017 the Audit and Risk Committee received the report “Project review – Tauhei flood control project” (Doc # 11262118). The report provided project background and observations as to why the current project estimate varied markedly from the original estimate. The Committee requested an analysis of what contributed to the spend, information on the additional $10 million required, why the failure (to estimate more accurately earlier) occurred and why staff did not go back to the community with the issue at an earlier stage.

8. The timeframe of interest being between June 2014 – when a business case was submitted to the council as part of the process to develop the 2015-2025 Long Term Plan (LTP) – and September 2017, when the latest project cost estimates were presented to the council’s Finance Committee.

Increase in project cost estimate

9. Changes in the estimated cost of construction of flood control works proposed for Tauhei have been reported as follows:
   - $1.3m – June 2014
   - $3.2m – June 2015
   - $3.7m – August 2015
   - $4.28m – February 2016
   - $9.0-14.0m – September 2017

The process by which this occurred was summarised in the report “Project review – Tauhei flood control project” (Doc # 11262118), presented to the Audit and Risk Committee in November 2017. The timeline over which the estimate increased, as options were developed, is summarised in more detail in Appendix B.

10. In summary, the author considers the increase in the project cost estimate to be attributed to:
   - the use of “rough order” and “indicative” figures in the initial project cost estimate, which:
     - were based on an understanding of the concerns of landowners, gained through discussion with them;
     - were informed by a 2013 desktop investigation of broad options for long term flood improvement and design of specific improvement works;
     - were best guess estimates by council staff based on similar projects, which were subsequently relied upon as being accurate; and
     - included certain assumptions about scope, such as including only earthworks construction costs rather than total project costs, which would have incorporated investigation and design, labour, resource consent, geotechnical assessment etc. The stages were limited and the availability of fill material locally was assumed. The early estimates did not allow for extensive consultation, alternative options, nor additional infrastructure such as bridges;
   - expansion of the overall scope of the project, in response to landowner demand through public consultation for the 2015-2025 LTP;
   - improved understanding of on-site conditions and construction requirements in 2015;
   - professional advice from Beca (a consulting engineering firm) in early 2016 that construction costs were expected to increase by 15 per cent over the following two years as a result of high construction demand due to the Waikato Expressway and Christchurch rebuild for example;
   - the commencement of more detailed design work in 2016/17, which enabled an improved understanding of flood extent, soil conditions, stopbank volumes and environmental considerations; and
community requests – outside council’s formal processes – for specific works outside the overall project scope.

11. Reports to the council and its committees from March 2014 to September 2017 that contained substantive discussion of the Tauhei project are presented in a table in Appendix C. A discussion of the content of these reports is included in Appendix D.

**Project cost estimate reporting**

12. An investigation into the chronology of the project shows that the project cost estimates were reported to council, and Tauhei landowners as they became known.

13. There are a range of committees that have governance interests and advisory responsibilities in this project. The Lower Waikato Catchment Committee had in its Terms of Reference over this period “To consider and recommend on work programmes catchment management” and “To generally oversee and monitor the Council’s annual work programmes within the nominated areas, and to assist in the implementation of programmes”.

14. Council staff reported the project cost estimates as they changed to various committees and council (noted in chronology). This was done to either raise issues or inform public consultation processes. The in/exclusions and limitations of these estimates were noted, for example:

- June 2014: only excavation and floodway works were included; only stages 1 and 2 included; stages 3 and 4 were excluded explicitly; extensive consultation was excluded;
- May 2015: "total cost is yet to be determined as this is subject to investigation and design works";
- May 2016: proposed that farm bridges remain in place and be assessed individually as part of the detailed design phase, which might result in total bridge replacement and/or modification; and
- September 2017: there would be additional costs for project management and delivery, finalising the design, obtaining consents and additional costs associated with community requests.

15. The council consulted the public in 2015, 2016 and 2017 on the Tauhei project. This was required for the original proposal in the 2015 LTP and the subsequent two Annual Plans due to the changes to the project scope (in response to landowner demand in the previous consultations) and the consequent change in the cost estimate. This consultation included:

- the 2015 LTP consultation document, which included a feature on flood protection work at Tauhei and a link for residents in the area to provide input. Six submissions were received;
- two information days held at Tauhei Memorial Hall in October and November 2015. Invitations and newsletters for the October event were sent to approximately 35 ratepayers. Written feedback was received from 27 landholders by January 2016;
- in addition to general communications on the 2016/17 Annual Plan, targeted consultation included the distribution of a newsletter on the Tauhei proposal to landowners and a meeting was held with the Tauhei drainage committee in April 2016. 61 submissions were received on the Annual Plan proposal;
- in addition to general communications on the 2017/18 Annual Plan, targeted consultation included the distribution of a newsletter on the Tauhei proposal to landowners and the Tauhei landowner working party. 11 submissions were received; and
- reports to the Waikato Central Drainage Advisory Subcommittee, Lower Waikato Catchment Committee or Integrated Catchment Management Committee.

16. It is proposed to consult the Tauhei drainage community on the latest project cost estimate to consider a range of options going forward in the 2018 LTP (under preparation).

17. Annual project expenditure was included in zone-level reporting of financial performance to the Lower Waikato Catchment Committee. What was not specifically itemised in overall financial reporting was the
increasing cost of developing the project, including the technical elements and the costs associated with ongoing consultation which drove development of alternative options. Not obvious to the Committee was the accumulation of costs over a number of years, and being a multi-year project, this has been a significant omission. The project development cost is detailed in Appendix E.

18. The terms of reference of the catchment committees, previously and under the current term, include the power to consider and monitor catchment management activities. Further each Catchment Committee has the power to recommend: “Assessment of feasibility and development of (flood protection) works proposals in response to community need.”

Business improvement measures

19. The November 2017 report noted the ICM directorate will report multi-year projects separately to the relevant committees of council to improve transparency.

20. That report also noted a need to more explicitly report assumptions, cost, breakdown of costs and total (multiyear) costs on a regular basis to committees and communities for new works and prominent projects. This analysis concurs with that proposed approach and recommends that, to aid decision-making and project tracking, this could include the consistent description and reporting of some key project information such as:
- project development step;
- the geographic scope;
- stages;
- types of works proposed;
- a clear relationship between these and estimated costs; and
- the type of cost estimate employed (such as preliminary), methodology, assumptions and disclaimers.

21. All communications by council staff with external parties are expected to be planned, recorded, agreed in the correct forums and reported appropriately to ensure expectations and implications are clear.

22. Key information to be described and reported consistently against the typical project development process, with scope, budget allocation, expenditure and gating for each step. This will aid decision-making and project tracking, and provide an audit trail of transparency.

Conclusion

23. The project cost estimates have changed consistent with changes in project scope in response to landowner demand and as more detailed design work has been undertaken, as anticipated. The project’s progress was reported to council’s appropriate committees on a regular basis but detailed costs associated with development of the project were not reported separately from zone accounts.

24. Steps have been taken to report multi-year projects separately to the relevant committees of council to improve transparency. Other steps are planned to more explicitly report assumptions, cost, breakdown of costs and total (multiyear) costs on a regular basis to committees and communities for new works and prominent projects.
Appendices

A: Report to Finance Committee dated 12 September 2017 “Tauhei Flood Protection Scheme project update” (Doc # 11064567)
B: Timeline over which the Tauhei project cost estimate increased
C: Council reports about the Tauhei project from March 2014 to September 2017
D: Summary of substantive discussion of Tauhei project in council reports March 2014-September 2017
E: Summary of Costs for Project Development
Report to Finance Committee September 2017 – To be received

File No: 03 04 03
Date: 12 September 2017
To: Chief Executive Officer
From: Director – Integrated Catchment Management
Subject: Tauhei Flood Protection Scheme project update
Section: A (Committee has delegated authority to make decision)

1. Purpose

The purpose of this report is to update the committee on the Tauhei Flood Protection Scheme project, in particular:
- the recent consultation history of the Tauhei project
- recent progress on the Tauhei flood control project
- that the project engineering cost estimate has increased substantially from $4.28 million (2016/17) to $9 – 14 million (current)
- that given the increase in the estimated cost, several options on the way forward will be canvassed with Tauhei ratepayers in October 2017, ranging from proceeding with the full project, constructing a subset of the project or not proceeding with project at this point in time while reinstating maintenance that has been deferred due to expected construction; and
- that $740,000 costs sit against the capital budget; if the capital project does not proceed at this point in time, the Waikato Regional Council will need to consider funding options.

Recommendation:
That the report “Tauhei flood control project update” (Doc# 11064567 dated 12 September 2017) be received for information.

2. Background – proposed project and consultation history

The upper Tauhei area lies within the Lower Waikato and Waipā Flood Control Scheme. The current provision of stopbanks does not provide consistent protection from flooding. The stream channel and floodway system is too narrow and existing stopbanks are built too close to the streams. As a result, farmland in the area floods frequently – a problem that is exacerbated by sinking ground levels in the upper catchment. Development in the area has also intensified in the last 15 to 20 years, increasing the rate of drainage runoff.

The Tauhei Flood Protection Scheme objectives are:
- A consistent standard of protection from 10-year flood events
- Reduced frequency, depth and duration of flooding
• An improved drainage and floodway system across the catchment
• More stable channels and stream banks; and
• Environmental improvements through riparian planting.

In addition, outside of formal consultation periods the community requested the following:
• Best return for investment and staged works to meet community affordability
• Start at Crockett’s Bridge up to the Special Area drain
• Reinstatement of land to pasture
• Re-fencing
• Repositioning or replacement of any bridges, tracks or floodgates; and
• Compensation for loss of land or soil and use of land.

From 2015, the Waikato Regional Council included the Tauhei scheme in its Long Term Plan (LTP) and consulted on it during the 2016/17 and 2017/18 Annual Plans (AP) (Table 1).

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015-2025 LTP</td>
<td>The Tauhei Flood Protection Scheme was first presented and consulted at an estimated cost of $3.25 million.</td>
</tr>
<tr>
<td>2016/17 AP</td>
<td>Consultation on extensive flood protection works, revised funding and increase in costs to $4.28 million.</td>
</tr>
<tr>
<td>2017/18 AP</td>
<td>Consultation on staged approach of flood protection works and support for a Stage 1 up to $1.6 million.</td>
</tr>
</tbody>
</table>

2015-25 Long Term Plan

The Tauhei Flood Protection Scheme was first consulted on as part of the 2015-25 LTP. The original plan was to undertake capital works to prevent flooding of the land adjacent to the upper Tauhei Stream at an initial estimate of capital cost of $3.25 million to be funded by a targeted rate over 30 years from 2018/19. Council revised the flood scheme estimate to $3.72 million in a report to the Integrated Catchment Committee in August 2015. The report included a letter of support from a representative group of Tauhei drainage ratepayers.

2016/17 Annual Plan

As part of consultation on the 2016/17 Annual Plan, Waikato Regional Council asked the community for feedback on more extensive flood protection works at Tauhei. The costs of the revised scope was included in the consultation due to an increase from the initial budget of $3.25 million (2015-25 LTP) to $4.28 million. The increase in cost was due to:
• enlarging the project to include the Mangatea tributary
• an improved understanding of on-site conditions and construction requirements; and
• current market construction costs that were expected to increase during the implementation of the project.

The community expressed concerns about the overall cost of the project during difficult times for dairy farmers, and there were some upstream farmers who could not see the value in the works to them. Following the hearings, Waikato Regional Council staff, councillors and the chair of the Tauhei drainage committee met with several submitters and gained support for a staged project implementation.

2017/18 Annual Plan

As part of the 2017/18 Annual Plan consultation, Council sought approval for a staged approach (Table 2).
Table 2. Proposed staging of the Tauhei flood control project

<table>
<thead>
<tr>
<th>Where</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where</td>
<td>Tauhei Stream, the Mill to Special Area drain.</td>
<td>Completion of stopbank and channel widening from Special Area drain to Matuku Road.</td>
<td>Some channel widening and stopbank work on Mangatea Stream.</td>
</tr>
<tr>
<td>Protection level</td>
<td>Less than 10-year level of flood protection.</td>
<td>Up to 10-year level of flood protection.</td>
<td>10-year level of flood protection.</td>
</tr>
<tr>
<td>Estimated cost</td>
<td>Estimated cost of $1.6 million.</td>
<td>To be advised once scoping is complete.</td>
<td>To be advised once scoping is complete.</td>
</tr>
<tr>
<td>Implementation</td>
<td>Proposed for 2017/18</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Following consultation, the council agreed to maintain support for the Tauhei flood control project, prepare the design for, and implement, stage 1 as part of the 2017/18 Annual Plan commitments to a maximum of $1.6 million. Tauhei ratepayers would be consulted as part of the 2018-2028 Long Term Plan to gauge the level of support to implement stages 2 and 3.

3. Proposed funding of the capital project

The funding structure is a mix of targeted and general rates. Landowners in the upper Tauhei and surrounding areas would benefit the most from the works, so that these property owners would fund 50 per cent of the cost of the project via the two targeted rates set out below.

**Proposed direct benefit targeted rates**

- Landowners who directly benefit from the floodway capacity upgrade would fund 35.5 per cent of the cost of the works; and
- Landowners who directly benefit from the flood protection upgrade would fund 14.5 per cent of the cost of the works.

**Project Watershed rate**

40 per cent of the cost would be funded by ratepayers in the:
- Wider Lower Waikato zone (15 per cent).
- Waikato-Waipā catchment (10 per cent).
- Tauhei catchment ratepayers would also pay a contributor rate (15 per cent).

**General rate**

- Waikato region-wide general rate (10 per cent).

4. Progress with Tauhei design and update of the cost estimate

Commencing in 2017/18, detailed design commenced, including undertaking on-site geotechnical samples, creation of a three dimensional rendering of the terrain and stopbank alignment, updated hydraulic modelling and work on the consenting. This enabled a much improved understanding of flood extent, soil conditions, stopbank volumes and environmental considerations involved in the project.

A more accurate construction cost estimate for the flood protection works at Tauhei was determined to be $9 - 14 million.

- The $9 million estimate excludes replacement of private bridges and assumes all materials are obtained onsite through excavation of the berm.
The $14 million estimate includes private bridge replacement with mostly an imported source of material for stopbank construction.

Within the $14 million estimate, the revised costs for each stage (as per Table 2) are estimated at:

- Stage 1: $4.0 million.
- Stage 2: $8.5 million.
- Stage 3: $1.5 million.

These estimates do not reflect the full project costs, however. Additional costs include managing and delivering the project, finalising the design, obtaining consents, and additional costs associated with community requests, like compensation for loss of land.

Council’s initial estimate was based upon the information available at the time and in particular understanding of the extent of works and quantum of stopbank material required to deliver the desired service level. The design process has developed sophisticated tools to better understand the flooding extent and what works are required to address these issues.

The initial estimate lacked estimates in various areas. They key ones are:

- low allowance for investigation, design and community consultation
- low contractor rates in comparison to current market
- no allowance for on-farm works, particularly private bridges
- low estimate of earthworks volumes
- low extent of tributary drain work; and
- no allowance for ecological mitigation.

There are a range of items that could impact the overall scheme cost. These could either increase or decrease the costs and include:

- changes in design from community and private property owner consultation
- detailed design of on-farm assets, particularly private bridge replacements
- no allowance to mitigate effects of increased flood flows downstream of the Mill
- no allowance for climate change
- no allowance to increase stopbank height in peat areas to cater for initial settlement
- no allowance to mitigate effects on flood levels above Matuku Road; and
- private property compensation, if any.

Given the increase in the estimated construction cost based on more detailed information, several options on the way forward will be canvassed with Tauhei ratepayers in October 2017, ranging from proceeding with the full project, constructing a subset of the project or not proceeding with the project at this point in time while reinstating maintenance that has been deferred due to expected construction. The timing of possible implementation of works will also be canvassed.

5. Funding issue

To date, the cost associated with the development and consultation of this project is a little over $740,000, and sits in a capital cost code. This includes project management, staff hours, project design, and investigations related to consents. (note: an estimated $112,000 has been previously (2015-17) expensed through the Lower Waikato zone operational budgets, for consultation and advice)

Note that if the capital project does not proceed at this point in time, the Waikato Regional Council will need to decide how to fund the development costs of this project, including seeking funding from operational surplus from 2016/17, for example.
6. Conclusion

This report has summarised the current state of the Tauhei Flood Protection Scheme development. Since 2017/18, detailed design has commenced, including gathering local geotechnical information; much improved understanding of stopbank volumes, extent and alignment; and identification of requirement of local bridges reconstruction. The cost of the Tauhei project is now estimated at $9 - $14 million, significantly higher than the $4.28 million presented in the AP. Consultation with the Tauhei drainage community will occur in October 2017 to consider a range of options going forward. Approximately $740,000 sits against the capital works project code. If a capital project does not proceed at this time, Council will need to consider how to fund the expenditure occurred on the project to date.

Matthew Davis  
Manager, Lower Waikato / Waipa/West Coast

Clare Crickett  
Director Integrated Catchment Management
Appendix B: Timeline over which the Tauhei project cost estimate increased

**JUNE 2014:**
LTP business case (stages 1 & 2). Est: $1.3m.

**JUNE 2015:**
LTP decision. Stage 4 added. Est.: $3.25m.

**EARLY 2016:**
Beca advice adds 15% to cost. Updated est.: $4.28m.

**JUNE 2016:**
AP: alternative stage 1 @ capped $1.6m, keep budget of est. $3.25m, progress design and consent. Need to consult in 2017/18.

**EARLY 2017:**
AP consultation.

**SEPT 2017:**
alt. stage 1: new est.: $4.0m. Alt. stages 1-3 new est.: $9-14m.

**EARLY 2015:**
LTP consultation. Addition of stage 4 requested.

**JULY 2015:**
Report to ICMC. Updated est.: $3.72m. Need to consult in next Annual Plan.

**EARLY 2016:**
AP consultation.

**2016/17:**
more detailed design commenced.

**JUNE 2017:**
AP: alt. stage 1 @ capped $1.6m, keep budget of est. $3.25m, progress design and consent. Need to consult on alt. stages 2 and 3 in 2018 LTP.
### Appendix C: Council reports about the Tauhei project from March 2014 to September 2017

<table>
<thead>
<tr>
<th>Date</th>
<th>Council</th>
<th>Finance</th>
<th>Integrated Catchment Management Committee</th>
<th>Lower Waikato Catchment Committee&lt;sup&gt;1&lt;/sup&gt;</th>
<th>Waikato Central Drainage Advisory Subcommittee</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2014</td>
<td></td>
<td></td>
<td>Workshop report on investigation and proposed works</td>
<td></td>
<td>Summary report on investigation and proposed works</td>
</tr>
<tr>
<td>June 2014</td>
<td>LTP business case for stages 1 and 2 at estimated cost of $1.3m</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>September 2014</td>
<td></td>
<td></td>
<td>Process update. Recommended the proposals in principle, subject to the landowners’ acceptance of the financial implications, with works to be identified in the upcoming LTP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>November 2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>January 2015</td>
<td>LTP budget</td>
<td>Draft LTP proposal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>February 2015</td>
<td>Draft LTP consultation documents</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>March 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>April 2015</td>
<td>CE’s LTP submission. Revised proposal to include stages 1, 2 and 4 at an estimated cost of $3.0m following consultation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>May 2015</td>
<td>LTP deliberations report. Recommended approval of revised proposal per CE’s submission (design and consents @ estimated $0.25m plus construction @ estimated $3.0m)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>August 2015</td>
<td></td>
<td>Requested approval of increased project scope</td>
<td></td>
<td></td>
<td>Summary project update, including ICMC decision</td>
</tr>
</tbody>
</table>

<sup>1</sup> Known as Lower Waikato Catchment Liaison Subcommittee in 2013-2016 Triennium.
<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2015</td>
<td>agreed in LTP, increased cost estimate to $3.72m and funding policy. Outlined process to date</td>
<td>Updated cost estimate from $3.72m to $4.28m due to improved understanding of on-site conditions and construction requirements and expected increase in construction market costs</td>
</tr>
<tr>
<td>February 2016</td>
<td>Updated cost estimate to $4.28m due to 15% escalation in general construction market costs; results of initial consultation with landowners; 2016/17 Annual Plan process</td>
<td>Update and recommendation to support 2016/17 Annual Plan proposal, including increased cost estimate</td>
</tr>
<tr>
<td>March 2016</td>
<td>Summary of 2016/17 Annual Plan submissions, recommendation to maintain support for $3.25m agreed in 2015 LTP and outline of alternative, staged, process with stage 1 capped at $1.6m</td>
<td>Project update</td>
</tr>
<tr>
<td>May 2016</td>
<td>Summary of 2016/17 Annual Plan submissions, recommendation to maintain support for $3.25m agreed in 2015 LTP and outline of alternative, staged, process with stage 1 capped at $1.6m</td>
<td>Update on 2016/17 Annual Plan submission process and recommendation to support the increased cost estimate ($4.28m)</td>
</tr>
<tr>
<td>February 2017</td>
<td>Inclusion in 2017/18 Annual Plan of proposal for alternative, staged, process with stage 1 capped at $1.6m</td>
<td></td>
</tr>
<tr>
<td>May 2017</td>
<td>Summary of 2017/18 Annual Plan submissions and recommendation to maintain support for $3.25m</td>
<td>2016/17 Annual Work Programme Update included summary of work to date and 2017/18 Annual Plan consultation</td>
</tr>
<tr>
<td>Date</td>
<td>Description</td>
<td>Notes</td>
</tr>
<tr>
<td>-------------</td>
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<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>September 2017</td>
<td>Report on increased cost estimate to $9.0-14.0 m and proposed consultation with ratepayers on options to proceed; notes $0.74m costs in capital budget and need to consider funding options if project does not proceed</td>
<td>Verbal report on increased cost estimate to $9.0-14.0 m</td>
</tr>
</tbody>
</table>
Appendix D: Summary of substantive discussion of Tauhei project in council reports March 2014-September 2017

1. Concerns about local flooding had been raised by local landowners since at least 2013, including formal submissions to the Waikato Regional Council Annual Plan in 2013/14. Council staff met with local landowners to discuss their concerns and it was agreed to investigate options for improving the channel capacity of the Tauhei Stream with the aim of providing an improved level of flood protection in the Tauhei area.

2. The broad options for long term flood protection improvements were investigated and specific channel improvement works in the Tauhei Stream were designed by Council staff in 2013. This was a desktop exercise, using hydrological and hydraulic modelling for example.

3. The resulting internal report also included “rough order” cost estimate for four stages of works. The costs were “indicative”, based on similar projects and did not include provision for management, design, consents and supervision. They assumed the availability of fill material within the immediate vicinity and disposing cut to waste material within a 4km radius.

4. Following initial presentation to two council subcommittees, stages 1 and 2 only were included in the LTP business case first presented to councillors in June 2014. That business case made it clear that: excavation and floodway works only were included; stages 3 and 4 were excluded; extensive consultation was excluded. The level of service that would be provided was “the minimum standard of clearance of a 10-year flood event from farmland in three days”. Supporting documents included the 2013 investigation, from which the cost estimate of $1.3m was drawn directly.

5. Following consultation on the draft 2015 LTP, including discussion with two council subcommittees, Stage 4 (“Mangatea”) was added to the project scope to provide works for the whole direct benefit area, affected by localised ponding at that time. The cost estimate for Stage 4 included in the 2013 internal report was relied upon to increase the estimated capital cost to $3.0m, plus $0.25m for investigations, design and consents in 2015/16. Staff advice to councillors noted that the total cost is yet to be determined subject to investigation and design in 2015/16.

6. Council staff continued work in-house to refine the project cost estimate following the council decision. Shifting of stopbanks was excluded from the scope. In light of improved understanding of on-site conditions and construction requirements – but with no design work undertaken – the project cost estimate for stages 1, 2 and 4 increased to $3.72m (including $0.35m for project development, including design and consents and a $0.25m contingency). This was reported to the Integrated Catchment Management Committee in July 2015, which agreed that the proposed works and funding proposal should be consulted on as part of the 2016/17 Annual Plan process.

7. In early 2016, WRC staff received advice from Beca that indicated construction costs were expected to increase by 15 per cent over the following two years as a result of high construction demand due to the Waikato Expressway and Christchurch rebuild for example. The project cost estimate was therefore increased from $3.72m to $4.28m. The increased project scope (stages 1, 2 and 4) and cost estimate was consulted on as part of the 2016/17 Annual Plan process and reported to the Lower Waikato Catchment Committee in February 2016. The Committee recommended to council that the project cost estimate be increased to $4.28m.

8. A report to council in May 2016, however, revealed mixed support for this. 41 per cent of submissions were supportive and 56 per cent were unsupportive. The Lower Waikato Catchment Committee and Tauhei drainage committee were supportive. Some of those who were unsupportive, instead supported a staged approach with $1.6m to be spent on an alternative stage 1, consisting of the “first phase within the main downstream channel.” Alternative stages 2 and 3 were also envisaged. The report recommended that the council maintain the $3.25m support agreed in the 2015 LTP, with design and
consenting progressed in 2016/17. Construction of the $1.6m alternative stage 1 could commence in 2017/18 and would be considered through 2017/18 Annual Plan consultation. This was adopted as part of the 2016/17 Annual Plan.

9. The proposal consulted on and adopted as part of the 2017/18 Annual Plan was for the alternative stage 1 to be designed and implemented in 2017/18. It would consist of works in the Tauhei Stream, from the Mill to the Special Area drain and would provide less than a 10-year level of flood protection at an estimated cost of $1.6m. Tauhei ratepayers would be consulted as part of the 2018-2028 LTP to gauge the level of support to implement the alternative stages 2 and 3.

10. A report to the Finance Committee in September 2017 noted that detailed design commenced in 2017/18. This included undertaking on-site geotechnical samples, creation of a three-dimensional rendering of the terrain and stopbank alignment, updated hydraulic modelling and work to obtain consents. This enabled a much improved understanding of flood extent, soil conditions, stopbank volumes and environmental considerations involved in the project, in order to achieve the level of service included in the Tauhei Flood Protection Scheme objectives (“a consistent standard of protection from 10-year flood events”).

11. This also revealed that the community had made a number of requests for specific works outside the council’s formal consultation processes. The report noted that the cost estimate for the alternative stage 1 is $4.0m, with the overall cost estimated at $9.0-14.0m, depending on the inclusion of specific works (e.g. bridges). There would be additional costs for project management and delivery, finalising the design, obtaining consents and additional costs associated with community requests.
Appendix E: Tauhei Project Development Cost History

The accumulated project development cost to end of the 2017-18 financial year is projected to be $775,000.00, noting $112,467.80 previously expensed through the Lower Waikato Zone operational budget, 2016-17. The breakdown per year, including estimate to year end:

<table>
<thead>
<tr>
<th>Year</th>
<th>Totals ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>149,958.06</td>
</tr>
<tr>
<td>2015/16</td>
<td>184,378.40</td>
</tr>
<tr>
<td>2016/17</td>
<td>510,509.07</td>
</tr>
<tr>
<td>2017/18 (est)</td>
<td>42,622.27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>887,467.80</strong></td>
</tr>
<tr>
<td><strong>Less already expensed</strong></td>
<td><strong>(112,467.80)</strong></td>
</tr>
<tr>
<td><strong>Scheme Development Cost est</strong></td>
<td><strong>775,000.00</strong></td>
</tr>
</tbody>
</table>

Breakdown per key project elements over the four years to date are:

<table>
<thead>
<tr>
<th>Key Elements</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance, Community Consultation, Working Party: communications incl staff time and reports</td>
<td>101,917.35</td>
</tr>
<tr>
<td>Design 1</td>
<td>158,230.69</td>
</tr>
<tr>
<td>Project Management Design v.2</td>
<td>66,122.14</td>
</tr>
<tr>
<td>Design v.2</td>
<td>534,376.50</td>
</tr>
<tr>
<td>Cross section surveys, hydrological modelling, site visits, quantity surveys, optioneering, drawings</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous office expenses Design 1</td>
<td>3,086.22</td>
</tr>
<tr>
<td>Miscellaneous office expenses Design v.2</td>
<td>4,264.23</td>
</tr>
<tr>
<td>Consenting – related investigations</td>
<td>16,270.22</td>
</tr>
<tr>
<td>Helicopter field work</td>
<td>3,200.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>887,467.80</strong></td>
</tr>
</tbody>
</table>

*Of the above, the costs below have been expensed to date to LW general zone oversight budget,

<table>
<thead>
<tr>
<th>Operational Costs</th>
<th>Cost ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance, Community Consultation, Working Party: communications incl staff time and reports</td>
<td>101,917.35</td>
</tr>
<tr>
<td>Miscellaneous office expenses Design 1</td>
<td>3,086.22</td>
</tr>
<tr>
<td>Miscellaneous office expenses Design v.2</td>
<td>4,264.23</td>
</tr>
<tr>
<td>Helicopter field work</td>
<td>3,200.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>112,467.80</strong></td>
</tr>
</tbody>
</table>