



**The Meeting of the  
Audit and Risk Committee will be  
held on Monday 12 February 2024  
commencing at 1.00pm**

**A G E N D A**

## **AUDIT AND RISK COMMITTEE**

**Her Worship the Mayor – F K N Tunui**

**Councillor C J Ion**

**Councillor A Rangihika**

**Councillor B J Julian**

**Philip Jones – Consultant - P J Associates (Chair)**

**KAWERAU DISTRICT COUNCIL**

The Meeting of the Audit and Risk Committee will be held on  
Monday 12 February 2024  
commencing at 1.00pm

**AGENDA**

**Apologies**

**Declarations of Conflict of Interest**

Any member having a “conflict of interest” with an item on the Agenda should declare it, and when that item is being considered, abstain from any discussion or voting. The member may wish to remove themselves from the meeting while the item is being considered.

**1 CONFIRMATION OF AUDIT AND RISK COMMITTEE MINUTES**

**1.1 Audit and Risk Committee – 4 December 2023**

**Pgs. 1 - 2**

**Recommendation**

*That the minutes of the Audit and Risk Committee Meeting held on 4 December 2023 be confirmed as a true and accurate record.*

**2 Health, Safety and Wellbeing Report for Period 1 November 2023 – 31 January 2024 (Group Manager, Regulatory and Planning (509500))**

**Pgs. 3 - 13**

Attached is the report from the Group Manager, Regulatory and Planning covering Health, Safety and Wellbeing report for period 1 November 2023 – 31 January 2024.

**Recommendation**

*That the report “Health, Safety and Wellbeing report for period 1 November 2023 – 31 January 2024” be received.*

**3 Audit Management Report for Year Ended 30 June 2023 (Group Manager, Finance and Corporate Services) (201000)**

**Pgs. 14 - 38**

Attached is the Audit Management Report for year ended 30 June 2023.

**Recommendation**

*That the report “Audit Management Report for Year Ended 30 June 2023” be received.*

**4 2024 – 2034 Long Term Plan Update and Timetable (Group Manager, Finance and Corporate Services) (110400)**

**Pgs. 39 - 41**

Attached is a report on the 2024 - 2034 Long Term Plan Update and Timetable

**Recommendation**

*That the report “2024 – 2034 Long Term Plan Update and Timetable” be received.*

**5 Treasury Report to 30 November 2023 (Group Manager, Finance and Corporate Services) (110551)**

**Pgs. 42 - 45**

Attached is the Treasury Report to 30 November 2023.

**Recommendation**

*That the report “Treasury Report to 30 November 2023” be received.*

**6 Insurance Policies for 2023 / 24 (Group Manager, Finance and Corporate Services) (201000)**

**Pgs. 46 - 50**

Attached is a report on the Insurance Policies for 2023 / 24

**Recommendation**

*That the report “Insurance Policies for 2023 / 24” be received.*

**7 Financial Contributions Policy Review (Group Manager, Finance and Corporate Services) (110551)**

**Pgs. 51 - 55**

Attached is a report on the Financial Contributions Policy Review.

**Recommendation**

*That the report “Financial Contributions Policy Review” be received.*

**8 Review of Councils Investment Policy and Liability Management Policy (Group Manager, Finance and Corporate Services) (110551)**

**Pgs. 56 - 65**

Attached is a report on Councils Investment Policy and Liability Management Policy

**Recommendation**

*That the report “Review of Councils Investment Policy and Liability Management Policy” be received.*

M Godfery  
**Chief Executive Officer**

**Kawerau District Council Minutes of an  
Audit and Risk Committee held on 4 December 2023  
commencing at 1.00pm**

**Present:** Philip Jones – P J Associates (via Zoom)  
Her Worship the Mayor – F K N Tunui (Chair)  
Deputy Mayor – A Rangihika  
Councillor Ion  
Councillor B J Julian

**In Attendance:** Interim Chief Executive Officer (C Marjoribanks)  
Group Manager, Finance and Corporate Services (L Butler)  
Group Manager, Regulatory and Planning (M Glaspey)  
Administration Officer (T Barnett)

**Opening Prayer**

*Her Worship the Mayor opened the meeting with a karakia.*

**Apologies**

*No apologies were received.*

**Declarations of Conflict of Interest**

*No conflicts of interest were received.*

**1 CONFIRMATION OF AUDIT AND RISK COMMITTEE MINUTES**

**1.1 Audit and Risk Committee – 2 October 2023**

**Resolved** **Councillor Julian / Chair Jones**

*That the minutes of the Audit and Risk Committee Meeting held on 2 October 2023 be confirmed as a true and accurate record.*

**2 Health, Safety and Wellbeing Report for Period 1 September 2023 – 31 October 2023  
(Group Manager, Regulatory and Planning (509500))**

Attached is the report from the Group Manager, Regulatory and Planning covering Health, Safety and Wellbeing report for period 1 September 2023 – 31 October 2023.

**Action Item:**

Email to be sent to staff from Elected Members offering levels of support regarding an incident at the pools where a staff member was abused by a member of the public.

**Resolved** **Deputy Mayor Rangihika / Councillor Ion**

*That the report "Health, Safety and Wellbeing report for period 1 September 2023 – 31 October 2023" be received.*

**3 Treasury Report to 31 October 2023 (Group Manager, Finance and Corporate Services) (110551)**

The Committee received a Treasury report from the Group Manager, Finance and Corporate Services covering the period to 31 October 2023.

**Resolved**

**Councillor Ion / Chair Jones**

*That the report "Treasury report to 31 October 2023" be received.*

**4 Annual Plan Performance for the Three Months Ended 30 September 2023 (Group Manager, Finance and Corporate Services) (110400)**

The Committee received the report for the Annual Plan Performance for the Three Months Ended 30 September 2023.

**Resolved**

**Deputy Mayor Rangihika / Councillor Julian**

*That the report "Annual Plan Performance for the Three Months Ended 30 September 2023" be received.*

Meeting closed 1.25pm

F K N Tunui

**Chairperson**

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**Meeting:** Audit and Risk Committee

**Meeting Date:** 12 February 2024

**Subject:** **Health, Safety and Wellbeing Report for period – 1 November 2023 – 31 January 2024**

**File No:** 509500

## **1 Purpose**

This report provides a summary of the activities Kawerau District Council undertakes to meet the requirements of the Health and Safety at Work Act 2015 and our efforts to ensure everyone goes home healthy and safe.

## **2 Executive Summary**

The core systems and controls in place to manage Council's health, safety and wellbeing risks include:

- Ensuring Elected Members and all Council Staff are aware of their specific and general duties under current Health and safety legislation, through inductions and training.
- Development of a health and safety culture that encourages the identification, reporting and mitigation of new and existing health, safety and wellbeing risks, with ongoing risk monitoring and reviews.
- Dedicated Health and Safety Officer engaged to monitor compliance with health and safety legislation, driving continuous improvement and continual learning.
- Maintaining an effective Health and Safety Committee by engaging with staff, which enables participation and provides leadership, guidance and support across the organisation to better inform health and safety decisions and policies for Council staff, contractors and visitors.
- Implementation of health, safety, and wellbeing software (BWARE) to enable reporting, investigation and ongoing monitoring of identified risks.
- Provision of an employee assistance programme, a wellbeing service, policies and training for staff.

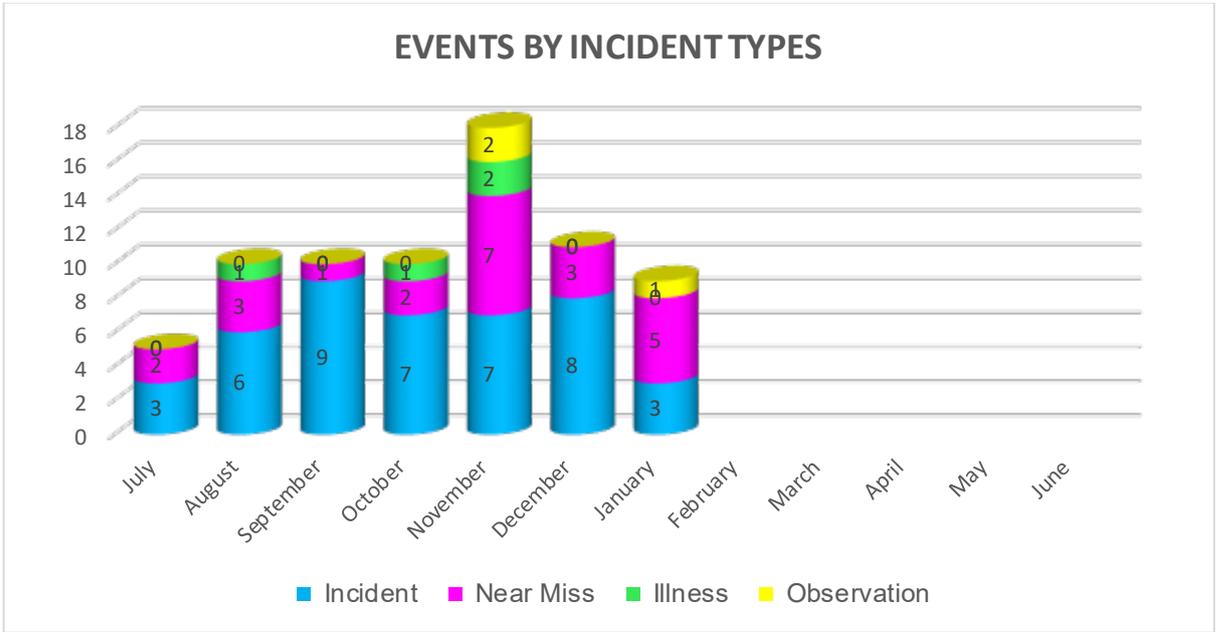
The key items which elected members should note from this report are:

- A total of 29 health and safety incidents reported for the period 1 November 2023 to 31 January 2024.
- No notifiable events
- There was a raise in events reported during November. There is no identifiable cause for this rise. While the reporting of incidents increased, the severity has not, with the majority of incidents being minor.

**3 Incident and Injury Reporting**

**Incidents for period - 1 November 2023 – 31 January 2024  
(Brackets – Year to Date)**

|                   |                   |               |                    |
|-------------------|-------------------|---------------|--------------------|
| Incidents 18 (43) | Near Miss 15 (23) | Illness 2 (4) | Observations 3 (3) |
|-------------------|-------------------|---------------|--------------------|



Note:

- Illness is defined as a health condition or disease directly caused or significantly aggravated by factors in the workplace. These include breathing issues, heat exhaustion, dehydration, but do not include covid-19 cases.
- Safety Violations (staff actions in breach of policy) are recorded as observations.
- Three incidents reported in BWARE have not been included in this report as they are operational matters as opposed to health and safety related incidents. (Missing nappies, toilet paper thrown on walls and male showering in disabled shower).

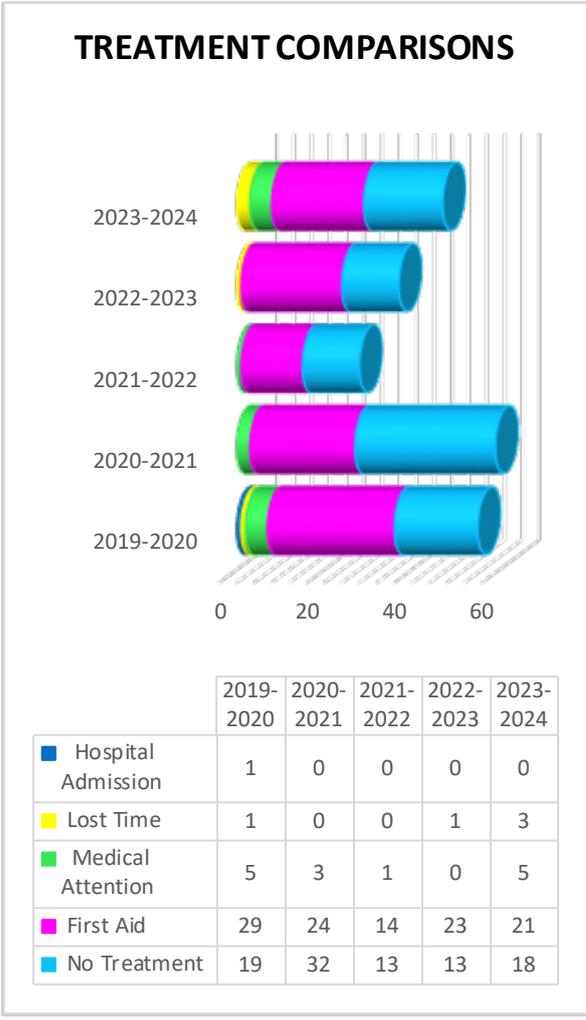
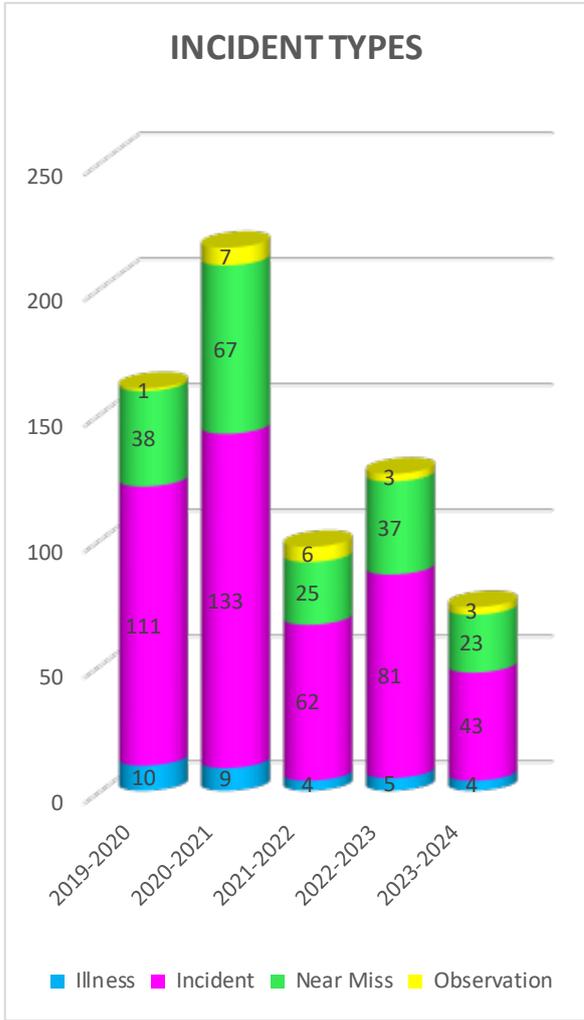
**Incidents Risk Type and Treatment for Period  
1 November 2023 – 31 January 2024**

| Events by Critical Risk                  |    |
|--|----|
| Violent/Abusive Public/People/ Customers | 7  |
| Stress                                   | 0  |
| Slips, Trips and Falls                   | 8  |
| Lone Working                             | 1  |
| Manual Handling                          | 3  |
| Other *                                  | 19 |
|  |    |
|  |    |

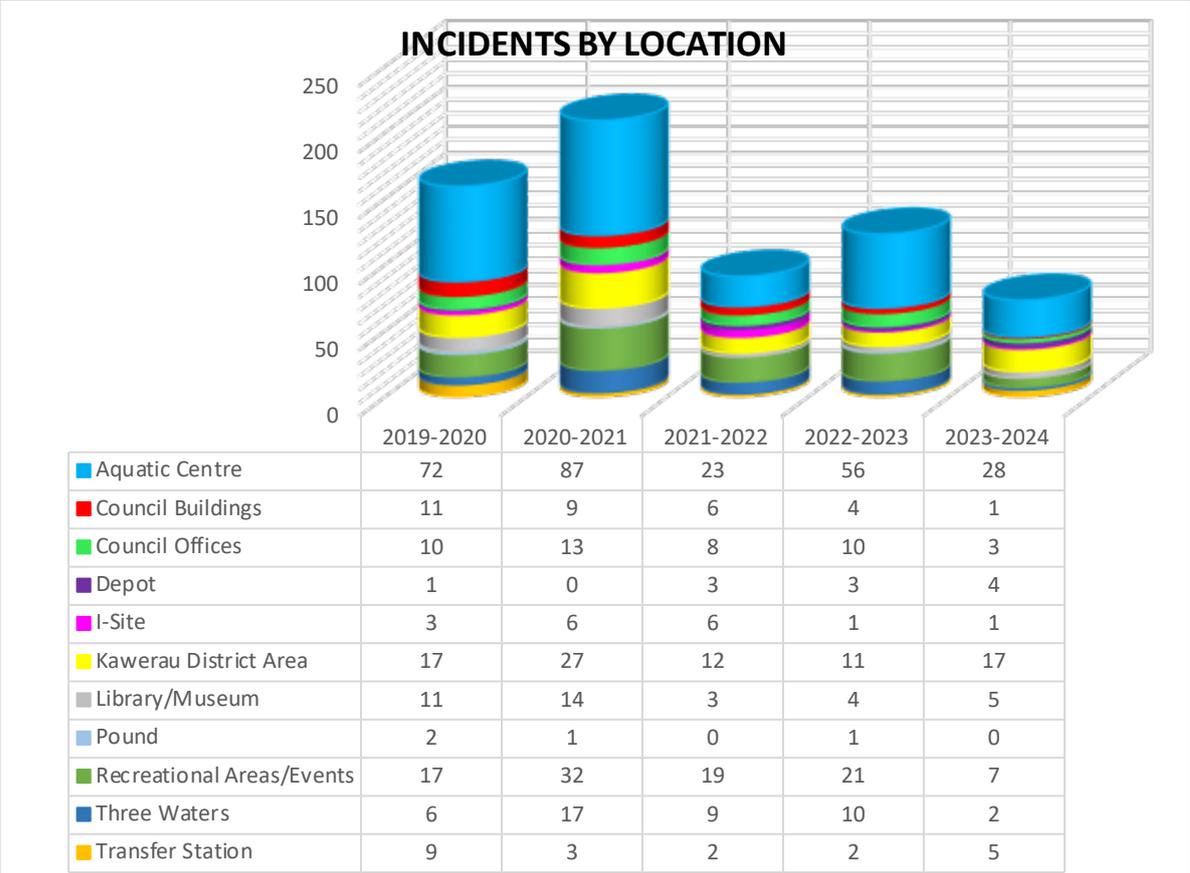
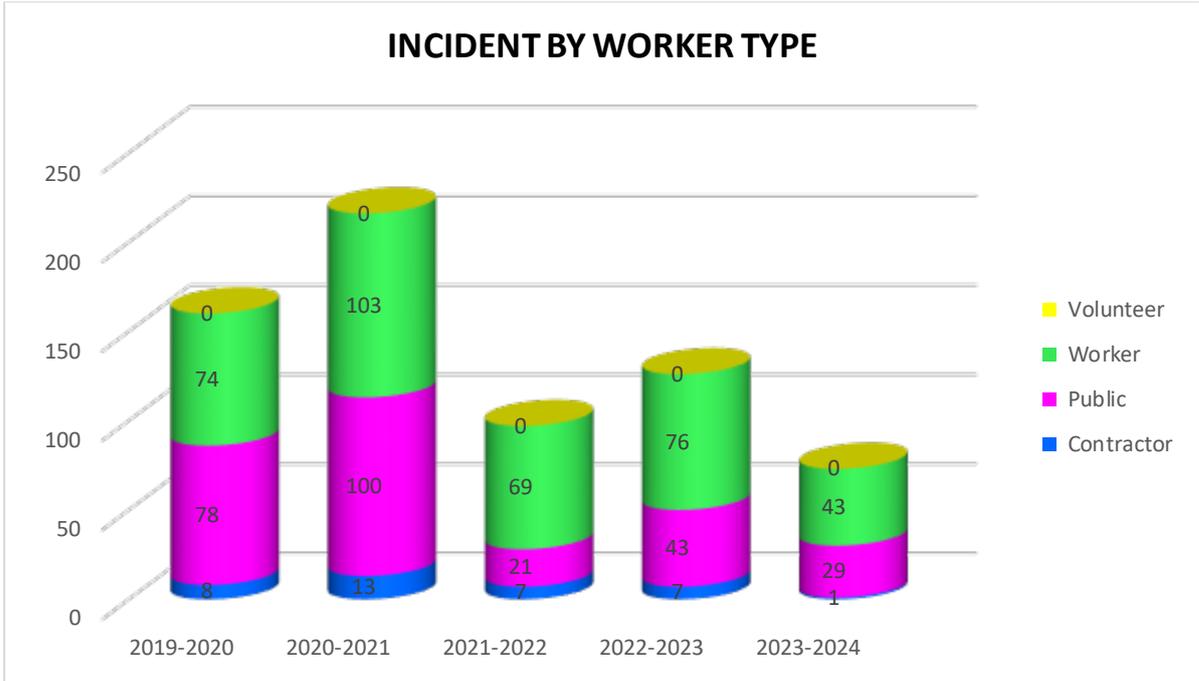
| Outcome of Incidents                       |    |
|--|----|
| No Treatment                               | 9  |
| First Aid                                  | 10 |
| Medical Treatment                          | 1  |
| Lost Time                                  | 0  |
| Hospital                                   | 0  |
| *Does not include Near Misses/Observations |    |
| Investigations Required                    |    |
| Formal Investigation                       | 0  |
| Work Safe Investigation                    | 0  |

\* Other – Driving/Vehicle x 4, Injury due to kids playing x 3, Unaccompanied Children x 2, Sharp Objects, Pain/Discomfort, Insect Bites, Visibility (garden), Electrical faults/issues x 3, Breach of Policy x 3

**Incidents and Treatment Comparisons**



Note: Treatment comparisons exclude near misses and observations



**Potentially Critical Events/Critical Events  
1 November 2023 – 31 January 2024**

| Event  | Critical Risk                            | Potential Consequence | Actual Consequence | Controls and Status  |
|--|--|-----------------------|--------------------|--|
| Aggressive behaviour and racist comments towards staff   | Violence, Aggression and/or Assault      | High                  | Low                | <ul style="list-style-type: none"> <li>Customer Conflict Training</li> <li>Dealing with Abusive Customers Process</li> </ul> <p>Report made to police.<br/>Customer trespassed after returning to pools the following day.<br/>Smartrak introduced as safety option.<br/>Team Leader, Health and Safety Officer and Manager following up on staff wellbeing.</p> |
| Intimidation of staff after friend trespassed by waiting outside for staff to leave                              | Violence, Aggression and/or Assault      | High                  | Low                | <ul style="list-style-type: none"> <li>Customer Conflict Training</li> <li>Dealing with Abusive Customers Process</li> </ul> <p>Staff remained on site until vehicle left (30- 45mins later)<br/>Smartrak introduced as safety option. Alternative exits discussed.<br/>Team Leader, Health and Safety Officer and Manager following up on staff wellbeing.</p>  |
| Child fell on splash pad hurting hip (broken previously) and head  | Slips, Trips and Falls on the same level | High                  | Medium             | <ul style="list-style-type: none"> <li>Good Housekeeping.</li> </ul> <p>Medical treatment sought for hip.<br/>No contributing factors that could have been improved.</p>   |
| Minor Low Speed Vehicle Crash – unknown person reversed into customers car in carpark – minor damage - no injury | Driving/ Vehicle                         | High                  | Low                | <p>Council still needs to finish carpark to formalise parking area.<br/>No other contributing factors that Council could improve.</p>  |
| Transfer Station – Slipped on hidden log straining toe   | Slips, Trips and Falls on the same level | High                  | Low                | <ul style="list-style-type: none"> <li>Good Housekeeping.</li> <li>PPE worn</li> </ul> <p>Staff advised of possible hazard.<br/>Digger brought in and removed log.</p>   |

|   |  |             |               |  |
|---|--|-------------|---------------|--|
| Child nearly hit by loader – near miss  | Driving/<br>Vehicle                      | <b>High</b> | <b>Low</b>    | <ul style="list-style-type: none"> <li>• Standard Operating Procedures</li> <li>• Signage in place</li> <li>• Safe Driving Policy</li> </ul> <p>Staff reminded that loader is not to be used while public vehicles in the vicinity, and be vigilant of public whereabouts.<br/>All staff booked for loader training February</p> |
| Child tripped and grazed knee   | Slips, Trips and Falls on the same level | <b>High</b> | <b>Low</b>    | <ul style="list-style-type: none"> <li>• Good Housekeeping.</li> </ul> <p>No contributing factors identified that could have been improved.</p>  |
| Pools - Child sustained cuts to head  | Slips, Trips and Falls on the same level | <b>High</b> | <b>Low</b>    | <ul style="list-style-type: none"> <li>• Good Housekeeping.</li> </ul> <p>Unknown cause of incident as parents took child straight to vehicle and patrons/cameras did not capture what happened – improving camera footage area.<br/>No contributing factors that Council could identify.</p>                                    |
| Abuse and intimidation of staff after being told to move tent   | Violence, Aggression and/or Assault      | <b>High</b> | <b>Low</b>    | <ul style="list-style-type: none"> <li>• Customer Conflict Training</li> <li>• Dealing with Abusive Customers Process</li> </ul> <p>Staff removed themselves from situation and called security.<br/>Lone Working process in place with Manager.<br/>Smartrak to be provided to staff involved.</p>                              |
| Minor Low Speed Vehicle Crash – Work vehicle chipped and damaged wheelie bin - no injury                          | Driving/<br>Vehicle                      | <b>High</b> | <b>Low</b>    | <ul style="list-style-type: none"> <li>• Safe Driving Policy</li> </ul> <p>Low visibility, staff could not see wheelie bin.<br/>Staff advised more caution required when turning.</p>  |
| Child slipped when diving and scraped knee.   | Slips, Trips and Falls on the same level | <b>High</b> | <b>Low</b>    | <ul style="list-style-type: none"> <li>• Good Housekeeping.</li> </ul> <p>Unknown cause of incident as parents took child straight to vehicle and patrons/cameras did not capture what happened.<br/>No contributing factors that Council could identify.</p>  |
| Minor Low Speed Vehicle Crash – Buggy reversed into Ute - minor damage to Ute - no injury                         | Driving/<br>Vehicle                      | <b>High</b> | <b>Low</b>    | <ul style="list-style-type: none"> <li>• Safe Driving Policy</li> </ul> <p>Staff advised more caution required when reversing.<br/>Circulate driving reminders (yet to start)</p>  |
| Minor Low Speed Vehicle Crash while reversing – no damage to work vehicle - damage to private vehicle – no injury | Driving/<br>Vehicle                      | <b>High</b> | <b>Medium</b> | <ul style="list-style-type: none"> <li>• Safe Driving Policy includes reversing to park as recommendation.</li> </ul> <p>Staff reminded to watch surroundings when reversing.<br/>Post event Alcohol test not undertaken due to after hours.</p>   |

| KEY:   |  |
|--------|--|
| High   | Potential or actual consequence which is serious in nature and could cause medium to long term loss of time (over a week), hospitalisation or significant damage to property |
| Medium | Potential or actual consequence which is moderate in nature and could cause short term loss of time (under a week), medical treatment, or damage to property.                |
| Low    | Potential or actual consequence which is minor in nature resulting in no loss of time, no medical treatment (first aid only) and minimal damage to property.                 |

### Safety Violations for Period 1 November 2023 – 31 January 2024

| Event   | Potential Consequence | Actual Consequence | Controls and Status   |
|---|-----------------------|--------------------|---|
| Kubota Ride On operated without flashing beacon or pass with care signage | High                  | Low                | <ul style="list-style-type: none"> <li>• Standard Operating Procedure</li> <li>• Safe Driving Policy</li> </ul> Staff reminded at the time and corrected behaviour.   |
| Driving while texting   | High                  | Low                | <ul style="list-style-type: none"> <li>• Safe Driving Policy</li> </ul> Staff advised of and provided copy of policy. Reminded not making calls or texting while driving, unless using hands free.          |
| Not wearing PPE – eye protection  | High                  | Low                | <ul style="list-style-type: none"> <li>• Standard Operating Procedure</li> <li>• PPE worn</li> </ul> Staff reminded to wear PPE – had available but forgot to put back on. Behaviour corrected at the time. |

#### 4 Health, Safety and Wellbeing Risk Related Activities

| Health, Safety and Wellbeing Related Activities     |  |   |
|---|--|---|
| Risk  | Key Activity   | Planned Activity  |
| General Health and Safety Risk Management Programme | <ul style="list-style-type: none"> <li>• New Staff inducted – (3)</li> <li>• Dog Pound Safety Induction – (5)</li> <li>• Maurie Kjar Aquatic Centre Safety Induction – (1)</li> <li>• Transfer Station Safety Induction – (1)</li> <li>• Waste Water Treatment Plant Safety Induction – (11)</li> <li>• Monthly meeting ongoing – one position to be filled due to resignation</li> <li>• Review top 5 critical risks underway, with the idea of extending to the top 10. Looking at grouping some critical risks eg. Psychosocial (stress, depression, bullying)</li> </ul> | <ul style="list-style-type: none"> <li>• Arrange for a SafePlus audit (a performance improvement initiative) to be completed. Was scheduled for late 2023, however pushed out until 2024 with the aim of getting engagement from staff.</li> <li>• Guest speaker from My Everyday Wellbeing was unable to attend December Health and Safety Committee meeting, looking at time to re-schedule.</li> <li>• Finalise critical risks review. Top risk for each area has been established, team are now considering the refinement of risks.</li> <li>• Re-establish the Wellbeing Committee</li> </ul> |
| Contractor Management                               | No audits completed during this period with audits recommencing during February.   | <ul style="list-style-type: none"> <li>• One contractor audit to be completed each month except December and January (10 per year).</li> </ul>  |
| Training  | <ul style="list-style-type: none"> <li>• Customer Conflict Training – (29)</li> <li>• Drug and Alcohol Awareness Training – (53)</li> <li>• Safe Chainsaw Operations Training Completed (4)</li> <li>• Chemical Safety, Foundation, Handling &amp; Storage Training – Completed (8)</li> </ul>   | <ul style="list-style-type: none"> <li>• Organise Dangerous Dog Training for Outdoors Staff, once new Team Leader Animal Control is on board.</li> <li>• Loader Training booked for transfer station staff (February)</li> </ul>  |

|                       |   |  |
|-----------------------|---|--|
|                       | <ul style="list-style-type: none"> <li>• First Aid Training – (4)</li> <li>• Chemical Suicide – Awareness (5)</li> <li>• Fire Extinguisher Training (2)</li> <li>• Confined Spaces &amp; Gas Detection (1)</li> <li>• Height Safety Equipment Inspection (3)</li> <li>• Knowledge of Workplace Health &amp; Safety Requirements NZQA US 497(1)</li> <li>• Isolations – Lock out – Tag Out Training (3)</li> <li>• Breathing Apparatus Training (1)</li> </ul> |  |
| <p>Policy Reviews</p> | <ul style="list-style-type: none"> <li>• Drug and Alcohol Policy – Reviewed and Updated, now with the Leadership Team to be approved.</li> <li>• Workplace Stress &amp; Fatigue Policy – Rewritten to modernise and incorporate staff wellbeing. Currently out for consultation with staff.</li> </ul>  | <ul style="list-style-type: none"> <li>• Drug and Alcohol Policy – Leadership team to review and finalise.</li> <li>• Workplace Stress &amp; Fatigue Policy – out for staff consultation and feedback.</li> <li>• Emergency Response Team – Amendments requested from Leadership Team have been incorporated. Awaiting final review of Leadership Team.</li> </ul> |
| <p>Risk Reviews</p>   | <ul style="list-style-type: none"> <li>• Sun Risk – Reviewed risk with summer approaching. Policy developed to provide standard requirements for staff – this is yet to be reviewed and approved by the Health &amp; Safety Committee and Leadership Team</li> </ul>  | <ul style="list-style-type: none"> <li>• Sun Policy – Introduction of new policy to Health and Safety Committee and Leadership Team.</li> <li>• Implement a risk review programme to ensure all risks are reviewed regularly.</li> </ul>   |

| Risk        | Potential Score | Risk                        | Activity  | Planned Activity   | Desired Risk level outcome (as per risk matrix) |
|-------------|-----------------|-----------------------------|---|--|---|
| Lone Worker | High            | Reviewed Lone Worker Policy | <ul style="list-style-type: none"> <li>Reviewed Lone Worker Policy</li> </ul> | <ul style="list-style-type: none"> <li>Improve policy by arranging lone worker protection after hours. Consideration of smartrak monitoring by Duty Staff/Security.</li> <li>Update policy to set up developed process.</li> </ul> | Medium  |

## 5 Health and Wellbeing

### Health and Wellbeing

#### Emergency Readiness

Automatic External Defibrillators (AED's) available at Aquatic Centre and District Office  
Emergency Response Team being developed and trained

#### General Health

Skin Checks available for Staff  
Vaccination programme includes vaccinations for influenza and other role specific vaccines such as Hep A, B & tetanus

#### Wellbeing initiatives

Employment assistance programme provided by Vitae  
Since July, My Everyday Wellbeing web platform has recorded 45 users, 30 active accounts, 500 pages viewed and 165 sessions.  
Thoughtful Thursday's introduced

#### Health Monitoring

Ongoing random drug testing and pre-employment drug testing

## 6 RECOMMENDATION

That the report "Health, Safety and Wellbeing Report for period - 1 November 2023 – 31 January 2024" be received.

Michaela Glaspey  
**Group Manager Regulatory and Planning**

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**Meeting:** Audit and Risk Committee

**Meeting Date:** 12 February 2024

**Subject:** **Audit Management Report for year ended 30 June 2023**

**File No:** 201000

## **1 Purpose**

The purpose of this report is to update the committee with the issues raised in the Audit New Zealand Management Report for the year ended 30 June 2023 and management's responses to the issues identified.

## **2 Background**

The Local Government Act 2002 requires that Council produces each year an annual report and that the annual report is audited.

As part of the audit process, an audit management report is prepared by Council's auditors, which identifies issues that Council needs to address to improve its internal controls and ensure it is meeting the legal obligations.

Staff will be reporting to the committee on the progress towards addressing the issues identified.

## **3 Issues Raised in the Audit Management Report to 30 June 2023**

Attached to this report is the Audit Management report for the year ended 30 June 2023, as well as management's responses to the issues raised.

Of the six new recommendations, three of the recommendations are already in place and three are in the process of being implemented. There were nine prior year recommendations, six of these recommendations have been closed and of the three still open, one will stay open until after the next asset revaluation in 2025, one recommendation has been actioned and the procurement policy recommendation is in the process of being reviewed.

Council's Audit Director René van Zyl, will attend the meeting to discuss and clarify any of the issues raised in the management report.

**4**    **RECOMMENDATION**

That the report "Audit Management Report for year ended 30 June 2023" be received.



Lee-Anne Butler, CA, BMS

**Group Manager, Finance & Corporate Services**

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**Report to the Council  
on the audit of  
Kawerau District Council**

For the year ended 30 June 2023

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## Key messages

We have completed the audit of Kawerau District Council (the District Council) for the year ended 30 June 2023. This report sets out our findings from the audit and draws attention to areas where the District Council is doing well and where we have made recommendations for improvement.

### Audit opinion

We have issued an unmodified audit opinion on 25 October 2023. Without modifying our opinion, we included an emphasis of matter paragraph drawing attention to the disclosures in the financial statements about the impact of the Government's water services reform programme on the District Council.

This means that we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

### Water services reform programme

The water services reform programme is expected to result in structural changes to how water supply, wastewater and stormwater assets are owned and managed in the local government sector. This could have a significant impact on the structure of the District Council.

Council included disclosures about the reform in the annual report. Given the significant impact the reform is likely to have on the District Council, we have included an emphasis of matter paragraph in our audit report to draw a readers' attention to this disclosure.

### Control environment

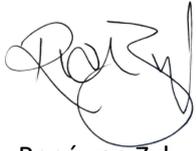
We performed a high-level review of the District Council's control environment. Overall, we are satisfied the control environment is effective for the purpose of undertaking an efficient and effective audit.

### Adoption of PBE FRS 48 *Service Performance Reporting*

PBE FRS 48 *Service Performance Reporting* replaced that part of PBE IPSAS 1 *Presentation of Financial Statements* that deals with service performance reporting requirements and is effective for annual reporting periods beginning on or after 1 January 2022. For the District Council, this was for the year ended 30 June 2023. We reviewed the District Council's compliance with the new standard and are satisfied the District Council's disclosures are appropriate and meet PBE FRS 48 requirements.

**Thank you**

We would like to thank the Council, management, and staff for their continued assistance during the audit process. We appreciate the co-operation we received, and the way management worked with us to ensure the annual report was adopted within the statutory deadline.

A handwritten signature in black ink, appearing to read 'René van Zyl', written in a cursive style.

René van Zyl  
Appointed Auditor  
5 December 2023

# 1 Recommendations



Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

| Priority   | Explanation   |
|------------|---|
| Urgent     | <p><b>Needs to be addressed <i>urgently</i></b></p> <p>These recommendations relate to a significant deficiency that exposes the District Council to significant risk or for any other reason need to be addressed without delay.</p>   |
| Necessary  | <p><b>Address at the earliest reasonable opportunity, <i>generally within six months</i></b></p> <p>These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.</p> |
| Beneficial | <p><b>Address, <i>generally within six to 12 months</i></b></p> <p>These recommendations relate to areas where the District Council is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.</p>                                  |

## 1.1 New recommendations

The following table summarises our recommendations and their priority.

| Recommendation   | Reference | Priority  |
|--|-----------|-----------|
| Payroll and suspense monthly reconciliations should be evidenced as prepared and independently reviewed, any variances appropriately investigated and corrected, in a timely manner.   | 3.2.1     | Necessary |
| The District Council prepares an annual reconciliation of its asset management systems to the fixed asset register. This reconciliation should also be evidenced as independently reviewed and any variances investigated and corrected. | 3.2.2     | Necessary |

| Recommendation   | Reference | Priority  |
|--|-----------|-----------|
| Regular reviews and reporting be carried out on the network, and within applications, to ensure that only current, approved users have access. These reviews could include automated weekly reports of users who have not logged in for a period of time. These reviews should be evidenced as reviewed and any mitigating or corrective actions noted.  | 3.2.3     | Necessary |
| We recommend the District Council improve password settings to minimise the risk of easy to guess passwords. Should the password settings adopted still not align with NZISM recommendations these should be presented to Council for approval.<br><br>Additional mitigating actions such as the implementation of multi factor authentication and user training on the use of passphrases could also be considered. | 3.2.4     | Necessary |
| The District Council implements a process that all asset disposals are approved in writing by the asset managers.  | 5.1       | Necessary |
| The District Council ensures traffic counts are performed at least annually.   | 5.2       | Urgent    |

## 1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous recommendations in detail.

| Priority              | Priority |           |            |          |
|-----------------------|----------|-----------|------------|----------|
|                       | Urgent   | Necessary | Beneficial | Total    |
| Open                  | 0        | 3         | 0          | 3        |
| Implemented or closed | 0        | 6         | 0          | 6        |
| <b>Total</b>          | <b>0</b> | <b>9</b>  | <b>0</b>   | <b>9</b> |

## 2 Our audit report

### 2.1 We issued an unmodified audit report



We issued an unmodified audit report on 25 October 2023. This means we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

Without modifying our audit opinion, we included an emphasis of matter paragraph to draw attention to the disclosures in the financial statements and statement of service performance that describe the overall impact of the three waters reform on the District Council.

In forming our audit opinion, we considered the following matter.

#### 2.1.1 Impact of the water services reform programme

The Water Services Entities Act 2022, as amended by the Water Services Entities Amendment Act 2023 on 23 August 2023 and the Water Services Legislation Act 2023 on 31 August 2023, establishes ten publicly owned water services entities to carry out responsibilities for the delivery of three waters services and related assets and liabilities currently controlled by local authorities. Water services entities' establishment dates are staggered, with all the water services entities becoming operational between 1 July 2024 and 1 July 2026.

For the financial statements of 30 June 2023, the District Council continues to recognise its three waters assets. There has been no adjustment in the 2022/23 financial statements to reflect the expected future transfer of assets to the new water entity.

As further details are established this may require adjustments to the District Council's three water assets either in respect of disclosure or measurement. The District Council has included disclosure in the annual report about the impact of the three waters reform and the uncertainty this creates in relation to the future operation of the three waters services. Given the significant impact the reform is likely to have on the District Council, we have included an emphasis of matter paragraph in our audit report to draw a reader's attention to this disclosure.

#### Management comment

*The Prime Minister elect (following the 2023 elections) has stated that he intends to repeal this legislation as part of his governments first 100 days in office, which reinforces the decision not to make amendments to the financial statements for the 3 waters legislation.*

## 2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatements that have not been corrected are listed below along with management's reasons for not adjusting these misstatements. We are satisfied that these misstatements are individually and collectively immaterial.

| Current year uncorrected misstatements | Assets  | Liabilities | Equity  | Financial performance |
|--|---------|-------------|---------|-----------------------|
|  | Dr (Cr) | Dr (Cr)     | Dr (Cr) | Dr (Cr)               |
| Accrued expenditure                    |         | 32,496      |         |                       |
| Operating expenditure                  |         |             |         | (32,496)              |

### 2.2.1 Explanation of uncorrected misstatements

Audit fee accrued does not agree to the signed audit proposal letter. The audit proposal letter for the 2022/23 year was only signed on the 3rd of October 2023 due to the fee moderation and resetting proses that occurred for this fee-round. The difference represents discount that was negotiated during the final stages of the negotiations.

Management has opted not to make the change at such a late stage.

## 2.3 Corrected misstatements

We also identified misstatements that were corrected by management. A list of these misstatements has been supplied separately to management.

## 2.4 Quality and timeliness of information provided for audit



Management is required to provide information for audit. During 2021, Audit New Zealand implemented AuditDashboard, an online tool that allows for easier collaboration and file sharing between our teams and for easy tracking of audit document requests.

AuditDashboard was used for the audit of the 2023 financial statements and statement of service performance information. The management team provided us with the documents and information requested on a timely basis and by the due dates set. This allowed the resourced phase of the audit to proceed efficiently and reduced the level of interruption to the management team.

## 3 Assessment of internal control



The Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

### 3.1 Control environment

The control environment reflects the overall attitudes, awareness, and actions of those involved in decision-making in the organisation. It encompasses the attitude towards the development of accounting and performance estimates and its external reporting philosophy and is the context in which the accounting system and control procedures operate. Management, with the oversight of Council, need to establish and maintain a culture of honesty and ethical behaviour through implementation of policies, procedures, and monitoring controls. This provides the basis to ensure that the other components of internal control can be effective.

We have performed a high-level assessment of the control environment, risk management process, and monitoring of controls relevant to financial and service performance reporting. We considered the overall attitude, awareness, and actions of the Council and management to establish and maintain effective management procedures and internal controls.

Overall, we concluded that the control environment is effective.

### 3.2 Internal controls

Internal controls are the policies and processes that are designed to provide reasonable assurance as to the reliability and accuracy of financial and non-financial reporting. These internal controls are designed, implemented, and maintained by the Council and management.

We reviewed the internal controls, in your information systems and related business processes. This included the controls in place for your key financial and non-financial information systems. We identified areas where we believe improvement can be made to internal controls. This is detailed below.

### 3.2.1 Monthly suspense and payroll reconciliations

We reviewed the monthly reconciliations for payroll and suspense account. We noted that the suspense reconciliations have not been prepared and independently reviewed on a timely manner.

We were also unable to confirm if the payroll reconciliations had been independently reviewed in a timely manner as there was no evidence that a review had been performed.

#### **Recommendation**

Reconciliations should be evidenced as prepared and independently reviewed. Any variances are appropriately investigated and corrected, in a timely manner.

#### **Management comment**

*The payroll reviews were completed in a timely manner when processing payroll, however it is acknowledged that there was no evidence of the reviews in the format audit required.*

*All reconciliations are now completed and reviewed in a timely manner, with all reviews signed and dated as evidence of review.*

### 3.2.2 Property, plant and equipment reconciliations

We reviewed the property, plant and equipment system and noted that the District Council has not performed a reconciliation between its asset management systems and the fixed asset register.

There is a risk that if these systems don't align and decisions may be made based on incorrect information, which may create issues in the future.

#### **Recommendation**

The District Council prepares an annual reconciliation of its asset management systems to the fixed asset register and the reconciliation is evidenced as independently reviewed and any variances corrected.

#### **Management comment**

*The key asset management systems used are the Fixed Asset register and RAMM which is just for roading purposes. Discussions with the Engineering team confirmed the fixed asset register is used for all their planning from a financial perspective. The system "asset find" does not have financial functionality at present. Council will look to do a reconciliation with RAMM for the year ended 30 June 2024.*

### 3.2.3 Regular reviews of network users not being performed

Our review of the District Council's general IT control environment, identified that reviews of network user accounts were not being performed. This raises the risk that staff may have access to systems that are not appropriate for their role.

#### **Recommendation**

Regular reviews and reporting be carried out on the network, and within applications, to ensure that only current, approved users have access. These reviews could include automated weekly reports of users who have not logged in for a period of time. These reviews should be evidenced as reviewed and any mitigating or corrective actions noted.

#### **Management comment**

*Regular reviews are now being performed of the network to ensure that terminated employee's system access is immediately updated after their termination date. However, there are some modules in Ozone where ex-employees may have to remain in the system otherwise the history is removed for the purchase order and invoice approvals they have processed. To address the issue of not being able to terminate the ex-employee the financial delegations are changed to zero, so nothing can be approved.*

### 3.2.4 Password configuration settings

Password configuration settings are in place to minimise the chance of easy to guess passwords being set by users. The current password configuration at the District Council does not meet good practice as defined by the NZ Information Security Manual (NZISM). As a result there is a greater risk that users can set up easy to guess passwords that may then be exploited and used by unauthorised users.

#### **Recommendation**

We recommend the District Council improve password settings to minimise the risk of easy to guess passwords. Should the password settings adopted still not align with NZISM recommendations these should be presented to Council for approval.

Additional mitigating actions such as the implementation of multi factor authentication and user training on the use of passphrases could also be considered.

#### **Management comment**

*Multi-factor authentication has been enforced for all network access (introduced in June 2022), also for payroll and bank transactions systems. The multi-factor authentication provides a high level of security. Staff will look at the NZISM recommendations and implement those where it is determined that access will pose a risk to the organisation. There has not been any evidence of users accessing other people's passwords to date.*

## 4 Matters raised in the Audit Plan



In our Audit Plan of 20 July 2023, we identified the following matters as the main audit risks and issues:

### 4.1 Fair value assessment of property, plant and equipment

The District Council's land, buildings and infrastructure assets were last valued as at 30 June 2022. Management prepared fair value assessments to consider the unrecognised valuation movements to 30 June 2023.

Our review of the assumptions used and the resulting calculation did not indicate a material difference between the current carrying value and approximate fair value at that date for land, buildings and infrastructure assets.

### 4.2 The risk of management override of internal controls

Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override can occur, it results in an inherent risk of a material misstatement due to fraud, which audit standards require us to consider in every audit.

To address the risk of management override, we carried out substantive audit procedures. These included reviewing journal entries, accounting estimates and significant transactions that were outside the normal course of business.

We didn't identify any matters of concern to bring to your attention.

### 4.3 Drinking water quality performance measures

Providing safe drinking water is a core function of the council and reporting how the District Council has performed in respect of this function in the annual report is important performance information.

The regulatory regime in place over the safety of drinking water transitioned in the financial year from the Drinking Water Quality Standards (DWS) to the new Drinking Water Quality Assurance Rules (DWQARs) which came into effect on 14 November 2022.

Performance measures about compliance with the DWS are currently mandated by the Department of Internal Affairs who have issued mandatory performance measures that are required to be reported against in the District Council's annual report.

There are currently no similar performance measures with respect to the new DWQARs. Despite this it is important that the District Council included appropriate performance information about their compliance with the new DWQARs.

Given these changes, the District Council engaged WaiComply to provide assurance that the District Council has complied with the DWS and the DWQAR. We reviewed the processes and procedures used by the external consultant and are satisfied that they are suitably qualified and experienced.

The District Council has reported their compliance with both the DWS and DWQAR in the annual report. We have reviewed disclosures and are satisfied that the performance result is fairly stated and includes appropriate information about the District Council's compliance with both the DWS and the new DWQARs.

#### **4.4 New accounting standard - First-time adoption of PBE IPSAS 41 *Financial Instruments***

In March 2019, the External Reporting Board (XRB) issued PBE IPSAS 41 *Financial Instruments*, which supersedes both PBE IFRS 9 *Financial Instruments* and PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*. This standard is effective for the year ended 30 June 2023.

The main changes between PBE IPSAS 29 and PBE IPSAS 41 are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost;
- a new impairment model for financial assets based on expected credit losses, which may result in earlier recognition of impairment losses; and
- revised hedge accounting requirements to better reflect the management of risks.

We reviewed the District Council's compliance with the new standard and are satisfied the District Council's disclosures are appropriate and meet the requirements of PBE IPSAS 41.

#### **4.5 New accounting standard - Adoption of PBE FRS 48 *Service Performance Reporting***

PBE FRS 48 *Service Performance Reporting* replaced that part of PBE IPSAS 1 *Presentation of Financial Statements* that deals with service performance reporting requirements and is effective for annual reporting periods beginning on or after 1 January 2022, that is, for the District Council, it was for the year ended 30 June 2023.

The objective of the standard is "to establish principles and requirements for an entity to present service performance information that is useful for accountability and decision-making purposes in a general-purpose financial report". PBE FRS-48 required an appropriate and meaningful mix of performance measures and/or descriptions, including, where appropriate, measures of both the goods and services provided and of what has been achieved in the District Council's areas of responsibility.

In addition, PBE FRS 48 imposed additional disclosure obligations on entities. For example, paragraph 44 requires an entity to “disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information reported in accordance with this Standard that are relevant to an understanding of the entity’s service performance information”. Further, if the District Council changes what it reports as service performance information compared to the previous year, then PBE FRS 48 requires the District Council to explain the nature of the changes and their effect.

The District Council adopted the new accounting standard PBE FRS 48 *Service Performance Reporting* for the financial statements for the year ended 30 June 2023. We reviewed the District Council’s compliance with the new standard and are satisfied the District Council’s disclosures are appropriate and meet the requirements of PBE FRS 48.

#### **4.6 Impairment of Property plant and equipment/Intangible assets**

PBE IPSAS 21, *Impairment of Non-Cash-Generating Assets* and PBE IPSAS 26 *Impairment of Cash-Generating Assets*, requires at each reporting date management must assess whether there is any indication that an asset may be impaired. If management identifies any indication of an impairment, then they must estimate the recoverable service amount of the asset.

We reviewed management’s assessment of impairment indicators to determine if there is any indication that assets were impaired. Management indicated that there were no indicators of impairment for the year and we are satisfied with the assessment.

## 5 Other matters identified during the audit



During the audit, we also identified the following matters that we wish to bring to your attention.

### 5.1 Approval for disposal of property, plant and equipment

During our testing of asset disposals, we noted that there is no formal written approval by asset managers to approve the disposal of the assets. We understand the disposal of assets is based on knowledge from the finance team as part of the annual report process.

#### Recommendation

The District Council implements a process that all asset disposals are approved by the asset managers and this is provided in written format.

#### Management comment

*The disposal of assets to a third party only relates to plant and vehicles and the Group Manager Operations confirms the disposal of these assets (also it is usually identified as “trade-in” on the invoice for the replacement vehicle). Finance staff will obtain written confirmation from Group Manager in future.*

*Other disposals are the assets which are replaced (mostly pipes, pumps, footpaths, K&C) – there is no sale to a third party. The disposal length of pipe matches the new replacement length.*

### 5.2 Roading smoothness survey – traffic counts

The performance measure ‘*The average quality of ride on a sealed local road network, measured by smooth travel exposure*’ is a mandated performance measure by the Department of Internal Affairs that is required to be reported against in the District Council’s annual report.

The Non-Financial Performance Measure Rules include the following definition:

*‘Smooth travel exposure means a measure of the percentage of vehicle kilometres travelled on roads that occurs above the targeted conditions for those roads, calculated in accordance with standard industry methodology’.*

Therefore the District Council needs to consider both the road smoothness and traffic counts to accurately report this performance measure.

The contractors who performed the survey to calculate the roading smoothness performed a traffic count this year. However the contractors did comment that the last count performed was in 2018 and before this in 2003. Vehicle kilometres is a key component of this performance measures that is measured by traffic counts, which should be performed annually.

### **Recommendation**

The District Council ensures traffic counts are performed at least annually.

It is possible the District Council measures traffic counts every two years if they consider it to be more cost effective, provided the lack of annual information does not result in poor decisions on which roads to perform maintenance/renewals work on.

### **Management comment**

*Staff don't believe "traffic counts" determine the smoothness of a road. We could have 10 or 100 cars counted on a road but that does not give us any indication of the smoothness of that road.*

*Staff believe the consultants engaged provide the necessary evidence of Council's road smoothness with their specialist independent processes. As Kawerau has a static population and rating base, there are no significant changes in traffic movements. Council will complete a traffic count for the 2023-24 financial year and then assess the regularity of the traffic count timeframe to ensure the best use of Council resources and to ensure access to appropriate data for good road maintenance decision making.*

## 6 Public sector audit



The District Council is accountable to local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the District Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the District Council carrying out its activities effectively and efficiently;
- waste being incurred as a result of any act or failure to act by the District Council;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the District Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by the District Council or by one or more of its members, office holders, or employees.

No new concerns were identified from our review of the District Council's transactions that need to be brought to your attention. Refer to Appendix 1 for the status of matters we raised in our previous audits.

## Appendix 1: Status of previous recommendations

### Open recommendations

| Recommendation  | First raised | Status   |
|---|--------------|--|
| <b>Necessary</b>  |              |  |
| <b>Completeness of valuations</b>   |              |  |
| The District Council ensures all assets within a class are subject to periodic revaluation in accordance with the requirements of PBE IPSAS 17 <i>Property, plant and equipment</i> . | 2021/22      | This item will remain open until the District Council performs their next valuation.   |
| <b>Sensitive expenditure testing</b>  |              |  |
| The District Council remind staff of the importance of ensuring expenditure incurred complies with the sensitive expenditure policy and accepted good practice in the public sector.  | 2019/20      | <p>Our testing of Mayor expenditure identified an instance where approval had not been obtained by two Councillors as per the Sensitive Expenditure policy.</p> <p>We also identified an expense that had been approved by someone who didn't have the appropriate delegated authority.</p> <p><b>Management comment</b></p> <p><i>Staff will ensure expenditure for elected members including the Mayor (as well as staff) is approved in accordance with the sensitive expenditure policy and delegated authority.</i></p> |
| <b>Procurement practices</b>  |              |  |
| The next revision of the procurement policy includes a comparison with the Government Procurement Rules, to ensure all good practice elements are reflected in the policy.            | 2020/21      | This policy is in the process of being reviewed.   |

## Implemented or closed recommendations

| Recommendation   | First raised | Status   |
|--|--------------|--|
| <b>Necessary</b>   |              |  |
| <b>Sensitive expenditure policy</b>  |              |  |
| The District Council undertakes a review of its sensitive expenditure policy with a view to aligning the policy with the <a href="#">“Controlling sensitive expenditure: Guidelines for public entities”</a> issued by the OAG.  | 2018/19      | The sensitive expenditure policy was updated to reflect our recommendations.<br><b>Matter closed.</b>                        |
| <b>Journals</b>  |              |  |
| All journals are independently reviewed and is evidence of this review is retained.  | 2021/22      | Our testing of journals confirmed that all journals have been independently reviewed.<br><b>Matter closed.</b>               |
| <b>Bribery and corruption</b>  |              |  |
| A separate policy or the code of conduct or other ethical guidelines are developed that include bribery and corruption. An effective policy is likely to include: <ul style="list-style-type: none"> <li>• zero tolerance;</li> <li>• definitions;</li> <li>• consequences for breach of policy;</li> <li>• procedures to prevent, detect and respond (for example reporting mechanisms, protections for whistle-blowers, investigations process); and</li> <li>• roles and responsibilities.</li> </ul> | 2018/19      | The fraud policy was updated to include bribery and corruption.<br><b>Matter closed.</b>                                     |
| <b>Interests declared in the interest register</b>   |              |  |
| All interests are declared and recorded in the interests register and any mitigations to declared interests are included in the minutes of meetings.   | 2018/19      | All interests have been declared and recorded on the interests register.<br><b>Matter closed.</b>                            |
| <b>Terminated employees</b>  |              |  |
| Ensure all terminated employees are removed from the payroll system.   | 2018/19      | Our testing of payroll confirmed all terminated employees had been removed from the payroll system.<br><b>Matter closed.</b> |

| Recommendation  | First raised | Status   |
|---|--------------|--|
| <b>Necessary</b>  |              |  |
| <b>Risk management</b>  |              |  |
| Consider if the current process used to comply with health and safety legislation is still in line with the District Council's overall risk strategy. | 2018/19      | The District Council has incorporated health and safety legislation as part of their risk management strategy. |

## Appendix 2: Disclosures

| Area   | Key messages  |
|--|---|
| Our responsibilities in conducting the audit | <p>We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.</p> <p>The audit of the financial statements does not relieve management or the Council of their responsibilities.</p> <p>Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the Council.</p>   |
| Auditing standards                           | <p>We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.</p>  |
| Auditor independence                         | <p>We are independent of the District Council in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: <i>International Code of Ethics for Assurance Practitioners</i>, issued by New Zealand Auditing and Assurance Standards Board.</p> <p>In addition to the audit, we have carried out limited assurance audit work on the debenture trust deed which is compatible with those independence requirements. Other than the audit, we have no relationship with, or interests in, the District Council.</p> |
| Fees   | <p>The audit fee for the year is \$127,479 (excluding GST), as detailed in our Audit Proposal Letter.</p> <p>Other fees charged in the period are \$7,000 (excluding GST) for the review of the debenture trust deed reporting certificate.</p> <p>Where we incur audit hours which are not included in the audit proposal letter budget due to additional audit work required, we go through a process to seek approval from the OAG to seek a fee recovery. We are currently going through this process and will discuss the outcome with management.</p>   |

| Area                | Key messages  |
|---------------------|---|
| Other relationships | <p>We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the District Council that is significant to the audit.</p> <p>We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council during or since the end of the financial year.</p> |

## AUDIT NEW ZEALAND

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**Meeting:** Audit and Risk Committee

**Meeting Date:** 12 February 2024

**Subject:** 2024 – 2034 Long Term Plan Update and Timetable

**File No:** 110400

## 1 **Purpose**

The purpose of this report is to update the committee on progress with the 2024-2034 Long Term Plan and revised timetable.

## 2 **Background**

The Local Government Act 2002 requires Council to prepare a Long Term Plan at least every three years and an annual plan in the years that it does not produce a Long Term Plan.

Council must also consult on its Long Term Plan using the special consultative procedure which includes preparing a consultation document.

The Long Term Plan has to include a number of policies and strategies which are prepared in conjunction with the plan. Therefore, a significant amount of work is required prior to the final Long Term Plan being adopted. The Long Term Plan must be adopted prior to the commencement of the year to which it relates (that is before 1 July 2024).

## 3 **Update on Long Term Plan**

### 3.1 **3 Waters**

The Government is in the process of repealing the 3 Waters legislation, which has a significant impact on all Council's water services financial preparations for the Long Term Plan. Given this impact the Government will as part of the repeal bill, have options to alleviate the pressures of these changes on Councils by providing the following options:

- Councils will be permitted to have an unaudited Long Term Plan Consultation Document, to consult with the community (with certain conditions).
- The statutory deadline by which the 2024-34 Long Term Plan must be adopted will be extended by three months to 30 September 2024. The deadline for adopting the 2023/24 annual reports will also be extended, to reflect the possible overlap in auditing processes if councils are taking longer than usual to finalise the Long Term plan.

The plan at this stage is for Council (KDC) to continue to adopt the Long Term Plan within the normal legislative requirement and adopt by 30 June 2024. However, this timeframe may be affected by the availability and resourcing of the auditors, which is yet to be confirmed. By Council adopting the Long Term Plan by 30 June 2024, this should not affect the preparation of the Annual Report 2023/24, however the audit of the Annual Report might also be impacted by audit resourcing, as Long Term Plans will take priority to ensure all Councils can strike their rates.

One option of the proposed changes which Council (KDC) has taken, is to opt out of the audit of the Long Term Plan Consultation Document, as this provides slightly more time to finalise the consultation document prior to the special consultative process with the community.

### **3.2 Proposed timetable**

Progress is well underway with the preparation of the 2024-2034 Long Term Plan, with completion of the initial budget and most Activity Reviews (Section 17a). Policy reviews are progressing, and a key priority is ensuring that the Infrastructure Strategy Plan and Asset Management Plans are completed, prior to the Group Manager Operations & Services leaving Council.

The appendix to this report contains the revised proposed timetable detailing the work to be completed for the 2024-2034 Long Term plan. While there is no audit of the Consultation Document required, audit still require a review of key documents that are included in the Consultation Document prior to adoption.

## **4 RECOMMENDATION**

That the report “2024 – 2034 Long Term Plan Update and Timetable” be received.



Lee-Anne Butler, CA, BMS

### **Group Manager Finance and Corporate Services**

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**APPENDIX****2024-2034 Long Term Plan Preparation Timetable**

| <b>Tasks</b>   | <b>Person</b> | <b>Completion</b>     |
|--|---------------|-----------------------|
| <u>Policy &amp; Strategy Reviews</u>   |               |                       |
| • Investment Policy  | GMFCS         | 28 February 2024      |
| • Liability Management Policy  | GMFCS         | 28 February 2024      |
| • Financial Contributions Policy   | GMRP          | 28 February 2024      |
| • Significant Forecasting Assumptions  | GMFCS         | 28 February 2024      |
| • Infrastructure Strategy  | GMOS/FA       | 28 February 2024      |
| • Rates Review   | GMFCS         | 13 March 2024         |
| • Financial Strategy   | FA/GMFCS      | 13 March 2024         |
| • Revenue and Financing Policy   | GMFCS         | 13 March 2024         |
| • Rates Remission Policy   | FA/GMFCS      | 13 March 2024         |
| • Significance and Engagement Policy   | CEM/GMFCS     | 20 March 2024         |
| Budget overview and rates impact   | GMFCS         | 20 March 2024         |
| Draft LTP Consultation Document prepared and presented to Council for consideration and changes prior to adoption. | GMFCS/CEO/CEM | 20 March 2024         |
| Adoption of LTP Consultation Document for consultation   | Council       | 27 March 2024         |
| Special Consultation Period:<br>Newsletter/Website/Media/Public Meetings   | CEM/GMFCS     | 2 April – 2 May 2024  |
| Submissions Close  |               | 2 May 2024            |
| Advise submitters wanting to speak   | Admin Officer | 8 May 2024            |
| Hear, consider and deliberate on all submissions. (Extra-ordinary Meeting if required on 22 May as well)           | Council       | 15-16 May 2024        |
| Implement any changes – amend LTP & prepare rates  | GMFCS         | 9 June 2024           |
| Audit of the 2024-34 LTP (to be confirmed by Audit)  | Auditors      | 27 May to 7 June 2024 |
| Obtain legal opinion concerning FIS & rates resolution   | GMFCS         | 10 June 2024          |
| Adopt Long Term Plan 2024 -2034 & rates resolution   | Council       | 26 June 2024          |
| Long Term Plan on website  | CEM/GMFCS     | 28 June 2024          |

GMFCS = Group Manager Finance and Corporate Services  
CEM = Communications & Engagement Manager  
GMRP = Group Manager Regulatory and Planning  
FA = Financial Accountant

**Meeting:** Audit and Risk Committee

**Meeting Date:** 12 February 2024

**Subject:** **Treasury Report to 30 November 2023**

**File No:** 110551

## 1 **Purpose**

The purpose of this report is to inform members of the funds held by Council as at 30 November 2023 and provide explanations for any significant variances from the previous year.

## 2 **Background**

This report was presented to the Regulatory and Services Committee on 15 December 2023, and shows the funds currently held and the banks where those funds are invested.

All investments were made in accordance with Council's Investment Policy.

Council's investment policy allows up to 50% of total funds to be invested with any one bank but up to a limit of \$1.5 million. The exception is Council's principal bank where funds can exceed 50% and/or \$1.5 million.

Council currently has reduced surplus funds than in previous years making it more difficult to spread investments, but it is still required to act prudently.

Council raised a loan of \$2.0 million in December 2022, which was used to fund the water reticulation renewal project. The interest rate for this loan is 5.75% (fixed) and the maturity date is April 2025. On the 26<sup>th</sup> of October 2023, the next \$2.0m loan for the water reticulation project was uplifted, with a fixed interest rate of 6.5% with the same maturity date of April 2025.

Staff recommended a relatively short-term loan due to the increasing interest rates and the uncertainty around the 3 waters and other reforms that are currently being undertaken.

## 3 **Funds Held**

The following table shows Council's reserve and general funds balances as at 30 November 2023:

|   | <b>November<br/>2023</b> | <b>November<br/>2022</b> |
|---|--------------------------|--------------------------|
| <b>Reserve Funds</b>                                |                          |                          |
| Depreciation Funds*                                 | \$4,690,916              | \$2,446,230              |
| <b>Total Special Funds</b>                          | <b>\$4,609,916</b>       | <b>\$2,446,230</b>       |
| General Funds                                       | \$1,035,496              | \$1,672,918              |
| <b>Total – comprising cash &amp; internal loans</b> | <b>\$5,726,412</b>       | <b>\$4,119,149</b>       |

\* This includes loan funds uplifted.

The figures show that overall Council has \$1,607,263 additional funds at the end of November than this time last year, however the November 2023 balance includes the additional \$2.0m loan funds that Council uplifted on the 26<sup>th</sup> of October 2023 to pay for the water asset renewals.

Overall Council's cashflows for the last year have continued to be lower than previous years, as Council has short term cash funds invested in the Central Cove sections and Porritt Glade units that will become realised cash funds once they are sold and have occupation agreements, respectively.

The following funds were held at 30 November 2023:

| <b>Invested in</b>        | <b>\$</b>        | <b>Mean Interest</b> | <b>% External</b> |
|---------------------------|------------------|----------------------|-------------------|
| ANZ – on call             | 790              | 0.9%                 | 0.02%             |
| BNZ – current & on-call   | 4,114,093        | 3.0%                 | 99.42%            |
| Rabobank (on-call)        | 23,105           | 4.3%                 | 0.56%             |
| <b>Total Funds (Cash)</b> | <b>4,137,988</b> |                      | <b>100.0%</b>     |
| Internal Loans            | 1,588,424        |                      |                   |
| <b>Total Investments</b>  | <b>5,726,412</b> |                      |                   |

#### **4 RECOMMENDATION**

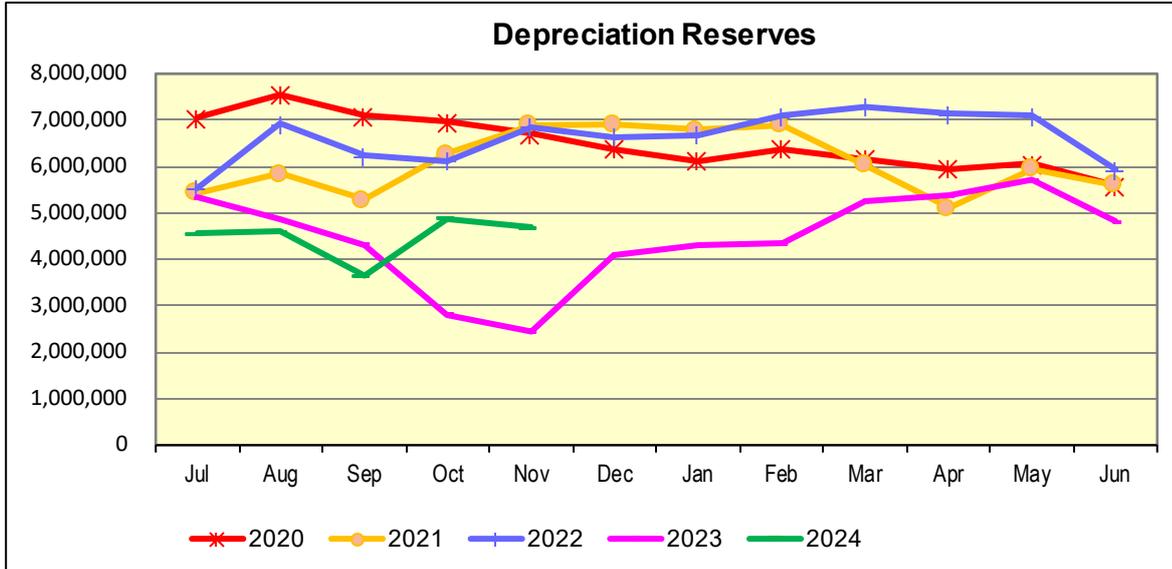
That the report "Treasury Report to 30 November 2023" be received.



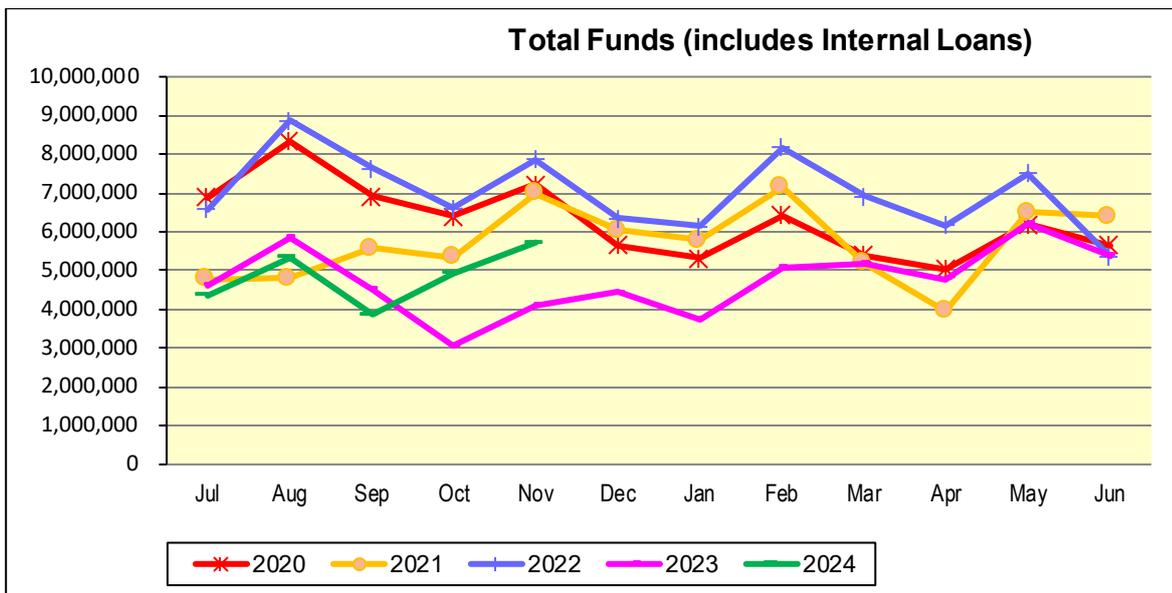
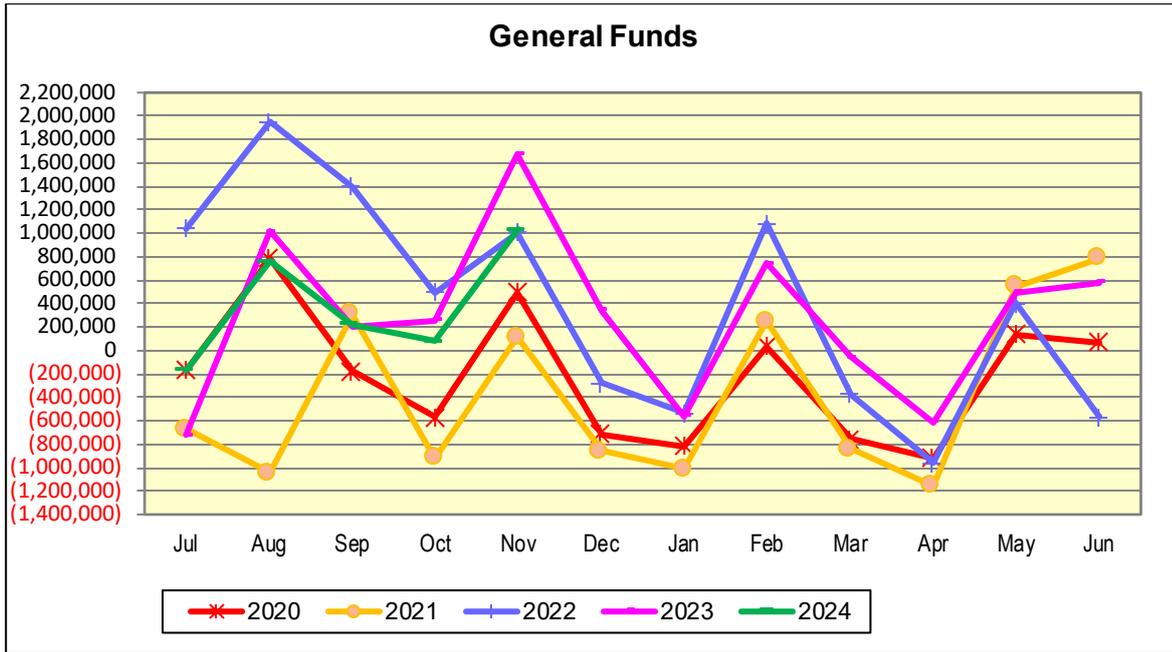
Lee-Anne Butler, CA, BMS  
**Group Manager, Finance & Corporate Services**

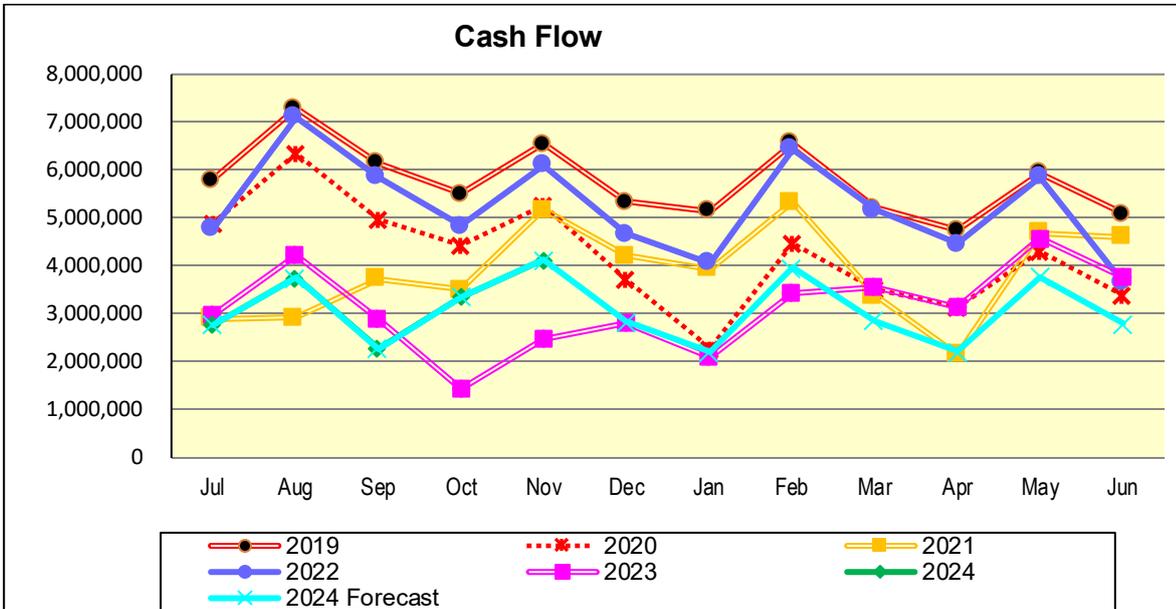
Appendix

November 2023 – Financial Data



The depreciation reserves funds above includes the loan funding Council has uplifted.





Please note that the 2023 actual cash flow is the same as the forecast cash flow for months year to date.

**Meeting:** Audit and Risk Committee

**Meeting Date:** 12 February 2024

**Subject:** Insurance Policies for 2023/24

**File No:** 201000

## 1 **Purpose**

The purpose of this report is to update members of Council's current insurance policies and consider whether further cover/policies should be added for the 2023/24 year.

## 2 **Background**

Council insures its assets in order to mitigate the risk associated with the loss or destruction of those assets, and also insures for possible liabilities arising from staff undertaking their duties, which could result in significant costs for the community.

Council uses Aon as its insurance broker in conjunction with other Bay of Plenty Councils as part of the BOPLASS initiative.

Council's broker sources the insurance cover that provides the best value for Council.

The period for insurance is from 1 November to 31 October and Aon have obtained the 2023/24 reinsurance for the BOPLASS councils. Policies and invoices have now been received.

Staff have reported to the Audit and Risk committee previously on the insurance policies held by Council and the cost. There have been significant increases in the cost of insurance in past years and most policies increased by around 20% on the previous year.

Staff used the latest replacement valuations at 30 June 2022 (including additions since this date) as well as an inflationary factor for insuring Council's assets (Infrastructure and Material Damage policies).

Council has never considered self-insuring its assets, although with insurance getting harder to obtain and costs increasing, it could be considered at a future date.

## 3 **Insurances for 2023/24**

The appendix to this report lists all the insurances that Council has taken out for 2023/24 which are the same as the previous year with the addition of a cyber liability policy.

These insurances include:

- Material Damage
- Business Interruption
- Motor Vehicles
- Public/Liability/Professional Indemnity
- Statutory Liability
- Employers Liability
- Crime Policy
- Cyber Crime Policy
- Infrastructure Insurance
- Minor Material Damage & Loss of Revenue – Porritt Glade

#### 4 **RECOMMENDATIONS**

1. That the report “Insurance Policies for 2023/24” be received.
2. That the Audit and Risk Committee consider whether additional insurance(s) is needed.



Peter Christophers, BBS, ACA  
**Financial Accountant**

APPENDIX**KAWERAU DISTRICT COUNCIL – INSURANCE POLICIES FOR 2023/24**

| <b>Policy</b>          | <b>Detail</b>  | <b>Sum Insured</b>   | <b>Excess</b>                       | <b>Insurance Company (Current)</b>  | <b>Premium 2023/24</b>   |
|------------------------|--|--|-------------------------------------|---|--|
| Brokerage              | Professional fee for sourcing and arranging insurance as well as claims/advice.  |  |                                     | Aon Group Ltd   | \$9,615  |
| Infrastructure         | Above and below ground infrastructure assets (40% Placement)   | \$30,000,000 (40% of Policy extensions and cover sub-limits apply) | \$100,000                           | Various Insurers & Lloyds of London Underwriters                                | \$79,654   |
|                        |  | Business Interruption  | Up to 15% of the Council loss limit |   |  |
| Public Liability       | Liability to Third Parties for property damage and/or personal injury arising from or in connection with the Insured's operations  | Public Liability   | \$15,000,000 (Any one claim)        | \$10,000 (Each claim)   | Berkshire Hathaway 57%<br>QBE Insurance (AUS) 38%<br><br>Chubb Insurance NZ 5% |
|                        |  | Product Liability  | \$15,000,000 (Any one claim)        |   |  |
|                        |  | Employees Property   | \$1,000,000                         |   |  |
|                        |  | Indemnity to Ratepayers  | \$1,000,000                         |   |  |
|                        |  | Hall Hirers Liability  | \$1,000,000                         |   |  |
| Professional Indemnity | Claims first made against the insured alleging civil liability, by an act, error, omission or conduct that occurred in connection with the Insureds Professional Business Practice | \$15,000,000 (Any one claim)                                       | \$25,000 (Each claim)               | Berkshire Hathaway 57%<br>QBE Insurance (AUS) 38%<br><br>Chubb Insurance NZ 5%  | \$58,298   |
| Excess Layer Liability | Excess Public/General Liability<br>Excess Professional Indemnity   | Between \$15,000,000 and \$145,000,000 shared                      | \$15,000 each claim                 | Various Lloyds of London syndicates<br><br>Axa XL<br><br>Chubb Insurance NZ Ltd | \$10,942   |
| Cyber Liability Policy | Direct financial loss sustained by the Insured arising from any single act or repeated acts  | \$2,000,000  | \$50,000                            | Berkshire Hathaway  | \$8,508  |

| Policy  | Detail  | Sum Insured  | Excess   | Insurance Company (Current)                       | Premium 2023/24     |
|---|---|--|--|---|---------------------|
| Employers Liability   | Liability arising out of claims made by employees for injuries outside the scope of Accident Compensation legislation | \$1,000,000 (Excl Defence Costs)<br>\$1,000,000 for Defence Cost             | \$1,000  | Berkshire Hathaway 60%<br>QBE Insurance (AUS) 40% | \$1,183             |
| Statutory Liability   | Defence costs, Fines & Penalties arising from unintentional breaches of the Insured Acts                              | \$1,000,000 for Fines and Reparation Orders<br>\$1,000,000 for Defence costs | \$10,000   | Berkshire Hathaway 60%<br>QBE Insurance (AUS) 40% | \$2,298             |
| Crime Policy  | Direct financial loss sustained by the Insured arising from any single act or repeated acts                           | \$2,000,000  | \$50,000   | Berkshire Hathaway 60%<br>QBE Insurance (AUS) 40% | \$3,395             |
| Commercial Motor Vehicles   | Vehicles, Mobile Plant and Auxiliary equipment  | Market Value or value in schedule  | 1% of the sum insured with a minimum of \$500 (Drivers under 21 add \$1,000) | NZI (a division of IAG NZ Ltd)                    | \$25,081            |
|   |   | Third Party = \$20,000,000   |  |   |                     |
|   |   | Additional Vehicles = \$400,000  | Fire or Theft = \$Nil  |   |                     |
|   |   | Goods in Transit = \$5,000   | \$Nil  |   |                     |
| Minor Material Damage and Business Interruption – Porritt Glade Lifestyle Village | 202 River Road – physical loss or damage to Insured property  | \$11,000,000   | Each loss - \$2,000<br>Theft - \$2,500                                       | Vero Insurance 100%                               | \$33,975 (29 units) |
|   | Loss of gross rentals   | \$460,000  | \$Nil  |   |                     |

| Policy                           | Detail   | Sum Insured   | Excess   | Insurance company (current)   | Premium 2023/24               |
|----------------------------------|--|---|--|---|-------------------------------|
| Business Interruption            | Loss resulting from interruption or interference with the business carried on by the insured at the premises in consequence of insured damage  | Loss of Revenues /Rent \$152,250<br>Additional expenses \$8,000,000 | \$10,000 (as per Material damage)  | Vero Insurance NZ Ltd 45%   | \$166,337                     |
| Material Damage – Fire           | Damage unforeseen and unintended by the insured to insured property at the locations shown in the schedule of declared values<br><br>Fire, including fire occasioned by natural disaster | \$15,000,000  | \$10,000<br>(\$25,000 landslip & subsidence)                             |   |                               |
| Material Damage – Excluding Fire | All Risks including Earthquake, but excluding Fire   | \$77,078,780  | Non Earthquake Perils – MD & BI combined - \$10,000 each and every claim |   |                               |
|                                  | Sub Limits   | Money during Business Hours   |  | \$100,000   |                               |
|                                  |  | Money outside Business Hours  |  | \$10,000  |                               |
|                                  |  | Capital Additions   |  | \$2,000,000   |                               |
|                                  |  | Collapse or overheating of non-domestic boilers                     |  | \$25,000  |                               |
|                                  |  | Landslip, combined any one loss for MD & BI                         |  | \$2,000,000   |                               |
|                                  |  | Property in or on water   |  | \$100,000 Loss – Limit \$25,000 per item  |                               |
|                                  |  | Refrigerated Goods (Spoilage)                                       |  | \$25,000 (Any one loss)   |                               |
|                                  |  | Keys & Locks  |  | \$25,000 (Any one loss)   |                               |
|                                  |  | Subsidence  |  | \$2,000,000   |                               |
|                                  |  | Transit of Property   | \$500,000  |   |                               |
|                                  |  | Sustainable Rebuilding costs  | \$100,000  | Earthquake, volcanic eruption, hydrothermal activity – 5% of Material Damage site value (other deductibles apply) | NZI a division of IAG Ltd 10% |
|                                  |  | Portable Business Equipment   | \$20,000   |   |                               |
|                                  |  | Contract Works  | \$1,000,000  |   |                               |
|                                  |  | Curios or Works of Art  | \$150,000  |   |                               |
|                                  |  | Maori Artefacts   | \$10,000   |   |                               |
|                                  |  | Directors & Employees effects (Insured Property)                    | No cover 21/22   |   |                               |
|                                  |  | Unspecified Locations   | \$100,000  |   |                               |
|                                  |  | Restoration and Reproduction costs – proof materials                | \$100,000  |   |                               |
|                                  |  | Contractual Value   | \$50,000   |   |                               |
| Gradual Damage                   | \$50,000   |   |  |   |                               |
| Electrical Damage                | \$10,000   | Berkshire Hathaway 10%  | AIG Insurance 15%  |   |                               |

**Meeting:** Audit & Risk Committee

**Meeting Date:** 12 February 2024

**Subject:** **Financial Contributions Policy Review**

**File No:** 110551

## 1 **Purpose**

The purpose of this report is obtain the committee's feedback prior to the adoption of the Financial Contributions Policy which is required for the 2024 - 34 Long Term Plan.

## 2 **Background**

The Local Government Act 2002 requires that Council adopts either a financial or development contributions policy and the policy must be reviewed at least every 3 years.

Previously, Council has not indicated interest in adopting a Development Contributions Policy and has maintained a Financial Contributions Policy, in which the provisions are included in the Operative District Plan. The provisions in the Operative District Plan have remained unchanged.

Development contributions are only chargeable if they are intended to recover capital expenditure, rather than maintenance or operational costs. Council services such water supply and wastewater, currently have spare capacity, so the current and predicted growth does not indicate a need for Council to implement a development contributions policy.

Previous history shows developers have not been charged for any financial contributions for at least the last 15 years. In saying this, resource consents are granted with conditions requiring works to be undertaken, such as roading, wastewater, stormwater provisions to ensure the developer undertakes infrastructure associated with the development. This ensures the infrastructure remains adequate to support the community as a whole, at no cost to the Community or Council.

Council last reviewed and adopted the Financial Contributions policy prior to the adoption of the 2021 – 2031 Long Term Plan.

## 3 **Financial Contributions Policy**

A review and update of the financial contribution policy has been undertaken. The updated policy is attached. Amendments have been made to update the references to sections within the District Plan, and to the general wording and layout of the policy to

help with the understanding and flow of the document. As the provisions of the policy remain within the Operative District Plan, no changes have been made to the intent of the policy or how it is implemented.

The policy continues to permit Council to obtain financial contributions towards the cost of infrastructure where any development results in the requirement of additional infrastructure or services.

#### **4 Legal and Policy Requirements**

Section 108 of the Local Government Act 2002 requires Council to adopt either a financial or a development contributions policy. This policy meets this requirement.

This review and the adoption is subject to the consultative procedure which is undertaken as part of the Long Term Plan process.

#### **5 Options**

Council has the following options concerning the financial contributions policy:

- Option 1 - Adopt the amended Financial Contributions Policy with any recommended adjustments. (Preferred Option)
- Option 2 – Propose significant amendments to the current Financial Contributions Policy, which may require an amendment to the District Plan, which is currently under review.

#### **6 RECOMMENDATIONS**

1. That the report “Financial Contributions Policy Review” be received.
2. That the Audit and Risk Committee review and recommend any changes to the Financial Contributions Policy as proposed.



Michaela Glaspey  
**Group Manager, Regulatory & Planning**

# Financial Contributions Policy

## 1. Introduction

Kawerau District Council (“Council”) is required to adopt a development or financial contributions policy to address the capital expenditure, which may be required as the result of, or in anticipation of growth in the Kawerau District.

Council’s infrastructure is currently sustainable with limited pressure on existing systems. The spare capacity means it can cope with some growth, without a resulting increase in demand for community facilities. Therefore, Council does not have a current need to extend existing infrastructure.

Council will continue to encourage development in the District to further deliver on community outcomes and promote social, cultural, economic and environmental wellbeing.

This policy has been prepared in accordance with the Local Government Act and sets out any development or financial contributions that may be required to meet the demands for infrastructure for our District.

## 2. Legislative Requirements

Section 102(1) & 102(2)(d) of the Local Government Act 2002 (“LGA”), requires Council to adopt a policy on development or financial contributions as part of its funding and financial policies in its Long Term Plan.

“Development Contributions” has the meaning given by s197(2) of the LGA meaning a contribution –

- (a) Provided for, in a development contribution policy of a territorial authority; and
- (b) Calculated in accordance with the methodology; and
- (c) Comprising of
  - i. money,

- ii. land, including an esplanade reserve or esplanade strip (other than in relation to a subdivision consent), but excluding Maori land within the meaning of the Te Ture Whenua Maori Act 1993 unless that Act provides otherwise; or
- iii. both.

Section 198(1) of the LGA gives the power for Council to require a development contribution when granting a resource consent for a development, a building consent or an authorisation for a service connection.

“Financial contributions” has the meaning given to it by s108(9) of the Resource Management Act 1991 (“RMA”), and means a contribution of -

- (a) Money; or
- (b) Land, including an esplanade reserve or esplanade strip (other than in relation to a subdivision consent), but excluding Maori land within the meaning of the Te Ture Whenua Maori Act 1993 unless that Act provides otherwise; or
- (c) A combination of money and land.

Section 108 of the RMA also provides Councils with the authority to grant resource consents with any condition the authority considers appropriate including financial contributions, provision for a bond, the requirement to provide services or works including the protection, planting, or replanting of any tree or other vegetation or the protection, restoration, or enhancement of any natural or physical resource.

These provisions do not preclude Council from using and investigating other funding sources as appropriate.

### 3. Purpose

The purpose of the policy is to provide predictability and certainty to stakeholders in how infrastructure for growth is to be funded.

A development or financial contributions policy is required to ensure the cost of growth and extensions to infrastructure, are funded by the subdividers or developers that create the need for the additional infrastructure. Development contributions are not a tool to fund the cost of maintaining infrastructure or improving levels of service for existing users.

### 4. Policy Objective

The objective of this policy is to require subdividers and developers to meet the full cost of, and to provide or contribute to providing any works and services necessary to meet additional demands on the infrastructure as a direct result of the subdivision or development.

### 5. Policy Statement

#### 5.1 Development Contributions

Development contributions are only available to fund additional infrastructure costs that occur as a direct result of growth. They are a tool to allocate the cost of growth to those who cause the need for the additional infrastructure.

Council's policy in relation to development contributions is to not assess development contributions under the Local Government Act 2002, but will retain the provisions within the District Plan, which allow for the assessment of financial contributions.

#### 5.2 Financial Contributions

Development contributions under the LGA are different from financial contributions under the RMA.

Financial contributions are used to cover the cost of any new development, including any physical and environmental costs, such as roading improvements, water supply and

wastewater piping and connections, storm water systems, reserves, footpaths and parking.

When granting resource consents, Council may include conditions requiring financial contributions or requiring works to be undertaken for the purpose of achieving the objectives of the District Plan.

Financial contributions are intended to cover a fair share of the cost of expanding the capacity of existing infrastructure to cope with additional demand from new development or activity.

Council's financial contributions policy requires subdividers or developers of land to meet the full costs of the following:

- Installation of water supply and/or wastewater disposal infrastructure necessary to support their subdivision or development, and
- Upgrading any road or street which provides direct frontage or gives access to the subdivision or development.

For the purposes of this policy, the determination of a fair share, will be assessed on the basis that the contribution should cover the cost of the additional works or services required, as a direct result of the new subdivision or development.

The Operative District Plan sets out the specific provisions relating to financial contributions and are summarised below:

**District Plan, Section C7.4: Infrastructure Contributions: *Introduction, Objective and Policies***

In the event of a new subdivision or development, upgrading of the infrastructure networks is often necessary to service the development. This upgrading adds incrementally to the demand on Council owned and operated services.

The objective is to allocate the cost of additional services and roading infrastructure necessary to meet the demands, to those undertaking the subdivision or development.

Subdividers and developers are required to meet the full costs of providing upgraded roading and service infrastructure necessary to support their subdivision or development.

Financial contributions adequately compensate for any impact on existing services to ensure no degrading of infrastructure.

New subdivision or developments contribute to providing new or upgrading existing public reserves.

**District Plan, Section C.7.7.8: Subdivision and Development Rules: *Works and Services Requirements***

Council considers that the subdividers and developers should provide a financial contribution, or contribute to the provision of, the works and services necessary to ensure the efficient functioning of their developments and subdivisions.

A contribution may include:

- Formation of an unformed road,
- Upgrading an existing formed road where additional traffic creates pressure beyond the road capacity,
- Upgrading of an undersized wastewater pipeline
- Contribution to the wastewater treatment or water supply headworks
- Contribution to the wastewater main or water supply main trunk sewer, water main
- Provide storm water drainage,

- Contribution toward the undergrounding of all reticulation, together with individual connections to each separate allotment, lease site or dwelling unit.

The contribution amount will be limited to the works necessary to meet the additional loading on the infrastructure, or utility service, as determined by Council. In determining the amount of any financial contribution, Council shall consider any design and operational factors provided by the developer, which may benefit the wider Community.

In the case of a subdivision consent, where services are not immediately available to serve land on an application plan, but are expected to be available within five years, Council may require the applicant to pay or enter into a bond to pay to Council, such amounts as Council considers fair and reasonable toward the cost of providing such services.

## 6. Policy Adoption and Review

This Policy will be adopted in conjunction with the Long Term Plan 2024 – 2034 and will come into force on 1 July 2024.

This Policy is expected to be next reviewed for the Long Term Plan 2027 – 2037. Where there is any proposed amendment to the policy, prior to this time, the consultation process under the LGA will be adhered to.

**Meeting:** Audit and Risk Committee

**Meeting Date:** 12 February 2024

**Subject:** **Review of Council's Investment Policy and Liability Management Policy**

**File No.:** 110551

## **1 Introduction**

The purpose of this report is to provide the updated Investment Policy and Liability Management Policy for the committee's consideration, with an opportunity to provide recommendations/changes prior to the adoption of the Investment Policy and Liability Management Policy which is required for the 2024 - 2034 Long Term Plan.

## **2 Background**

The Local Government Act 2002 requires that Council adopts an Investment Policy which specifies:

- The mix of investments.
- The acquisition of new investments.
- The procedures by which investments are managed and reported to Council.
- How risks associated with investments are assessed and managed.

The Local Government Act 2002 also requires Council to adopt a Liability Management Policy which specifies Council's policies in relation to:

- Interest rate exposure.
- Liquidity.
- Credit exposure.
- Debt repayment.

## **3 Investment Policy**

Council reviewed and adopted the current investment policy in 2021 as part of the preparation of the 2021 – 2031 Long Term Plan.

A review and update of the Investment Policy has been undertaken and the updated policy is attached in appendix A.

The main elements of this policy are:

- (i) Council may make treasury investments with the following (credit worthy) financial institutions:
  - BNZ

- ANZ
  - ASB
  - TSB
  - Kiwibank
  - Westpac
  - Rabobank
  - Local Authority Stock
  - Government Stock
  - Local Government Funding Agency (LGFA)
- (ii) All investments must be capable of being liquidated on demand
- (iii) No more than 50% of the total investments can be placed with any one institution apart from Council's principal bank (BNZ)
- (iv) Council does not adopt the use of hedging instruments for interest rate risk management on its investments.

Council has not invested in either Government or Local Authority stock to date. Principally because the returns are generally lower than investments in the bank, and also these investments are not as "liquid" as term deposits with banks.

Council's cash investments have decreased over the last 18 months, with cash funds invested in sections at Central Cove, Porritt Glade Retirement Village and the duplex housing at Bell Street. With Council having reduced funds to invest with the various banks, the 50% threshold is manageable to comply with this condition.

The Investment Policy as provided in appendix A, has no significant changes, however the following updates have been made:

- The order of the objectives has been changed to fairly reflect the priority of the objectives. An additional objective has been added - "Protection of Council's investments and minimise the risks associated with investments to avoid financial loss".
- An additional clause has been added regarding the new requirements under the Construction Contracts (Retention Money) Amendment Act 2023, whereby all retention funds are now held in a separate Trust account by Council to comply with the legislation.
- For the disposition of proceeds of sale of investment section, this additional clause has been added "However, proceeds from the disposal of investments are to firstly be applied to the repayment of loans raised to fund the investment". This is to ensure that a prudent financial approach is taken in managing both investments and debt.
- Under the procedure section the review of Council equity and property investments, the timing of reviews has been updated from the end of December each year, to the end of June each year, as this coincides with Council's Long Term Plan and/or Annual Plan reviews.
- For investment risk assessment and management, bullet point 2, the following sentence was added, "For clarity, this means Council may have more than 50% of Council's funds held with Council's Principal Bank", as this has been an area not completely clear to the Auditors.

- New Zealand Local Government Funding Agency (LGFA) has been added to the list of creditworthy counter parties, as Council now has debenture investments with LGFA as part of Council's loans funded by LGFA.

#### **4 Liability Management Policy**

Council adopted the current Liability Management Policy when it adopted the 2021 - 2023 Long Term Plan.

A review and update of the Liability Management Policy has been undertaken and the updated policy is attached in appendix B.

The policy permits Council to borrow money to finance:

- Specific projects
- Purchase or construction of assets
- General operating expenses
- Any combination of the above

The policy covers finance leases or hire purchase arrangements for acquiring assets.

The policy specifies that Council will not have less than 60% of its borrowing at fixed rates. The policy also excludes Council from using hedging instruments without a specific resolution of Council.

Council may borrow from any registered bank, local authority and anyone by the issue of registered local authority stock including Local Government Funding Agency. The maximum period for the repayment of debt is 50 years or the life of the asset (whichever is the lesser).

Council's limit for borrowing is that gross interest expense of all borrowings will not exceed 10% of total revenue (\$1.5 mil for 2022/23) and to a maximum of 50% of Council's fixed assets. The policy specifies that security over loans will be a charge over Council's rates.

When the 2021 – 2031 Long Term Plan was adopted, it was anticipated that Council would need to borrow funds for the next ten years to fund the water reticulation renewals. Council uplifted the first loan funds for the water reticulation in December 2022, with the second loan raised in October 2023. Council plans to continue funding the water reticulation renewals with additional loans over the next 10 years from 2024 to 2034.

The Liability Management Policy as provided in appendix B, has no significant changes, however the following updates have been made:

- For Interest Rate Exposure the following sentence has been added – “The objective is to minimise Council's interest costs and uncertainty regarding the impact of interest rate fluctuations”.

- A new section “Debt Management” has been added which includes the limits on borrowing in the previous policy. There is further reference to debt profile and concentration and internal loans have been added to this section.
- The liquidity ratio note has been updated to also exclude current liabilities relating to Porritt Glade Residents Liability. With the reporting requirement to have the Porritt Glade Residents Liability treated as a current liability this has a significant impact on Council’s liquidity ratio calculation. Given it is unlikely that Council would have to repay the residents liability immediately, as the conditions of the occupation right agreements, require a unit to be sold first, this liability will be excluded in Council’s liquidity ratio. The timeframe for the liquidity ratio has also been updated to be quarterly rather than monthly.
- For debt repayment the maximum period has been updated with the addition of the words “lesser of” for clarity.

## **5.0 Legal and Policy Requirements**

The Local Government Act 2002 requires Council to adopt an Investment Policy and a Liability Management Policy. The adoption of these policies does not require Council to use the special consultative procedure.

The Investment and Liability Management policies were last reviewed in 2021. The updated policies are consistent with the 2021 policies, with the changes made further supporting the existing policies. Overall, the policies are still considered to be robust and sound policies with minimal risk to Council and ratepayers.

## **6 Options**

The Committee has the following options regarding Council’s Investment Policy and Liability Management Policy:

- Adopt the Investment Policy and Liability Management Policy as proposed.
- Adopt the Investment Policy and Liability Management Policy with any recommended amendments as requested by the committee.

The Investment Policy and Management Liability Policy with any recommended changes by the Committee will be presented to Council for adoption.

## **7 RECOMMENDATIONS**

1. That the report “Review of Council’s Investment Policy and Liability Management Policy” be received.
2. That the Audit and Risk Committee review and recommend any changes to the Investment Policy and Liability Management Policy, as proposed.



Lee-Anne Butler, CA, BMS

**Group Manager Finance and Corporate Services**

## APPENDIX A

# Investment Policy

## General Policy

Council's broad objectives in relation to investing are as follows:

- Compliance with the Local Government Act and other relevant legislation
- Protection of Council's investments and minimise the risks associated with investments to avoid any financial loss.
- Management of the overall cash position of Council's operations, to support Council's liquidity requirements and ensuring appropriate flexibility.
- Investment of surplus cash in liquid and credit worthy investments
- Ownership of property investments for strategic and business needs
- Development and maintenance of professional relationships with the financial markets

When engaged in the investing activity, Council may:

- Use external advice, where there is a particular risk or where it is prudent to the management of a particular investment.
- Consider the value of its investments against the size of its debt burden.

Council is a risk averse entity. The "Prudent Person" rule from the Trustees Act applies to all investing activity engaged in by Council.<sup>1</sup> Activity which may be construed as speculative in nature is expressly forbidden.

Council maintains investments in the following assets:

- **Equity investments** including shareholdings and loan advances to natural persons, trading and service enterprises, charitable trusts and incorporated societies (e.g. sporting and Community organisations). Council may invest in shares in New Zealand Local Government Funding Agency (LGFA) and may borrow to fund that investment.
- **Property investments**, including land and buildings purchased as an investment and excluding property assets owned in the course of delivering a service or those that Council has already on the market for sale.
- **Treasury investments** including liquidity and longer-term investments.

For the purposes of complying with Council's statutory obligations under the Construction Contracts (Retention Money) Amendment Act 2023, all retention money must be held on trust. Council will hold

<sup>1</sup> The "Prudent Person" rule means that Council must "use such diligence and care in the management of" investments "as person of ordinary prudence and vigilance would use in the management of their own affairs".

all retention funds in a separate Trust Bank account with Council's Principal Bank, for the sole purpose of repayment of retention funds.

### Mix of Investments

The mix of investments will not be determined or influenced by the funding needs of any particular function but must have regard to the overall funding needs of Council. Investment mix is also influenced by risk management considerations. Council may set up, alter or dissolve a fund for a particular purpose by ordinary resolution.

Treasury investments must be invested with a number of financial institutions.

### Acquisition of New Investments

Equity and property investments may be acquired by resolution of Council and funded from Council's general funds, or whatever other source Council has available to it.<sup>2</sup> Monies from Funds Set Aside for Particular Purposes will not be used to fund equity or property investments that are inconsistent with the particular purposes of those funds.

When acquiring equity and property investments, Council seeks to:

- Improve business effectiveness and efficiency.
- Improve its strategic position to face a perceived future need.
- Further a social goal by providing loan assistance.

Treasury investments may be acquired under delegated authority to the Chief Executive Officer.<sup>3</sup>

When acquiring treasury investments, Council seeks to:

- Optimise investment return.
- Ensure investments are secure.
- Ensure investments are liquid.
- Manage potential losses due to interest rate movements if investments need to be liquidated before maturity.

### Disposition of Revenue from Investments

All dividend, interest, rentals, and other income from Council's investments will be available for Council's general use except in the following cases:

- Where Council has resolved that interest earned on the funds invested in an account shall be reinvested in that account.

<sup>2</sup> Council shall be taken to mean full Council or any of its Committees or Sub-Committees acting under delegation.

<sup>3</sup> Chief Executive Officer – wherever this term is used it shall be taken to mean the Chief Executive Officer and whichever staff to whom the Chief Executive Officer may delegate.

## Disposition of Proceeds of Sale of Investments

Equity and property investments may be disposed of by resolution of Council and the proceeds will be available for Council's general use, unless it resolves otherwise. However, proceeds from the disposal of investments are to firstly be applied to the repayment of loans raised to fund the investment.

Treasury investments may mature or be sold under delegated authority by the Chief Executive Officer and the proceeds will either be used to fund a purpose authorised by Council (e.g. as outlined in Council's Long-Term Plan or Annual Plan) or be reinvested. Funds from Council's Depreciation Funds account may only be spent on renewing assets or repaying debt.

## Procedures

Equity and property investments will be reviewed by Council before the end of June in each year.

Treasury investments will be managed under delegated authority by the Chief Executive Officer.

Whenever acquiring a new treasury investment, excluding maturities that rollover and transfers between accounts at Council's bank, the acquisition proposal must be certified that the acquisition complies with this policy and takes sufficient account of predicted interest rate movements and demands for cash. This procedure could include:

- Using an investment model that assesses the risk of the investment in relation to its return.
- Obtaining external advice.

The certified proposal must then be reviewed by the Chief Executive Officer, or Group Manager Finance and Corporate Services.

Overdraft facilities are used as little as is practical.

All investing activity must be approved by the Chief Executive Officer, or Group Manager Finance and Corporate Services pursuant to this policy.

Council will receive a schedule of treasury investments regularly throughout the year.

## Investment Risk Assessment and Management

Equity investments are subject to the risk of default. Risks are taken into account when these investments are reviewed. Property investments are subject to the risk of vacancy and devaluation. Risks are taken into account when these investments are reviewed.

Treasury investments are subject to the following risks:

- Credit risk – Council's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counter parties, eg banks, financial institutions, or other organisations that Council invests in, are acceptable (list below). Council may approve alteration to the list of credit worthy counter parties by ordinary resolution.
- Where total treasury investments exceed \$250,000, no more than 50% of the total investments can be placed with any one institution (other than Council's banker) at the time of making the investment. For clarity, this means Council may have more than 50% of Council's funds held with Council's Principal Bank.

- Liquidity risk is minimised by ensuring that all investments, must be capable of being liquidated on demand
- Interest rate risk is managed by the treasury investments review process above
- Council does not adopt the use of hedging instruments for interest rate risk management on its investments. Maturity dates of treasury investments will be staggered to mitigate the effect of one-off market fluctuations.

### Creditworthy Counter Parties

Council may make treasury investments with the following banks, financial institutions, which are deemed to be sufficiently creditworthy:

- Bank of New Zealand (Council's Banker)
- ANZ Banking Group (New Zealand) Limited
- ASB Bank Limited
- Kiwibank
- Rabobank
- Taranaki Savings Bank
- Westpac Trust
- Local Body Stock
- NZ Government Stock
- New Zealand Local Government Funding Agency (LGFA)

**APPENDIX B**

# Liability Management Policy

## General Policy

Council's broad objectives in relation to liability management are as follows:

- Compliance with the Local Government Act 2002 and other relevant legislation.
- Develop and maintain professional relationships with the financial markets.
- Raise appropriate finance, in terms of both loan maturity and interest rate.
- Manage the overall cash position of Council's operations.

When engaged in the borrowing activity, Council may:

- Use external advice, where there is a particular risk, or where it is prudent for the management of a particular borrowing.
- Consider the value of its investments against the size of its debt burden.

Council may borrow to finance:

- Specific projects
- The purchase or construction of assets
- Finance leases or hire purchases of assets<sup>1</sup>
- General operating expenses
- Any combination of the above

Council is a risk averse entity. Council intends to borrow prudently and maintain debt at a prudent level. Activity which may be construed as speculative in nature is expressly forbidden.

## Interest Rate Exposure

Council's borrowing gives rise to direct exposure to interest rate movements. Given the long term nature of Council's assets, projects and intergenerational factors, Council's general tendency is to have a high percentage of fixed rate<sup>2</sup> borrowing. Council aims for no less than 60% of its borrowings outstanding at any given time to be at a fixed rate.

Interest rate risk is managed by adjusting the maturity of borrowings in line with interest rate predictions. The objective is to minimise Council's interest costs and uncertainty regarding the impact of interest rate fluctuations.

All matters that can be lawfully delegated concerning borrowings are delegated to the Chief Executive Officer and must be reported back to Council as they occur.

The use of hedging instruments for interest rate risk management on Council's borrowing is not possible, as these instruments are priced for larger denominations than Council is likely to borrow. Should hedging instruments be required, an ordinary resolution approving use of these instruments will be adopted by Council.

## Debt Management

To manage Council's overall debt Council's limit for borrowing is that:

- Total debt will not exceed 50% of Council's fixed assets; and/or

- Gross interest expense of all borrowings will not exceed 10% of total revenue (\$2.1 million for 2023/24).

Debt management includes Council's debt profile by spreading the concentration of debt, including re-financing, to reduce the risk that large concentrations of debt may mature when interest rates are high.

Where Council has a borrowing requirement for a specific project/asset, internal cash resources may be utilised first before funds are borrowed externally. Such internal loans are charged similar interest rates as Council's average return on bank investments and repayment periods for these loans may range from 1 to 15 years. Internal loan costs (interest and principal) are funded by the activity for which the loan was raised, and the corresponding revenue is recognised in interest revenue. Internal borrowings are eliminated on consolidation of activities in Council's financial statements.

## Liquidity

To ensure funds are available for operational needs and the repayment of debt, maturities of investments and borrowings are matched through cash-flow forecasts and investments are maintained in liquid assets. Council aims for a liquidity ratio of not less than 1.5:1 at the end of each quarter<sup>3</sup>.

## Credit Exposure

Council's ability to readily attract cost effective borrowing is largely driven by its:

- Ability to maintain a strong balance sheet.
- Ability to rate.
- Credit worthiness and image in the market.
- Successful communications with bankers.

Council may borrow from itself, New Zealand Local Government Funding Agency (LGFA), any registered bank, local authority or anyone else, by the issue of registered local authority stock or in any other manner that it considers appropriate.

## Debt Repayment

Council repays borrowings from its general funds.

Council must consider and record how it intends to effect repayment at the time of borrowing.

The term of repayment of any borrowing will be determined after considering:

- The intergenerational benefit of the assets being financed.
- The cost of finance.

The maximum period over which borrowings are repaid is the lesser of 50 years or the expected life of the asset financed.

<sup>1</sup> This policy only applies to finance leases or hire purchase where the amount borrowed in any instance exceeds \$50,000.

<sup>2</sup> Fixed rate borrowing is generally taken to mean that borrowing where the interest rate does not vary more often than yearly. The interest rate on floating rate borrowing may alter every 90 days.

<sup>3</sup> This ratio measures Council's ability to generate cash from assets in order to meet its obligations. The liquidity or acid test ratio consists of the sum of cash, marketable securities, short-term notes and receivables divided by current liabilities (excluding the current portion of term debt and current liabilities relating to Porritt Glade Residents Liability).