

Notice is hereby given that an ordinary meeting of the Finance, Audit & Risk Subcommittee will be held on:

Date: Wednesday 28 June 2017
Time: 4.00 pm
Meeting Room: Council Chambers
Venue: Horowhenua District Council
Levin

Finance, Audit & Risk Subcommittee

OPEN AGENDA

MEMBERSHIP

Chairperson	Mr Philip Jones	
Deputy Chair	Cr Barry Judd	
Members	Mayor Michael Feyen	
	Deputy Mayor Wayne Bishop	
	Cr Ross Brannigan	
	Cr Ross Campbell	
	Cr Neville Gimblett	
	Cr Victoria Kaye-Simmons	
	Cr Jo Mason	
	Cr Christine Mitchell	
	Cr Piri-Hira Tukapua	
	Cr Bernie Wanden	
Reporting Officer	Mr Doug Law	(Chief Financial Officer)
Meeting Secretary	Mrs Karen Corkill	

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Website: www.horowhenua.govt.nz

Full Agendas are available on Council's website
www.horowhenua.govt.nz

Full Agendas are also available to be collected from:
Horowhenua District Council Service Centre, 126 Oxford Street, Levin
Foxton Service Centre/Library, Clyde Street, Foxton,
Shannon Service Centre/Library, Plimmer Terrace, Shannon
and Te Takeretanga o Kura-hau-po/Library, Bath Street, Levin

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1 Apologies

2 Public Participation

Notification to speak is required by 12 noon on the day of the meeting. Further information is available on www.horowhenua.govt.nz or by phoning 063660999.

3 Late Items

To consider, and if thought fit, to pass a resolution to permit the Council to consider any further items which do not appear on the Agenda of this meeting and/or the meeting to be held with the public excluded.

Such resolution is required to be made pursuant to Section 46A(7) of the Local Government Official Information and Meetings Act 1987, and the Chairperson must advise:

- (i) The reason why the item was not on the Agenda, and
- (ii) The reason why the discussion of this item cannot be delayed until a subsequent meeting.

4 Declarations of Interest

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of the items on this Agenda.

5 Confirmation of Minutes

5.1 Meeting minutes Finance, Audit & Risk Subcommittee - 5 April 2017

6 Announcements

Financial Report for the eleven months to 31 May 2017

File No.: 17/292

1. Purpose

To present to the Finance, Audit & Risk Subcommittee the financial report for the eleven months to 31 May 2017.

2. Recommendation

- 2.1 That Report 17/292 on Financial Report for the eleven months to 31 May 2017 be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Issues for Consideration

As included in the **attached** report.

Attachments

No.	Title	Page
A	Financial Reporting - Monthly Report - 31 May 2017 - AGENDA copy	8


Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law Chief Financial Officer	
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Approved by	Doug Law Chief Financial Officer	
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Eleven Month Report

1 July 2016 - 31 May 2017



Executive Summary

A. Trends and Activity of Interest

1. Resource Consenting
 - 177 consents have been lodged and 178 approved as at 31 May 2017 against 134 respectively for the whole of 2015/16. Approved consents include consents under process at 30 June 2016.
 - 77 subdivision consents approved as at 31 May 2017 compared to 32 for the whole of 2015/16.
 - 182 new allotments have been created in 2016/17, 41 Greenbelt Residential, 63 Residential and 78 Rural.
2. Building Consents
 - Value of consents issued as at 31 May 2017 is \$80,122,730 against \$67,409,121 as at the same time in 2015/2016 year.
 - 177 new dwelling consents at 31 May 2017 against 164 for the same period in the 2015/2016 year.
 - There was a 67% increase in the number of building consents lodged with Council in May 2017 compared to May 2016, (80 compared to 54).

In respect of building consents the consent numbers overall are tracking very similar to last year, but we are continuing to see the increasing value of the work being done in residential additions & alterations as well as new builds.

B. Financial Performance

Council has achieved a surplus of \$556,000 as at 31 May 2017 against a budgeted surplus of \$3,461,000.

This is due mainly to the delay in receipt of Capital subsidies (\$4.5m) for;

- Te Awahou project (\$3.9m), and
- delayed roading projects, and the subsidy on these (\$0.6m).

This grant and subsidy income is related to capital projects, as opposed to operational expenditure, Council still shows an operational surplus and so continues to “balance the budget”. This trend (lower than budgeted operational surplus) may continue if subsidies for Te Awahou are not received before balance date of 30 June.

Council continues to “balance the budget” in relation to how it is calculated for the prudential bench mark. However, if the grant/subsidy income estimated for June does not eventuate we may not “balance the budget” at year end. This is very similar to the position for last financial year for the same reasons. Refer to the explanation on depreciation expense below for further commentary on Council’s financial result.

This decrease in capital subsidy income has been offset by lower operational expenditure (\$0.59m) mainly in;

- external interest under budget \$0.49m
- other expenditure under budget \$0.49m, offset by
- loss on disposal of assets \$0.35m

Lower external interest cost has been achieved due to lower interest rates than assumed in the Annual Plan coupled with lower debt. Our cost of funds has dropped during the year from

4.61% to currently 4.15% against an Annual Plan assumption of 5.25%. Also our debt is \$9m less than budgeted due to the delays in capital projects. \$10m worth of the current year's capital works programme has been deferred to the 2017/18 financial year. No valuations have been done as yet for derivatives (swaps).

Other expenditure can be broken up further;

- Maintenance under budget \$1.3m
- Professional services Over budget \$0.5m

Lower maintenance has primarily occurred in;

- Wastewater \$235k (Levin, Foxton and Waitarere),
- Stormwater \$161k,
- Solid Waste \$130k (Landfill and recycling),
- Subsidised Roothing \$260k,
- Property \$103k, and
- Community Facilities Activities \$282k (Parks and Reserves).

Wastewater is expected to be fully expended with a June contract claim of \$183k expected.

Stormwater had a budget provision for a flood event which has not occurred as yet.

Solid Waste has had lower than expected cost with green waste and recycling stations but is expected to be near budget by 30 June 2017.

Roothing has experienced both weather related delays as well as a shortage of contractors to carry out the works in a timely way.

Property has underspent budgets

- Asset management \$25k
- Professional services \$28k
- Reactive maintenance \$13k
- Maintenance general property \$42k

Parks and Reserves

- Planned garden maintenance costs less than original budget approximately \$37k
- Planned tree maintenance trending less than original budget \$30k
- \$30k asset management under
- \$37k mowing under
- \$139k general contract works under

The Property team expect that expenditure in property, parks and reserves will in general terms match their budgets by the end of the year so are not expecting any significant savings in operational expenditure.

The higher professional services are in the;

- CEO's department \$215k,
- Planning and Regulatory \$117k,
- Property \$239,
- Representation and Community Leadership \$119k, but lower in

- Solid waste \$130, and
- Strategic planning \$129

Higher professional services in the CE's department relate to consultancy costs in relation to the growth response work programme that was unbudgeted for. It is expected that some of these costs may be recoverable as part of the O2NL expressway project. Discussions around funding with NZTA are underway.

Planning and Regulatory has needed to employ additional resources to meet staff shortages while meeting our statutory timeframes for building and resource consents. There is increased income to offset this expenditure.

The Property variance arose from an uncorrected budget error from the Annual Plan where savings related to a new contract were accounted for twice by mistake.

Representation and community leadership professional services relates primarily to work on the Levin Main street that was not budgeted for, but for which we have received subsidy from NZTA.

Lower expenditure for professional services for strategic planning relate to delays in some projects related to the District Plan review, including significant cultural areas.

Depreciation expense.

Year-to-date (YTD) depreciation has increased by \$70k as major projects in Business Services and Aquatics are capitalised. These represent assets of an operational nature.

Council is in the process of finalising the asset values for infrastructural assets which will also put upward pressure on depreciation expense. As the assets are being valued as at 1 July 2016 Council will incur depreciation for a full year on any increase in value. Currently the depreciation figure for the infrastructural assets is the YTD budget figure pending the completion of the revaluation exercise. This increase in depreciation combined with Council receiving less than budgeted subsidy revenue (as mentioned elsewhere in this report) will mean that council will most likely show a deficit at year end. The next LTP budgets for rate funding of depreciation and depreciation expense will also be affected, increasing both and putting some increased rate pressure into water, wastewater and stormwater targeted rates. These rates affect urban properties in all towns within the district.

On the income side

- rates income is lower by \$0.39m,
- User charges income is above budget by \$0.58m,
- Other revenue is above budget by \$0.4m,

Rates income is lower due to reduced Water-by-meter income \$0.3m and rates penalty income \$0.2m offset by higher general and targeted rates income. Rates penalty income is driven by the fact that we no longer apply penalties to Maori land rates as these properties form part of the area where collection has proven difficult. Adding penalties to what amounts to uncollectable rates income only compounds the issue and ends up being written off after 6 years in any case.

Water –by meter income will increase once an error in calculation to one supplier is correctly invoiced.

User charges income is above budget by \$0.58m due to higher income in Solid waste from unbudgeted Waste rebate income. While higher connection fees for water and waste water account for the increased income from these activities.

Other revenue is above budget by \$0.4m primarily due to unbudgeted income from;

- elections income for Horizons and the DHB (\$81k) ,

- Shannon wastewater farm (\$90k) income from irrigation lease,
- external payroll processing (\$54k), while
- roading income relating to petrol tax and sundry charges is above budget by \$51k.



Doug Law
Chief Financial Officer
21 June 2017

Operational Summary

Total revenue	Total expenditure	Total surplus/(deficit)
\$43.049m	\$42.493m	\$0.556m
is 7% less than the total budget of \$46.831m	is 2% less than the total budget of \$43.370m	is 84% less than the total budgeted surplus of \$3.461m

SUSTAINABILITY

Rates to operating revenue 73%

Rates revenue	\$31.26m
Operating revenue	\$43.05m

73% of operating revenue is derived from rates revenue. Rates revenue excludes penalties and includes water supply by meter and gross of remissions. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives.

Balance budget ratio 101%

Operating revenue	\$43.05m
Operating expenditure	\$42.49m

Operating revenue should be equal or more than operating expenditure. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives. Operating expenditure includes depreciation and excludes loss on derivatives, landfill liability and loss on asset revaluations. Year to date revenue is 1% more than operating expenditure.

Essential services ratio 146%

Capital expenditure	\$12.64m
Depreciation	\$8.62m

Capital expenditure should be equal or more than depreciation for essential services, for year to date capex is 46% more than depreciation

Net Debt to total projected revenue 146%

Total net borrowing	\$73.75m
Total projected operating revenue	\$50.45m

With net borrowing of \$73.75m we are still under the set limit of 175% of projected revenue. Total net borrowing is external borrowing less cash at bank.

Interest to rates revenue (LGFA Cov.) 9%

Net Interest	\$2.89m
Rates revenue	\$31.26m

9% of rates revenue is paid in interest. Our set limit is 25% of rates revenue. Net interest is interest paid less interest received. Rates revenue excludes penalties and includes water supply by meter and gross of remissions.

Interest to operating revenue (LGFA Cov.) 7%

Net Interest	\$2.89m
Operating revenue	\$43.05m

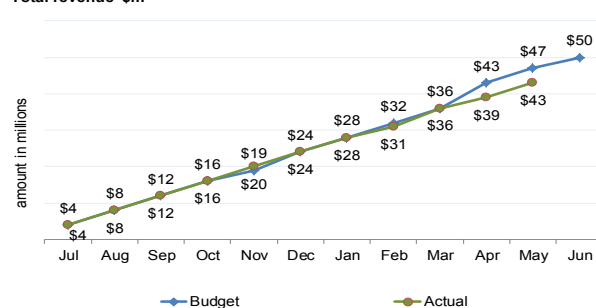
7% of operating revenue is paid in interest. Our set limit is 20% of operating revenue. Net interest is interest paid less interest received. Operating expenditure includes depreciation and excludes loss on derivatives, landfill liability and loss on asset revaluations.

Available financial accommodation to external 136%

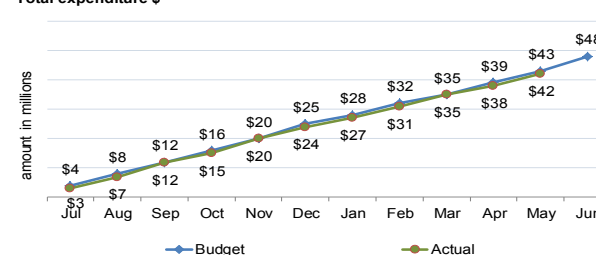
Net debt	\$73.75m
Undrawn committed facilities	\$10.00m

Committed bank facility to enable us to borrow at least 10% of our current external debt immediately, currently we can borrow 5% more than our current debt. Net debt is external debt less cash at bank.

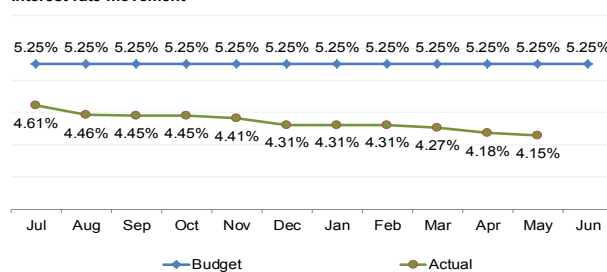
Total revenue \$m



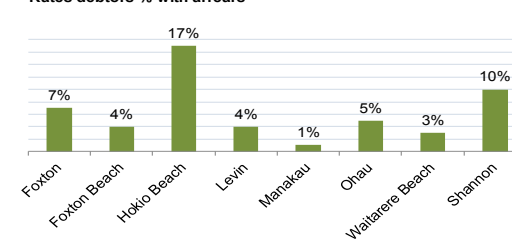
Total expenditure \$



Interest rate movement



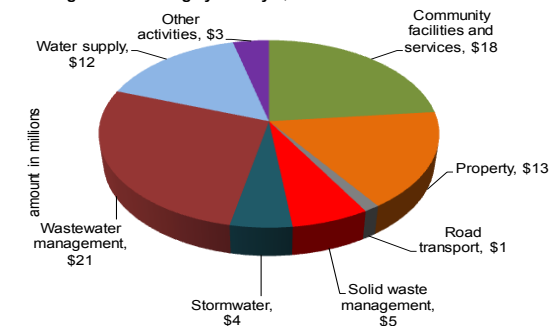
Rates debtors % with arrears



Sundry debtors by activities \$000



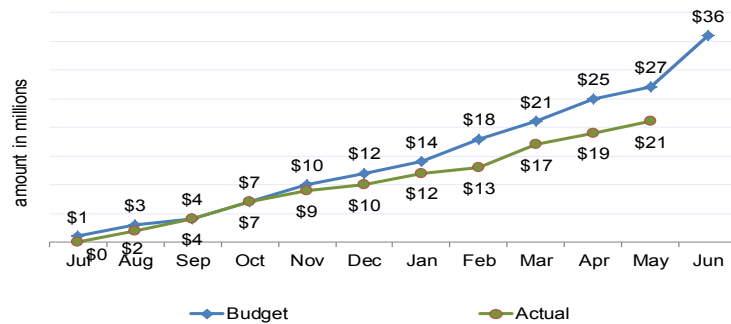
Total gross borrowing by activity \$m



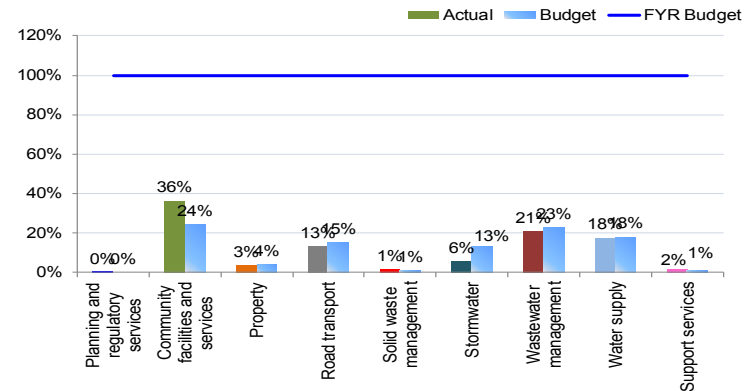
Capital

To meet growth	To improve service	To replace
\$1.535m	\$11.497m	\$7.862m
is 70% less than the YTD budget of \$4.993m	is 30% less than the TD budget of \$16.616m	is 35% less than the total budget of \$12.193m

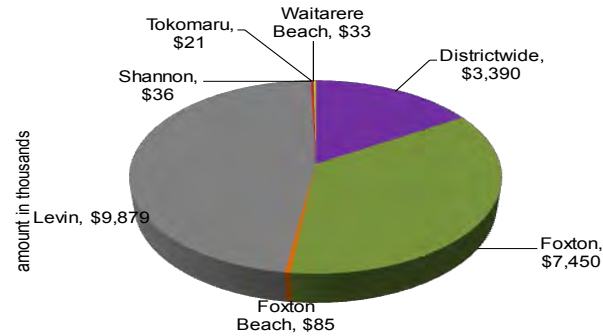
Total Capital Expenditure



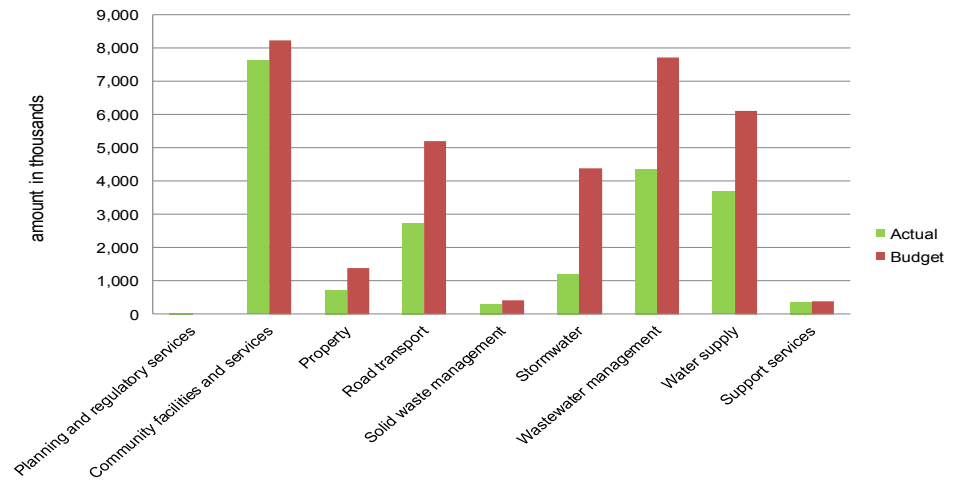
Capital Expenditure By Activity % Percentage



District View - Capital Expenditure \$000



Capital Expenditure By Activity \$000



Audit Engagement and Arrangement letters

File No.: 17/297

1. Purpose

To deliver to the FAR Subcommittee the three letters regarding the Audit New Zealand audit assignment for the next 3 financial years 2016/17, 2017/18, 2018/19, but with particular emphasis on the audit for the 2016/17 financial year.

2. Recommendation

- 2.1 That Report 17/297 Audit Engagement and Arrangement letters be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.
- 2.3 That the letters from Audit New Zealand be signed by the Mayor on behalf of the Horowhenua District Council
- 2.4 That an Extraordinary Finance Audit and Risk Subcommittee meeting be set for 30 August 2017 to approve the recommended adoption of Annual Report to Council.

3. Background/Previous Council Decisions

- 3.1 Each audit assignment is for a period of three years before being reviewed for another three years. Our audit cycle for three years begins with the audit this year, 2016/17. Audit New Zealand has delivered to us three letters:
 1. The Audit Proposal Letter (APL) which sets out the audit fee for the next three years has been through a moderation process with the Office of the Auditor-General. Note that Audit NZ is a subsidiary of the Office of the Auditor General and carries out audit assignments on behalf of the auditor General. Only The Auditor General can appoint Council's auditor; Council is unable, under the Public Audit Act, to appoint its own auditor.
 2. The Audit Engagement Letter (AEL) which sets out the Council's responsibilities and the Audit Director's responsibilities as Appointed Auditor. Audit NZ issues this letter when it issues a new APL and it remains in place over the same period (3 years). It avoids the need for Audit NZ's responsibilities to be repeated in the Audit Arrangements Letter each year.
 3. The Audit Arrangements Letter (AAL) sets out the areas of audit focus and the audit logistics for the current year.
- 3.2 While the letters are in final form and ready for printing and signing once they have been approved, the AAL and APL can be treated as draft documents. While the AEL is a more formal document sent to Council from Audit NZ on behalf of the Auditor General. The other letters are more specific and can be subject to Councillor input and negotiation.

4. Issues for Consideration

- 4.1 Normally the Audit Director, Debbie Perera, would be available to speak to the Subcommittee about these letters. However Debbie is unavailable on 28 June at the time of the meeting but has made herself available to meet with the Chair, Mayor and Officers earlier on the 28th.

- 4.2 The APL sets out the proposed fee structure for the three years. The coming audit represents a 4% increase on last years budgeted fees and 5.5% on what was actually charged. Councilors attention is drawn to the fact that the actual hours, above budgeted hours, disclosed in doing the 2016 audit did not affect the final audit fee for last year's audit.
- The 2017/18 Annual Plan has \$145,000 as the Annual Report Audit budget against the Audit NZ estimate of \$149,000.
- 4.3 Also, the audit of the LTP, which will occur early in 2018, is over and above the fee disclosed in the APL and not included in this letter. The LTP audit will be subject to its own appointment criteria, which will come to Council at a later date. Council has budgeted \$85k for this audit. The last LTP audit costs were \$83k.
- 4.4 The AAL is more focused on the audit that will occur for the 2016/17 financial year. It sets out the various responsibilities of Audit and HDC as well as the areas that the Auditor General is looking into across all of New Zealand Local Government. This year that area is water. Not all aspects of this will affect us as some areas relate to regional council responsibilities as well e.g. "improving the quality of our rivers, lakes and other water bodies".
- 4.5 The letter also points out some key milestone dates on page 6, the most important of these are;
- Draft financial statements available for audit 7 August.
- Note that this is 2 days prior to the next Finance, Audit and Risk (FAR) Subcommittee meeting scheduled for 9 August, where, normally, the Subcommittee would satisfy itself and gain assurance from management about the adequacy of draft before being released to audit.
- The financial statements are similar to what Council receives in a quarterly report except the service performance non-financial reporting. Therefore, the Subcommittee will be able to see the financial result, including the depreciation effect of the infrastructural asset valuations as well as the increase in values. It will also show the debt levels and changes in debt. Reporting against the non-financial service levels will also be available as part of the Quarterly report for June that will be on the agenda for that meeting.
- Final audit begins on 14 August for a fortnight
 - Annual report available for audit 14 August. This is the full Annual Report including the Mayor/CE's overview.
 - Final financial statements available for audit 28 August.
- The Subcommittee may want to call an extra-ordinary meeting at this point to review and recommend adoption of the Annual Report to Council. Any changes to the report from that which was reviewed at the 9 August FAR meeting would be as a result of issues raised and settled with audit during the audit process. This may be an opportunity to ask the audit director to attend the meeting to discuss the final report.
- Verbal audit clearance 29 September, in time for inclusion of the Annual Report adoption on the Council agenda for the scheduled full council meeting of 11 October.
 - Audit opinion issued 11 October for the adoption at the Council meeting of that day. Of note here is that Council cannot delegate the adoption of the Annual Report to a subcommittee.
- 4.6 The FAR Subcommittee has, therefore, one and possibly two opportunities to review the Annual Report before its adoption by Council on 11 October, i.e. 9 August and any extraordinary subcommittee meeting on or about 28 August. Note there is a Council meeting set for 30 August. The next available FAR Subcommittee meeting is set for the 20

September. This meeting is too late in the process as it is close to the audit clearance date of 29 September.

Attachments



No.	Title	Page
A	Audit NZ Engagement Letter 2017 - 2019	18
B	Audit NZ arrangements letter 2016/17 audit	31
C	Audit NZ Proposal and fee setting Letter 2017-19	50

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law Chief Financial Officer	
Approved by	Doug Law Chief Financial Officer	

19 June 2017

31 Amesbury Street
PO Box 149, Palmerston North 4440

Phone: 04 496 3099

Michael Feyen
Mayor
Horowhenua District Council
Private Bag 4002
Levin 5540

Dear Michael

Audit engagement letter

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all "public entities", including Horowhenua District Council, under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Debbie Perera, using the staff and resources of Audit New Zealand, under section 32 and 33 of the Act, to carry out the annual audits of the Horowhenua District Council's financial statements and performance information. We will be carrying out these annual audits on the Auditor-General's behalf, for the years ending 30 June 2017 to 30 June 2019.

This letter outlines:

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

The objectives of the annual audit are:

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

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

concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

Your responsibilities

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

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

In addition, the Horowhenua District Council is responsible:

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

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

- the resources, activities, and entities under its control have been operating effectively and efficiently;
- it has complied with its statutory obligations including laws, regulations, and contractual requirements;

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

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

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

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

Our responsibilities

Carrying out the audit

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

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

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

- presents fairly, in all material respects, the performance for the financial year, including:
 - its performance achievements as compared with forecasts included in the Long Term Plan or Annual Plan for the financial year; and
 - its actual revenue and expenses as compared with the forecasts included in the Long Term Plan or Annual Plan for the financial year.and
- complies with generally accepted accounting practice in New Zealand.

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

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

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

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the Council and the Horowhenua District Council have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the Council obtained and applied the resources of the Horowhenua District Council in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the Council and the Horowhenua District Council have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of a lack of financial prudence.

Our independence

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

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

Reporting

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee of the audit report.¹

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

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

Next steps

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

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

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

Yours sincerely



Debbie Perera
Director
On behalf of the Auditor-General

¹ If an audit report is going to be issued on the public entity's summary financial and performance information, then the following text should be included at the end of this paragraph:
"In addition, we will issue an audit report that will be attached to the summary financial statements [and summary performance information]. This audit report will contain an opinion that provides the same level of assurance as the audit report on the full financial statements [and full performance information]."

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

Signature:

Name: Michael Feyen

Title: Mayor

Date:

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

Responsibilities of the Council	Responsibility of the Appointed Auditor
Responsibilities for the financial statements and performance information	
<p>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.</p> <p>You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.</p> <p>You are required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</p>	<p>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:</p> <ul style="list-style-type: none"> • present fairly, in all material respects: <ul style="list-style-type: none"> ○ the financial position; and ○ the financial performance and cash flows for the financial year; • comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards. <p>We are also responsible for forming an independent opinion on whether the performance information:</p> <ul style="list-style-type: none"> • presents fairly, in all material respects, the performance for the financial year, including: <ul style="list-style-type: none"> ○ the performance achievements as compared with forecasts included in the statement of performance expectations for the financial year; and ○ the actual revenue and expenses as compared with the forecasts included in the Long Term Plan or Annual Plan for the financial year. • complies with generally accepted accounting practice in New Zealand <p>We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements and performance information.</p>

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

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

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

Responsibilities of the Council	Responsibility of the Appointed Auditor
Responsibilities for compliance with laws and regulations	
<p>You are responsible for ensuring that Horowhenua District Council has systems, policies, and procedures (appropriate to the size of Horowhenua District Council) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of Horowhenua District Council are complied with. Such systems, policies, and procedures should be documented.</p>	<p>We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including:</p> <ul style="list-style-type: none"> • the relevance of the law or regulation to the audit; • our assessment of the risk of non-compliance; • the impact of non-compliance for the addressee of the audit report <p>The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance.</p> <p>We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws and regulations.</p>
Responsibilities to establish and maintain appropriate standards of conduct and personal integrity	
<p>You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a "Code of Conduct" and, where applicable, support the "Code of Conduct" with policies and procedures.</p> <p>The expected standards of conduct and personal integrity should be determined by reference to accepted "Codes of Conduct" that apply to the public sector.</p>	<p>We will have regard to whether you maintain high standards of conduct and personal integrity – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of Horowhenua District Council may not have acted in accordance with the standards of conduct and personal integrity expected of them.</p> <p>The way in which we will report instances that come to our attention will depend on significance. We will report to you and to the Auditor-General all significant departures from expected standards of conduct and personal integrity that come to our attention during the audit.</p> <p>The Auditor-General, on receiving a report from us, may, at his discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.</p>

Responsibilities of the Council	Responsibility of the Appointed Auditor
Responsibilities for conflicts of interest and related parties	
<p>You should have policies and procedures to ensure that your members and employees carry out their duties free from bias.</p> <p>You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.</p>	<p>To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions. Depending on the circumstances, we may enquire whether you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.</p>
Responsibilities for publishing the audited financial statements on a website	
<p>You are responsible for the electronic presentation of the financial statements and performance information on the public entity's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented.</p> <p>If the audit report is reproduced in any medium, you should present the complete financial statements, including notes, accounting policies, and any other accountability statements.</p>	<p>Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on your website is beyond the scope of the annual audit.</p>

Appendix 2: Health and safety of audit staff

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015 we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a work environment for our audit staff that is without risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

19 June 2017

31 Amesbury Street
PO Box 149, Palmerston North 4440

Phone: 04 496 3099

Michael Feyen
Mayor
Horowhenua District Council
Private Bag 4002
Levin 5540

Dear Michael

Audit for the year ending 30 June 2017

I am writing to outline our arrangements for the audit of Horowhenua District Council for the year ending 30 June 2017. This letter has two main sections – an agreement to be signed, and details of the audit.

Agreement to be signed

On the next page is an agreement for you to sign. Your signature confirms that the details of the audit match your understanding of the arrangements for this year's audit.

Please sign and return one copy of the agreement, along with a copy of the details of the audit.

Details of the audit

Here we set out the proposed arrangements for this year's audit. These include:

- business risks/issues and our audit response;
- areas of interest for all Councils; and
- logistics (such as our audit team, timing, and fees).

Additional information attached

We have attached three appendices for your information:

- Appendix 1: Additional information about the audit;
- Appendix 2: Areas of interest for all Local Authorities; and
- Appendix 3: Information we will need, with space for you to record who will take responsibility for providing this information and when it will be available

Please take the time to read this document thoroughly before returning the signed agreement. If there are additional matters that should be included, or any matters requiring clarification, please contact me.

H&DC 17/1 AAL

Yours sincerely



Debbie Perera
Director

Agreement to be signed

I acknowledge that the details of the audit set out here are in keeping with my understanding of the arrangements for the audit.

Signed _____ Date _____
Michael Feyen
Mayor

Details of the audit

1 Introduction

This document sets out the arrangements for the audit of Horowhenua District Council (the Council) for the year ending 30 June 2017. These include:

- business risks/issues and our audit response;
- areas of interest for all Councils; and
- logistics (such as our audit team, timing, and fees).

2 Your business risks/issues and our audit response

Based on the planning work and discussions that we have completed to date, we have identified what we consider to be the main business risks and issues facing the Council. Many of these risks and issues are relevant to the audit because they affect our ability to form an opinion on your financial statements. As part of the wider public sector audit, we are also required to be alert to issues of effectiveness and efficiency, waste and a lack of probity or financial prudence (as set out in the Audit Engagement Letter.

The table below sets out the business risks and issues that we have identified in line with these requirements. The left-hand column describes these risks and issues. In the right-hand column, we describe how we plan to respond to these during the audit.

Your business issue	Our Audit response
Service Performance Reporting	
<p>The Non-Financial Performances Measures Rules 2013 promulgated by the Department of Internal affairs specify a set of standard performance measures for local authorities. The measures were included in the District Council's 2015-25 long term plan, and must be reported against in the 2017 annual report. As part of our 2016 audit we reviewed the systems that the District Council has in place to report against these measures. We noted that while the District Council did a lot of work to ensure that the measures were able to be reported against, we also made recommendations on how these systems could be improved.</p>	<p>We will again review the systems in place for capturing information used to report on the performance measures.</p> <p>We will follow up our prior year recommendations. If we find issues with the systems and/or processes, we will advise you.</p> <p>We will also review the District Council's performance reporting in its annual report and form a view on whether the District Council's performance information fairly reflects the actual performance of the District Council for the year.</p>

Your business issue	Our Audit response
Revaluation of Property, Plant and Equipment	
<p>The District Council periodically revalues its operational and infrastructural assets. PBE IPSAS 17, Property, Plant and Equipment, requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>We understand the District Council will undertake a revaluation of infrastructure assets for the purposes of the 30 June 2017 annual report.</p>	<p>We will review the revaluation to:</p> <ul style="list-style-type: none"> • assess the valuation process, including the competence and experience of the person completing the valuation; • test the validity of the assumptions adopted and whether they have been applied consistently; • test the integrity of the underlying data used for the valuation; • review the valuation report to assess whether the requirements of PBE IPSAS 17 <i>Property, Plant and Equipment</i> (including the appropriateness of the valuation basis) have been met; • ensure changes to values and depreciation charges have been appropriately accounted for; and • assess the presentation and disclosure of information related to the valuation in the financial statements. <p>As part of the process, we will:</p> <ul style="list-style-type: none"> • enquire into the processes employed by the District Council to ensure that the items revalued are complete, and any items excluded from the revaluation are identified and the reason for their exclusion is documented; • review the District Council's process to satisfy itself that overall the revaluation results are appropriate; and • obtain an assurance letter from the valuers and, if appropriate, hold discussions with the valuers to understand the valuation methodology and results.

Your business issue	Our Audit response
Risk of management override of controls and fraudulent financial reporting	
Professional auditing standards require us to consider fraud risks in all audits we perform, including the risk of management override of control. Management is in a powerful position to perpetrate fraud due to its ability to override controls that appear to be operating effectively.	We will carry out substantive audit procedures, including review of journal entries, accounting estimates and significant transactions that are outside the normal course of business. We will incorporate an element of unpredictability in our audit testing through random sampling. We will also assess whether relevant controls are designed effectively in a way that reduces the risk of override.
Amalgamation of the Te Horowhenua Trust assets and operations	
As a result of the disestablishment of the Te Horowhenua Trust the assets and operations of the Trust have been brought back into Council as at 1 July 2016. Council will need to ensure that the assets are appropriately recognised and that any variances to budget as the result of the change are clearly explained.	We will review the amalgamation of the Trust assets and operations and review the disclosures in the annual report.

We will also follow up on progress made by the Council in its response to our previous recommendations.

Please tell us about any additional matters that we should be aware of as your auditor, and any specific significant business risks that we have not covered.

3 Our areas of interest for all Local Authorities

As part of our audit planning there are areas that are significant to the audit of all Local Authority clients as detailed below in appendix 2

4 Matters of particular interest to the Auditor-General

The Office of the Auditor-General (OAG) completes a work programme with an annual theme.

The 2017/18 OAG area of interest or theme is "Water". This is of special interest as it is a significant natural resource that New Zealanders rely on, for long-term health, economic, environmental, social and cultural well-being. The OAG's Water theme allows the OAG to provide an independent view on the extent to which this is happening and the opportunities and risks arising.

Potential topics being considered include:

- providing safe and reliable drinking water;
- improving the quality of our rivers, lakes and other water bodies;

- dealing with competing demands for a limited resource – water demand management approaches and allocation;
- addressing the effect of climate change – flood risk, sea level rise, and drought; and
- managing the coastal and marine environment – for example aquaculture, managing the Exclusive Economic Zone, and planning for and managing climate change effects on coastal areas.

We will keep you informed if there are any areas of work for us to specifically cover during our audit as part of this theme.

5 Logistics

5.1 Our audit team

The Audit New Zealand staff involved in the audit are:

Debbie Perera	Director
John Mackey	Engagement Quality Control Director
Fiona Elkington	Audit Manager
Gerhard van den Berg	Audit Supervisor
Bruce Edwards	Information Systems Auditor
Jason Biggins	Tax Director

5.2 Important dates in the audit process

Our proposed timetable is:

	Date
Interim audit begins	7 February 2017
2 nd Interim audit begins	29 May 2017
Draft interim management report issued	23 June 2017
Pre-Final audit visit	26 June 2017
Draft financial statements available for audit ¹	7 August 2017
Final audit begins	14 August 2017
Final financial statements available ² for audit	28 August 2017
Verbal audit clearance given	29 September 2017
Annual report ³ available for audit	14 August 2017
Audit opinion issued	11 October 2017
Draft final detailed management report issued	31 October 2017

5.3 Our interim audit visit

We will carry out the interim audit during February and May 2017. During this visit, we will focus on updating our understanding of the Council's internal control. This includes reviewing the control environment, risk assessment processes and relevant

¹ Financial statements (including notes to the financial statements) with actual year-end figures.

² Financial statements incorporating all the amendments agreed to between District Council and Audit New Zealand.

³ Annual report, including any Chair's and Chief Executive's overview or reports.

aspects of information systems controls. We will use the results of this assessment to determine how much we can rely on the information produced from your systems during our final audit.

5.4 Our final audit visit

Our final audit is scheduled to start on 14 August 2017 and is expected to last 3 weeks. During this visit we will be auditing the balances, disclosures, and other information included in your financial statements.

We will carry out a pre-final visit in the week 26 June 2017. The primary focus of this visits is to complete our testing and review over results being incorporated in the statement of service performance for the mandatory measures, complete as much of our end of year testing over key balances such as revenue, expenditure and fixed assets as possible. We will also review the revaluations performed over Council Infrastructure assets.

5.5 Professional fees

Our audit fee estimate for the year ending 30 June 2017 will be agreed as part of our Audit Proposal Letter (refer to letter dated 16 June 2017).

The fee is an estimate and assumes that the expectations discussed in section 4.2 will be met. If this does not occur, or the scope of the audit changes, we will discuss this further with you.

We propose to bill progressively throughout the audit.

To ensure we can complete the audit within the proposed time frame (see section 4.2) and agreed fee, it is critical that you make appropriate supporting documentation available to us on a timely basis. If this is not the case, it is likely to result in cost overruns, which we will seek to recover from you.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. To help you prepare for the audit, a schedule of the information that we will need for the audit is included in Appendix 3.

Appendix 1: Additional information about the audit

Our reporting protocols

Management reports

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

Reporting of misstatements

We will include details of all uncorrected misstatements in our management report. Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of the Council's financial statements.

During the audit, we will provide details of any such misstatements we identify to an appropriate level of management. We will ask for each misstatement to be corrected in the Council's financial statements. Where management does not wish to correct a misstatement we will seek written representations from representatives of the Council's governing body that specify the reasons why the corrections will not be made.

Our expectations of you to enable an efficient audit

To enable us to carry out our audit efficiently within the proposed audit fee, we expect that:

- the Council will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide an appropriate level of assistance;
- the financial statements will be available at the start of the final audit, include all relevant disclosures, and be fully supported by a detailed workpaper file; and
- the annual report and financial statements (including the statement of service performance) will be subjected to appropriate levels of quality review before submission for audit.

Our audit fee is based on the assumption that we will review no more than two sets of the draft annual report, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report for publication on the Council's website.

Using your internal auditors

Our approach will be to continue to liaise with your internal auditors to ensure appropriate co-ordination of effort. In keeping with the applicable auditing standard, ISA (NZ) 610, *Using the Work of Internal Auditors*, we will make a preliminary assessment of the internal audit function in terms of organisational status, scope, technical competence, and professional care.

If we determine from our preliminary assessment that the internal audit function could be relied on for external audit purposes then we will consider the internal audit work proposed or completed. We will then determine the extent to which we can use the internal audit work to supplement our audit work.

How we consider your compliance with statutory authority

As part of the Auditor-General's mandate, we carry out an audit of compliance with statutory authority. Our audit is limited to obtaining assurance that you have complied with certain laws and regulations that may directly affect the Council's financial statements or general accountability. Our audit does not cover all of the Council's requirements to comply with statutory authority.

Our approach to this aspect of the audit will mainly involve assessing the systems and procedures that are in place to ensure compliance with certain laws and regulations that we consider to be significant. We will also complete our own checklists covering the key requirements of significant legislation. In addition, we will remain alert for any instances of non-compliance that come to our attention. We will evaluate the relevance of any such non-compliance to our audit.

Appendix 2: Other areas of interest for all Local Authorities

As well as the risks and issues noted above in section 2, there are also a number of other concerns common to the Local Government sector. The table below outlines our areas of interest for this year's audit. The left hand column describes each matter and the reasons for our interest. In the right hand column, we describe how we plan to address each matter during the audit.

Areas of interest	Our audit response
Rating process	
<p>Rates are the Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. The Council should have appropriate processes in place to ensure this happens.</p> <p>Where issues or concerns arise, the Council should seek legal advice to ensure compliance with legislation of its rates and rating processes.</p>	<p>For 2017 we will again consider Council's compliance with aspects of the LGRA that materially impact on the financial statements. Principally this means a focus on the rates setting process – the consistency and completeness of the resolution and the Funding Impact Statement (FIS), and reviewing a sample of differentially set and/or targeted rates to assess whether the matters and factors used are consistent with the LGRA.</p> <p>We stress that our review of compliance with legislation is completed for the purposes of expressing our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The Council has responsibility for ensuring that it complies with applicable laws and regulations</p>
Elected members – remuneration and allowance	
<p>The Local Government Act gives the Remuneration Authority responsibility for setting the remuneration of local government elected members. The Authority also has the role of approving a Local Authority's policy on allowances and expenses.</p> <p>Council's annual report must disclose the total remuneration received by or payable to each member of the local authority in the reporting period.⁴ A local authority must disclose remuneration paid or payable to each member from both the local authority and any Council organisation of the local authority.</p>	<p>We will assess the Council's compliance with the requirement to disclose the remuneration of each member of the local authority in the annual report against the relevant Local Government Elected Members Determination and any amendment to that Determination.</p>

⁴ Schedule 10, clause 18, Local Government Act 2002.

Areas of interest	Our audit response
Conflicts of interest	
<p>Conflicts of interest are an area of concern from two perspectives; probity and the potential for a conflict of interest that is not well managed to create significant legal and reputation risks. During 2007, the Office of the Auditor-General (OAG) published two sets of guidance for entities in this area.</p> <ul style="list-style-type: none"> • <i>Managing conflicts of interest: guidance for public entities</i>, explains how to understand conflicts of interest in the public sector, and how to identify, disclose, and manage them. It also considers both the legal and ethical dimensions of conflicts of interest. • The 2010 publication <i>Guidance for members of local authorities about the Local Authorities (Members' Interests) Act 1968</i> provides more specific guidance for Councillors. This is an updated version of previously published guidance about the legal requirements that apply to Council members in formal decision-making at meetings of their authority. <p>The Local Authorities (Members' Interests) Act 1968 controls the making of contracts between Councillors and the Council and prevents Councillors from participating in Council matters in which they have a pecuniary interest.</p>	<p>While it is primarily the responsibility of the Council to identify and manage conflicts of interest, in the course of our usual audit work we will remain alert for conflicts of interest.</p> <p>If we identify particular risks related to the management of conflicts of interest, we may carry out further work to review the Council's systems and processes.</p>
Project management	
<p>Taking a project-managed approach is an important part of effectively controlling capital works, changes to key IT systems and the process of change more generally – whether that is change to service delivery, or change to the way the entity works.</p>	<p>We will review the Council's approach to project management and consider whether an adequate control framework is in place and operating effectively.</p>
Legislative reporting disclosures	
<p>Schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 detail disclosures to be included in the Annual Report. Council should review these requirements to ensure all disclosures have been included in the annual report.</p>	<p>We will check that all the disclosures required by schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 have been appropriately included in the Council's annual report.</p>

Areas of interest	Our audit response
Control environment – probity and transparency	
<p>Under our audit mandate, we are required to be alert for and review matters of effectiveness and efficiency, waste, and a lack of probity or financial prudence. These matters could include the following:</p> <ul style="list-style-type: none"> • Situations where those in governance or management roles have conflicts of interest. • The payment of unusually high or unjustifiable fees to those in a governance role. • Excessive or unusual ex gratia payments made to employees. • Frequent overriding of policies for sensitive expenditure. 	<p>In the course of our usual audit work, we will remain alert for matters of performance, waste and probity. Specifically, we will:</p> <ul style="list-style-type: none"> • Remain alert for conflicts of interest. It is important that both the District Council and councillors identify and manage compliance with the Local Government (Members' Interests) Act 1968. • Confirm that the District Council has complied with the relevant Local Government Elected Members Determination and disclosed the remuneration of each member in the annual report. • Review a sample of severance payments made by the District Council and confirm that these payments are appropriately disclosed in the annual report. <p>Review a sample of sensitive expenditure transactions for compliance with the District Council's internal policies.</p>
Funding arrangements and procurement	
<p>The Auditor-General continues to have an interest in the appropriate management of funding arrangements and procurement throughout the public sector.</p> <p>The OAG has published two reports which are available on the OAG website:</p> <ul style="list-style-type: none"> • Public sector purchases, grants, and gifts: Managing funding arrangements with external parties; and • Procurement guidance for public entities. <p>More recently the Ministry of Business, Innovation and Employment issued the Government Rules of Sourcing including principles of government procurement, which came into force in October 2013. Agencies in the Public Sector are encouraged to apply the Rules as good practice.</p> <p>We recommend that Council's policies and procedures for funding arrangements and procurement be compared to the guidance provided in these reports.</p>	<p>We will follow up on whether the Council has updated its policies and guidance in line with both the OAG publications. We may also review whether procurement practices reflect Council policy and good practice.</p>

Areas of interest	Our audit response
Contract management	
<p>Contract management is an important component of procurement. Contract management includes the effective management and monitoring of the delivery of goods or services to the agreed levels. It is essential to ensuring that the Council obtains value for money from the contracts its procurement processes have put in place.</p> <p>Contract renewals provide opportunities for the Council to refresh contract expectations and deliverables to align to the LTP. This can also provide opportunities for efficiencies or other savings.</p>	<p>We will discuss the contract management process the Council has and consider whether there is appropriate management. Where we identify particular risks related to contract management we may carry out additional work to review the Council's policies, procedures or approach to contract management in practice.</p>
Information technology	
<p>The Council is dependent on its IT systems. The reliability of the IT systems, technology platforms, and associated controls is critical to maintaining the integrity of the Council's data and ensuring continuity of services to its customers. The integrity of the IT systems supports the timely reporting of a quality Annual Report.</p> <p>We understand that Council is continuing to implement changes and improvements to information technology systems and capability and reviewing how IT services should be delivered.</p>	<p>We will be completing a review of the Council's IT General Controls (ITGC), which will include:</p> <ul style="list-style-type: none"> • IT security (network and applications); • business continuity and IT disaster recovery; • change management; and • operations, problems and incident management. <p>We will also maintain an awareness of any planned or implemented initiatives and the impact these may have on the Council's processes and control environment.</p> <p>We will assess any impact such initiatives will have on our audit approach and requirements.</p> <p>To assist the audit team in performing their testing our IS auditors will perform data analysis on selected business processes, such as journals, and will performing testing on automated IT application controls.</p>
Risk management	
<p>Sound risk management processes help to minimise the impact of risks on the organisation. Where the Council has not identified risks, or has not put in place specific processes for managing these risks, the organisation remains exposed to the full impact of the particular risk.</p>	<p>We will ascertain whether the Council has, or is implementing a formal organisation-wide approach to risk management.</p> <p>We will perform a high level review of the broad approach taken and the processes in place.</p>

Appendix 3: Information we will need

In the table below we have listed the information that we will need during the audit. It would be helpful if you could record in the table who will take responsibility for preparing this information and when you expect it to be available. This will help us to plan the audit.

Information we will need	Who is responsible	Date available
Pro-forma financial statements		
Financial statements (including the Statement of Service Performance) with last year's comparatives and the budget figures and performance measures in the proposed reporting format.		July 2017 or earlier
Draft financial statements		
A complete set of financial statements with all balances that agree to supporting 'leadsheets'. These should include the accounting policies, a Statement of Comprehensive Income, a Balance Sheet, a Statement of Cash Flows, notes to the accounts and explanation of variances to budget. A draft Statement of Service Performance.		7 August 2017
Final draft financial statements		
Financial statements incorporating all the amendments agreed to between the Council and Audit New Zealand.		28 August 2017
Annual report		
Annual report, including the Chair's and Chief Executive's overview or reports.		18 August 2017
General information		
Supporting schedules for all balances with figures for the current year, budget and last year, along with the dollar and percentage movement. Explanations for variances \pm 10% or \$50,000. Supporting schedules that agree to the general ledger and to the financial statements, with supporting documentation for any adjustments between the general ledger and the financial statements. Additional, more detailed, supporting schedules where balances are made up of a number of GL accounts providing the applicable GL code. This should clearly show which ledger account codes combine to form each individual figure in the financial statements. Workpapers clearly documenting how the figures in the Statement of Cash Flows were calculated.		14 August 2017

Information we will need	Who is responsible	Date available
<p>Reconciliation of all figures in the Statement of Cash Flows back to the Income Statement and Balance Sheet and supporting schedules.</p> <p>Copy of the trial balance.</p>		14 August 2017
<p>Minutes</p> <p>Council and sub-committee minutes for the year ending 30 June 2017 and all subsequent minutes up to the date the audit opinion is signed.</p>		Available at each audit visit
<p>Journals</p> <p>Listing of all journals entries for the year.</p>		14 August 2017
<p>Cost allocation</p> <p>Supporting schedule showing total expenditure by activity.</p> <p>Report showing allocation of costs to each activity.</p> <p>Description of methodology used for allocating costs to the activities.</p> <p>Details of any changes to cost drivers or "pre-determined rates":</p> <ul style="list-style-type: none"> • between this year and last year; and • during this year. 		14 August 2017
<p>Cash and bank</p> <p>List of all bank accounts and bank numbers.</p> <p>List of authorised cheque signatories as issued to the banks identified above.</p> <p>Bank account reconciliations to 30 June 2016 including:</p> <ul style="list-style-type: none"> • schedule of unpresented cheques and/or unprocessed direct payments; • schedule of deposits in transit; and • schedule of any other unreconciled items and an explanation of how they have been accounted for.. <p>Confirmation of any other bank arrangements.</p> <p>Details of last cheque issued and last deposit made for the year.</p> <p>Details of the first cheque issued and first deposit made for the new financial year.</p> <p>Approved banking policies.</p> <p>All bank statements from the start of the financial year until the date of the audit.</p>		14 August 2017

Information we will need	Who is responsible	Date available
Debtors Debtors listing, reflecting gross receivable and ageing. Sundry debtors accrual schedule. Reconciliation of debtors listing to general ledger. Details of provision for doubtful debts calculation. Schedule of all debtors written off during the period. Debtor account reconciliations for the year to 30 June 2016.		14 August 2017
Derivatives Listing of swap arrangements entered into by the Council as at 30 June 2016. Copies of external swap valuations.		14 August 2017
Non-current assets held for sale Listing of all assets held for sale as at 30 June 2016. Supporting documentation for valuation at year-end.		14 August 2017
Prepayments Listing of all year-end prepayments.		14 August 2017
Property, plant and equipment (including infrastructure) and intangible assets Fixed asset register. Details of asset maintenance and management plans. Movement reconciliation for the year outlining additions, disposals, and depreciation. Supporting documentation for additions/disposals and write off of any assets. Reconciliation of fixed asset register to the general ledger. Schedule of capital work in progress at 30 June 2017 and an indication of when each asset is likely to start accruing benefits and when it is likely to be operational.		14 August 2017
Schedule of Additions and work in progress year to date		5 June 2017
Asset revaluations – investment properties and forestry assets Name and addresses of all valuers used. Copies of any valuation reports. All journal entries posted to account for any revaluation.		29 May 2017 or earlier if possible

Information we will need	Who is responsible	Date available
<p>Creditors, accruals and provisions</p> <p>Complete listing of creditors, accruals and provisions as at 30 June 2016. Supporting documentation for all creditors, accruals and provisions over \$20,000. Reconciliation of creditors, accruals and provisions control to the general ledger.</p>		14 August 2017
<p>Term debt</p> <p>Listing of all term loans outstanding as at 30 June 2016. Details should include balances outstanding at year-end, effective interest rates and interest costs.</p>		14 August 2017
<p>Debenture Trust</p> <p>Most recent debenture trust deed. Reporting certificate as at 30 June 2016 Confirmation of any events of default during the financial year.</p>		July 2017
<p>Suspense accounts</p> <p>Reconciliation of all suspense accounts.</p>		14 August 2017
<p>Equity</p> <p>Supporting documentation for any movement in equity not attributable to the net surplus or deficit.</p>		14 August 2017
<p>Commitments</p> <p>Schedule of commitments at 30 June 2016. Supporting documentation for all commitments.</p>		14 August 2017
<p>Contingencies</p> <p>Schedule of all contingencies and guarantees at 30 June 2016. Supporting documentation for all individual items. Names, addresses of all solicitors/barristers used by the Council and description of matter and estimate of the financial settlement. (A legal letter template to be provided by us).</p>		14 August 2017
<p>Tax</p> <p>GST returns to 30 June 2016. A reconciliation of the balance of GST payable in the general ledger to the last GST return. The current year tax calculation, deferred tax proof, and supporting work papers</p>		14 August 2017

Information we will need	Who is responsible	Date available
The latest IRD statement of account for income tax (if any). All tax advice, binding ruling applications, tax compliance reports, and IRD correspondence.		
Revenue A reconciliation of general ledger to financial statements. Explanations for variances greater than 10% and \$50,000 when the figure is compared to the previous year and budget.		14 August 2017
Development contributions Listing of development contributions recognised as revenue for the year ended 30 June 2016. Supporting documentation for all development contributions revenue greater than \$50K.		14 August 2017
Expenditure A reconciliation of general ledger to the financial statements. A reconciliation of lease/rental charges to lease agreements. A listing of the fees paid and/or payable to each member of the Council for the year. A listing of expenses incurred by, or on behalf of, Council members during the year (by member). For all general ledger balances, a comparison (with explanations of variances greater than \$50,000 or 10%.) of the actual expenditure for this year against: <ul style="list-style-type: none"> • the budget for this year; and • actual for the previous year. 		14 August 2017
Payroll A reconciliation of the payroll system and the general ledger for the year. Breakdown of the financial statements figure into the various ledger balances. Schedule of any major changes and effective date, for example, wage increases since the last audit. Listing, generated from the payroll system, of new employees and employees who have left, and all performance, redundancy and severance payments. Schedules/workpapers supporting annual, retirement, and long service leave accruals (reconciled to the general ledger and the financial statements). Listing of all bonuses paid during the year.		14 August 2017

Information we will need	Who is responsible	Date available
Service performance reporting Evidence to support the reported results for each performance target in the Statement of Service Performance. Explanations for significant variances by activity.		14 August 2017
Compliance with statutory authority Details of the compliance systems and any changes since the last audit.		14 August 2017

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

31 Amesbury Street
PO Box 149, Palmerston North 4440

16 June 2017

Phone: 04 496 3099

Ref.: P111

Michael Feyen
Mayor
Horowhenua District Council
Private Bag 4002
Levin 5540

Copy: Director Auditor Appointments
Office of the Auditor-General
PO Box 3928
Wellington

Dear Michael

Proposal to conduct the audit of Horowhenua District Council and subsidiaries on behalf of the Auditor-General for the 2017, 2018 and 2019 financial years

1 Introduction

The Auditor-General has appointed me to carry out the audit of your organisation for the next three years. As required by the Office of the Auditor-General (OAG), I set out below information relating to the audit for the three financial years ending 30 June 2017, 2018 and 2019. The purpose of this proposal is to provide information on:

- the statutory basis for the audit and how audit fees are set;
- the entities covered by this proposal;
- key members of the audit team;
- the hours we plan to spend on the audit and reasons for any change in hours;
- our proposed fees for the audit for the financial years ending 30 June 2017, 2018 and 2019 and reasons for any change;
- assumptions relating to the proposed audit fees, including what we expect of your organisation;
- what the OAG overhead charge provides;
- certification required by the Auditor-General; and
- our commitment to conduct the audit in accordance with the Auditor-General's Auditing Standards.

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

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

Fees for audits of public entities are set by the Auditor-General under section 42 of the Public Audit Act 2001. However, your Council and I have the opportunity to reach agreement first and recommend those fees for approval. The Auditor-General, with assistance from the OAG, will set audit fees directly only if we fail to reach agreement.

Our proposed audit fees are set out in this letter and include an estimate of the reasonable cost of disbursements (including travel and accommodation where necessary).

3 Entities covered by this proposal

This proposal covers the audit of the Horowhenua District Council

4 Key members of the audit team

Appointed Auditor	Debbie Perera
Quality Control Reviewer	John Mackey
Audit Manager	Fiona Elkington
Supervising Senior	Gerhard van den Berg

5 Estimated audit hours

We estimate that the following hours will be required to carry out the audits (compared to budgeted and actual data from the previous financial year):

Audit team member	2016 budget	2016 actual	2017	2018	2019
Appointed Auditor	70	152	72	72	72
EQCR Director	8	8	8	8	8
Audit Manager	90	153	93	93	93
CA Qualified Staff	300	534	208	208	208
Non CA Qualified Staff	304	377	490	490	490
Sector Specialist Support	10	0	8	8	8
Specialist Services - Assurance	0	9	10	10	10
Information Systems	23	17	23	23	23
Tax specialist	2	2	2	2	2
Total audit hours	807	1,252	914	914	914

5.1 Reasons for changes in audit hours

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

Reasons for increased or decreased audit hours compared to previous period <u>budgeted</u> hours:	2017	2018	2019
Changes to local government reporting obligations.	22	-	-
We have changed the hours and mix to better reflect the work we need to do on an on-going basis.	85	-	-
Total increase (decrease) in audit hours	107	-	-

Changes to the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014 require additional reporting disclosures by councils. These additional disclosures have to be audited as part of the annual report and have been introduced since the last Audit Proposal Letter was agreed.

While we have changed the hours and mix to better reflect the work we need to do on an ongoing basis, this does not equate to a change in audit fee. Refer to the table in 6.1.

6 Proposed audit fees

Our proposed fees for the next three audits (compared to budgeted and actual data from the previous financial year) are:

Structure of audit fees	2016 budget	2016 actual	2017	2018	2019
	\$	\$	\$	\$	\$
Net audit fee (excluding OAG overhead and disbursements)	129,257	129,257	136,425	138,008	139,704
OAG overhead charge	11,693	11,693	12,223	12,471	12,721
Total audit fee (excluding disbursements)	140,950	140,950	148,648	150,479	152,425
Estimated disbursements	10,139	8,022	8,500	8,500	8,500
Total billable audit fees and charges	151,089	148,972	157,148	158,979	160,925
GST	22,663	22,346	23,572	23,846	24,139
Total (including GST)	173,752	171,318	180,720	182,825	185,064

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG overhead charge. We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

6.1 Reasons for changes in audit fees

The main changes in cost components for future audits are:

Reasons for increased or decreased audit fees compared to previous period budgeted fees.	2017	2018	2019
Predicted increases in our costs.	4,230	1,831	1,946
Changes to local government reporting objectives (LGA etc).	3,468	0	0
We have changed the hours and mix to better reflect the work we need to do on an on-going basis.	0	0	0
Total increase (decrease) in audit fees	7,698	1,831	1,946

The predicted increases in our costs reflects the increases in staff costs.

The changes to local government reporting obligations and the change in hours and mix are explained in section 5.1.

7 Assumptions relating to our audit fee

Our proposed audit fees are based on the following assumptions:

- You will provide to us in a timely manner the complete information required by us to conduct the audit.
- Your staff will provide us with an appropriate level of assistance.
- Your organisation's annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review before being submitted to us for audit.
- Your organisation's financial statements will include all relevant disclosures.
- We will review up to two sets of draft annual reports, one printer's proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website).
- There are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us).
- There are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work.
- There are no significant changes to mandatory auditing standards that require additional work other than items specifically identified in the tables above.
- There are no significant changes to the agreed audit arrangements (set out in an annual letter we will send you) that change the scope of, or disbursements related to, this audit.

If the scope and/or amount of work changes significantly, we will discuss the issues with you and the OAG at the time.

8 What the OAG overhead charge provides

Parliament has indicated that it expects the full cost of annual audits under the Public Audit Act (including an OAG overhead charge) to be funded by public entities.

The OAG overhead charge partially funds a range of work that supports auditors and entities, including:

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

Appointed Auditors are required to return the OAG overhead charge portion of the audit fee, to the OAG.

9 Certifications required by the Auditor-General

We certify that:

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

10 Conclusion

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

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

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

agreement with the Auditor-General to carry out the audit of your organisation as the agent of the Auditor-General.

Yours sincerely



Debbie Perera
Director

I accept the audit fees for the audit of the three financial years as stated above.

Full name: Michael Feyen Position: Mayor

Authorised signature: Date:

Entity name: Horowhenua District Council

Actions to take when agreement has been reached:

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to: Debbie Perera
PO Box 149
Palmerston North

Horowhenua District Council's risk of future involvement in the LAPP fund insurance facility

File No.: 17/299

1. Purpose

Horowhenua District Council is a member of the Local Authority Protection Programme (LAPP) Fund to protect underground 3 waters assets from disasters like the Christchurch and Kaikoura earthquakes. It is set up as a charitable trust whereby members contribute to a fund that, along with reinsurance cover, will pay for the re-establishment of assets following a major event. The issue has been, since the Christchurch event, that the fund has faced financial pressure and competition from the private insurance market. Members have been leaving to the point that it is timely to review Council's continued involvement with LAPP.

2. Recommendation

- 2.1 That Report 17/299 on Horowhenua District Council's risk of future involvement in the LAPP fund insurance facility be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.
- 2.3 That the Subcommittee continue to review the risks associated with continued LAPP membership and review its membership before April 2018 in time for a possible withdrawal from LAPP.

3. Background/Previous Council Decisions

- 3.1 LAPP was set up in 1993 by most of the 70 odd local government entities at the time, to establish a fund for the reinstatement of loss or damage of, what was at the time, generally uninsurable local government infrastructural assets.
- 3.2 Only those authorities that are contributing to the fund are eligible for distributions in the event of loss or damage.
- 3.3 The fund was built up over successive years through contributions from a large membership base of most of the local government sector entities including cities like Christchurch and Wellington.
- 3.4 The fund was exhausted by one major event, the Christchurch Earthquake. This has meant the Trust has had to rebuild the fund to enable it to cover a future event. It was able to do so but not to the extent it had previously as many members had left the Trust. It also shifted its focus to disaster cover only which meant that the normal losses for minor events needed to be insured through the normal materials damage insurance. It also began to look at the divergent risk profiles of the member councils whereby it began to levy higher contributions from those Council's with a higher risks. Hence, the Wellington Region group of councils exiting the fund.
- 3.5 It has again been tested with the Kaikoura event but not to the same extent as Christchurch, as the trust believe that they will not need to call on reinsurers to cover the level of loss or damage cause by that event.
- 3.6 As at 30 June 2016 the Trust had 32 members mainly rural and provincial councils but including the likes of Invercargill City, Nelson City, Palmerston North City, Hastings District, New Plymouth District, Whanagrei District amongst others. Christchurch remained a member however, although contributing to the rebuild of the fund, was ineligible to receive any further distributions from the fund.

- 3.7 In our region Rangitikei, Manawatu, Horowhenua and Palmerston North were members as at 30 June 2016. We have since had confirmation that both Rangitikei and Manawatu have withdrawn from Trust membership, with anecdotal evidence of further withdrawals elsewhere. The reason for the district councils in our region leaving appears to be a steep increase in contributions relating to the risk associated with volcanic ash from mounts Ruapehu and/or Taranaki volcanic eruptions.
- 3.8 The private sector Insurers have been active in the disaster insurance market and were offering competitive insurance products through, in our case, the MW LASS insurance buying group.
- 3.9 The issue is the financial risk associated with the financial viability and ability of the fund to cover future events with an ever reducing membership base and therefore size of fund. This will become especially important if and when central government changes its current policy of funding 60% of any losses to one where it will only cover losses for major events if at all. This means that Councils will need to cover 100% of their assets except in exceptional circumstances where the disaster event is regional or national in its significance.

4. Issues for Consideration

- 4.1 Council cannot, at this stage, exit from membership of the fund for the 2017/18 financial year. Although Council gave notice of intention to exit in April 2017 a decision to exit and notice of withdrawal was required by 31 May to actually move away from the LAPP Fund.
- 4.2 The LAPP contribution for the next financial year is \$127,821.65, an increase of 11% on 2016/17. The reason for the increase has been given as rising reinsurance costs following the Hurunui-Kaikoura earthquake coupled with the removal of a 10% discount from last year that was funded from LAPP's investment income. This investment income is now needed to rebuild the fund.
- 4.3 Reinsurance for next year has been increased to cover 3 events from the current 2 events. The levels of the events are for a \$50m, \$90m and \$100m (at 100%) and can be used in any order.
- 4.4 For Council to derive a distribution the threshold must be \$1m but once that threshold is reached the claim deductible will be \$400k. The claim threshold is the amount of damage which must be reached before a member can make a LAPP claim, and the deductible is the amount the member pays towards the claim once the threshold has been reached.
- 4.5 LAPP contributions are made up of reinsurance premiums as well as fund contributions; however the relative amounts are not disclosed. This makes them difficult to compare with a straight insurance option that is only for insurance premium with no fund contribution.
- 4.6 There are many pros and cons related to both membership in LAPP against the private sector insurance offer. Given that we cannot leave in the short-term at least a further more in depth report will be made in the new calendar year to further evaluate the different options.
- 4.7 While the membership in LAPP may have reduced, members cannot take their share of the fund with them so the remaining fund is shared around fewer remaining members, thus increasing their share of the fund. The question remains unanswered is whether that level of funding is enough to cover the insurance needs of those members and does the fund have the financial ability to pay out on any claims. These will be researched and become clear in the next few months.
- 4.8 Central Government has intimated that it would withdraw its 60% cover for any disaster other than truly catastrophic disasters but has made no decision as yet and is unlikely to do so until sometime after the election.
- 4.9 Some benefits that the LAPP fund has given members in the past are;

- a. Faster turn-a –round for claims. Christchurch saw considerable delay in payment for the Private sector reinsurers (5 Years) creating a cash flow problem.
 - b. Trustees are all local government people sympathetic to local government issues, they know the sector and are focused solely on the sector, they have a track record of helping councils in considering claims that are not “technically” covered by straight insurance. For instance, the three councils affected by the Hurunui-Kaikoura earthquake were given \$1m each upfront before filing a claim. This would have helped their respective cash-flows considerably.
 - c. LAPP is a charitable trust and is not for profit
 - d. LAPP did have 32 members; the high risk Wellington group of Councils are no longer members.
 - e. Christchurch City and Waimakariri District were members contributing with no ability to receive a distribution. Current membership details are unknown at this point in time.
 - f. LAPP offers a risk profiling services to tailor needs to individual Council assets and risks which are now more focused on risk setting members premiums.
 - g. LAPP meets the recovery costs after damage;
 - i. Demolition
 - ii. Higher demand surge labour and material costs
 - iii. Extra costs in reinstatement.
 - iv. Will pay (in addition to the “sum insured”) temporary emergency repair costs and emergency response costs.
- 4.10 The private sector alternative would likely see;
- a. A lower premium \$26k, from the contribution which also includes an element of fund build-up
 - b. Lower excess/deductible \$250k against \$400k for LAPP
 - c. Higher programme limit \$125m against \$120m For LAPP
 - d. Full reinstatement as opposed to the two \$90m and \$50m reinstatements from LAPP
 - e. The elements covered by the insurance need to be researched to compare with LAPP item (g) above.
- 4.11 To summarise, the private insurance option is 21% cheaper, has a lower excess and a higher limit, it also provides with both contract and claims certainty. Aon believe that this option will be more stable in the long term simply because the larger global insurance market is better able to withstand and absorb losses than a smaller local mutual fund – especially in a natural hazard prone country. This programme has 38 other councils (now including 6 out of the 7 MW LASS councils).
- 4.12 The MW Lass private sector insurance product will not be reviewed until 1 November 2018, as it was set for a two year period in 2016. Council Officers will continue to monitor the risk and seek more information from both LAPP and AON to base our decision about future LAPP membership.

Attachments



There are no attachments for this report.

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law Chief Financial Officer	
Approved by	Doug Law Chief Financial Officer	

Health and Safety Quarterly Report to 31 May 2017

File No.: 17/286

1. Purpose

To provide an update to Elected Members on health and safety matters at Horowhenua District Council for the previous three months.

2. Recommendation

- 2.1 That Report 17/286 on Health and Safety Quarterly Report to 31 May 2017 be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

- 3.1 As a result of the last meeting, a query was raised by Elected Members regarding the use of the term 'Officer' as it pertains to an Elected Member. An explanation is provided in the **attached** report.
- 3.2 During the previous meeting a question was asked by Elected Members about the apparent complexity of the Wellbeing Framework. Further information is provided in the **attached** report for consideration.

4. Issues for Consideration

- 4.1 The **attached** report will include information about actions taken by the Health and Safety Committee regarding continuous improvement of health and safety practices and processes at HDC; any significant matters arising; completed site audits; and an overview of the Health and Safety Committee's action plans.
- 4.2 A copy of Council's Wellbeing Framework is **attached** for your information. This framework outlines Council's commitment to psychosocial as well as physiological health and safety of our staff. Council has also undertaken a number of initiatives under this Wellbeing Framework umbrella included in the accompanying report.

Attachments

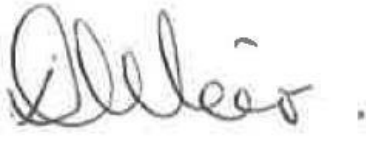

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Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Denise Weir People & Capability Manager	
Approved by	David Clapperton Chief Executive	

Health & Safety Quarterly Report to the Elected Members

As at 31
May 2017

Horowhenua
District
Council

1. HEALTH AND SAFETY MATTERS

a. Your role

- Prior to the new legislation coming into force as of 4 April 2016, there was some debate about whether or not Elected Members were considered 'Officers' under the Health and Safety at Work Act 2015 (HSWA). We can confirm that according to the HSWA, an Officer is someone who has sufficient authority to make governance decisions that affect a whole or substantial part of the business, therefore this includes Elected Members and the Chief Executive. The term 'Officer' in this context is not to be confused with HDC staff known as Officers in the general day-to-day business of Council.
- Under the HSWA, an Officer must exercise due diligence to make sure that the PCBU (Person Conducting Business or Undertaking) complies with its health and safety duties. While the Act does not intend for this to be at the day-to-day management of health and safety, it is important that our Elected Members are aware at a high level.
- Under the 'Health and Safety Guide: Good Governance for Directors' (Institute for Directors, WorkSafe NZ, March 2016), it states that *"it is important to distinguish between governance and management practices. Officers (Governance) should focus on determining the organisation's purpose, developing an effective governance culture, holding management to account and ensuring effective compliance."*

b. Overview from previous three months

- **Health and Safety Committee:** There is now a larger Committee working proactively on the day-to-day operations with representatives from across the Council groups. Action Plans are now in place and activities are being worked through by each sub-committee with reports back occurring at the monthly meeting. The H&S policy has been reviewed and rebranded. This is now with the leadership team for signing. We are on track for this review to be completed by 31 July 2017. A review of our incident reporting processes has occurred to ensure these are still up to date. Further H&S processes are currently being transferred to our process management system to make them easy for staff to find and use daily. Further information below outlines the vision, plan goals and aims for the action plan in this area.
- **Health and Safety Contractor Sub-Committee:** A contractor management sub-committee has been formed and is working through an action plan. Items being reviewed currently include contractor H&S incidents, site audits, and contractor management training strategy. Further information below outlines the vision, plan goals and aims for the action plan in this area.
- **Health and Safety Wellbeing Sub-Committee:** The wellbeing sub-committee has been very proactive over the last 3 months. Flu shots were offered to staff and 51 staff took this opportunity. These were delivered by a nurse onsite across 3 sites making this easier for staff. A pink ribbon breakfast was held with staff purchasing a ticket to attend and various merchandise was on sale. A goal to raise \$500 was initially identified; we managed to double this raising a total of \$1178 which was donated to the Breast Cancer Foundation. This was well attended by staff and very informative. A number of staff members are participating in Junk Free June this month which included a nutrition chat by a qualified staff member. This was well received by staff and a good use of internal knowledge to educate staff on healthy eating.

- **Health and Safety Te Takere Committee:** The Health and Safety Committee now includes 3 members of staff working at Te Takeretanga o Kura-hau-po. An action plan to fully integrate H&S in this area has been developed and dates are being worked through.
- **Completed Site Audits by H & S Committee:** Site audit zones and a calendar have been created for the next 12 months. This is applicable to all areas of the business and involves an audit of at least one zone every month. 2 audits have been completed so far. The audit checklist looks at floors, fire safety, lighting, chemical safety, electrical, plant and equipment, first aid, food safety, storage, ergonomics, staff amenities and any other general items for the area being audited. The first audit identified a fire escape sign that needed to be moved. This work has been completed.
- **Health and Safety Training:**
 - PeopleSafe – All new staff receive this training as part of their onboarding programme. These sessions are held as required.
- **Notifiable Events:** There were no notifiable events in the last quarter regarding injuries/illnesses or incidents.
- **Working with other organisations:** Council have participated in the MW LASS H & S Stakeholder Forum meeting where a collaborative approach to sharing information and resources is in train.

Areas of concern:

- A focus area for next quarter is training and staff engagement. Ensuring staff at all levels understand their responsibilities and the importance of H&S in the workplace. A number of initiatives will be implemented to ensure all learning styles are targeted.

Focus for next Quarter:

- **Internal H & S Audits:** Zone audits to continue over the next 3 months with a full audit scheduled to be completed by the end of August.
- **Fire Wardens:** A review of fire wardens and training is currently underway. This will continue next quarter to ensure all areas of the business are covered with trained wardens and backups.
- **H&S Manual:** A review calendar will be developed for our H&S Manual. This will ensure that we are regularly reviewing this document and updating it as required ensuring we are continuously improving.
- **H&S Processes:** Processes will continue to be converted to an easy format for staff to use and refer to on a daily basis. This will help to support the content of the H&S manual.
- **H&S Communication Plan:** A centralised communication plan will be developed this quarter to ensure that we are regularly communicating with all staff about H&S and the various initiatives that are happening.
- **H&S Committee:** Signed H & S Policy completed by 31 July. Continue working on incident reporting and H & S process improvement to be reported on in the next quarterly report with regard to each of the H & S Committees.
- **H&S Wellbeing Sub-Committee:** This month is Men's Health Month which provides us an opportunity to target the wellbeing of our male employees. This focuses on all areas of wellbeing and as part of this we will be running a men's session chat and a fitness session. Managers are attending a session about mental health issues in the workplace to raise awareness and help improve the wellbeing of staff in this area. BNZ are regularly onsite to provide staff advice and information for financial wellbeing. In addition staff will be able to attend a session in this next quarter on a 'Legal Health Check' regarding legal matters like will, Property Relationships, Enduring Powers of Attorney, Trusts and Estates. The wellbeing wheel has been included below for your reference and the full document is attached. Further information below outlines the vision, plan goals and aims for the action plan in this area.
- **Training Plan:** A training plan is currently being looked at. This will review training requirements for all staff and focus on engagement and promoting a safety culture.

- **H&S Action Plans:** Action Plans will continue to be used, reviewed, updated and tasks completed as part of operational processes.
- **Contractor Management:** List of potential contractors to be identified and invitations to be sent to invite them to go through the pre-qualification process.
- **Working with other organisations:** Council will contribute a presentation on the HDC Wellbeing Framework at the July MW LASS H & S Stakeholder Forum. Council will participate in the Lower North Island Local Government H & S Forum during July at Wellington City Council.
- **External H & S Audit Recommendations:** Whilst HDC achieved Tertiary standard the ACC Workplace Safety Management Practices Audit Report noted that there are some ongoing risks/issues for the Council relating to driving, contractor management, animal control, swimming pools and members of the public. The report recommended four areas for improvement:
 - Continue to look for health and safety objectives that are project based and based on continuous health and safety improvements.
 - Expand the review of the effectiveness of hazard management to include processes that have an impact on hazard management, such as incident reporting and training.
 - Consider reviewing the safety equipment inspection register to include safety equipment other than PPE, such as ladders forklift attachments, body harnesses and safety signage.
 - Consider a time frame for contractors to resubmit their health and safety plans and related health and safety documentation to ensure currency.

c. Action Plans Overview

H&S Operational Action Plan

Vision: A consistent and co-ordinated approach is taken to the continual improvement of H&S Operations at HDC.

Plans Goal: To proactively ensure that H&S Operations at HDC continue to improve and opportunities are developed and implemented to promote a positive safety culture.

Aims: To achieve this goal; this plan aims to:

- Maintain the H&S Policy and Manual to ensure up to date at all time.
- Ensure that H&S is well managed and information is regularly provided to staff.
- Promote a positive safety culture
- Identify opportunities for continuous improvement for H&S at HDC.

H&S Contract Management Action Plan

Vision: A consistent and co-ordinated approach to Health and Safety for all contracts becomes part of the day to day processes.

Plans Goal: To proactively ensure all contracts and contractors are aware of HDC's expectations for H&S. Identify and implement opportunities for improvements to H&S Practices for HDC and our contractors to ensure continual improvements are implemented.

Aims: To achieve this goal; this plan aims to:

- Identify H&S work practices between HDC and contractors.
- Gain an understanding of contractor H&S practices.
- Ensure contractors understand Council's expectations for H&S practices.
- Identify opportunities for improvements to the H&S practices and processes during the multiple PCBU interactions.
- Identify and implement clear documented processes that can be used for all contractor interactions.

H&S Wellbeing Action Plan

Vision: A consistent and co-ordinated approach is taken to the Wellbeing Policy & Framework with this becoming part of day to day processes for HDC.

Plans Goal: To proactively ensure the Wellbeing Policy & Framework is implemented and opportunities for staff are identified and made available. Identify opportunities to run and provide activities which contribute to the 7 key elements of the Wellbeing Wheel while improving staff engagement.

Aims: To achieve this goal; this plan aims to:

- Review Wellbeing Policy and Framework to ensure this is current at all times.
- Review existing programmes and activities available for staff to ensure these are current and relevant.
- Organise regular awareness days and implement a regular communication plan for Wellbeing.
- Identify opportunities for improvements to the H&S Wellbeing practices.

d. Wellbeing Wheel

The wellbeing wheel is part of the Wellbeing Policy. It covers 7 areas of wellbeing and a number of initiatives are just part of day to day life at Council.

The wellbeing sub-committee is expanding on these initiatives and providing regular opportunities for staff to improve their wellbeing in all 7 areas. This committee has only been up and running for a couple of months and already from the information in their overview above you will see that they are making a positive impact. There are many more ideas on the list and work is underway to ensure the positive impact continues.

Below you will find the wheel and a brief overview of the day to day items that are already available within the 7 areas. We will continue to update this list and provide you an updated list of programmes available to employees as these things happen.



Programme	Emotional Wellbeing	Occupational Wellbeing	Physical Wellbeing	Intellectual Wellbeing	Social Wellbeing	Financial Wellbeing	Spiritual Wellbeing
EAP	👍		👍		👍	👍	
Capability Framework		👍		👍		👍	
Healthy Minds Framework	👍	👍	👍	👍	👍		👍
Dignity at Work Policy	👍	👍	👍	👍	👍	👍	👍
Drug and Alcohol Policy	👍	👍	👍	👍	👍	👍	👍
Leave Policy	👍	👍	👍			👍	👍
Southern Cross	👍		👍		👍		
Annual Flu Vaccinations		👍	👍				
N3 Employee Benefits						👍	



Objective:

To empower our employees to maximize their energy to improve their life both at work and at home.

Why wellbeing matters:

Maintaining an optimal level of wellbeing is absolutely crucial to living a higher quality life. Everything we do and every emotion we feel relates to our well-being. In turn, our well-being directly affects our actions and emotions - it is an ongoing circle. Therefore, it is important for everyone to achieve optimal wellbeing in order to reduce stress and the risk of illness, and to ensure positive interactions.

Wellbeing approach:

HDC's holistic approach to achieving a healthy workforce focuses not only on the employee, but also on their families and their interaction with the community.

Programmes available for HDC employees.

EAP

EAP provides confidential 'Professional Behavioural Health Services to New Zealand business and their subsidiaries throughout the world'. They can assist with; Marital & Relationship Problems, Alcohol, Drug or Gambling issues, Career Direction, Financial & Personal legal Problems, Workplace Relationships, Work Performance issues, Child & Family Concerns, Stress & Pressure, Anxiety & Depression and Grief.

www.eapservices.co.nz

Capability Framework (Training and Development / Study Policy)

Healthy Minds Framework

Dignity at Work Policy

Drug and Alcohol Policy

Leave Policy

Southern Cross

Rachael.baker@southerncross.co.nz

www.southerncross.co.nz/society

Annual Flu vaccinations

n3 Employee Benefits - Business buying power

Social Club

Programme	Emotional Wellbeing	Occupational Wellbeing	Physical Wellbeing	Intellectual Wellbeing	Social Wellbeing	Financial Wellbeing	Spiritual Wellbeing
EAP	👍	👍	👍	👍	👍	👍	👍
Capability Framework		👍		👍		👍	
Healthy Minds Framework	👍	👍	👍	👍	👍	👍	👍
Dignity at Work Policy	👍	👍	👍	👍	👍	👍	👍
Drug and Alcohol Policy	👍	👍	👍	👍	👍	👍	👍
Leave Policy	👍	👍	👍			👍	👍
Southern Cross	👍		👍		👍		
Annual Flu Vaccinations		👍	👍				
N3 Employee Benefits							👍



Emotional Wellbeing

Emotional wellbeing relates to understanding your feelings and coping effectively with stress. Emotional wellbeing enables one to pay attention to self-care, relaxation, stress reduction and the development of inner resources so you can learn and grow from experiences and remain grounded during stressful times.

Practices that enhance emotional wellbeing include:

- Recognising conflict as potentially healthy
- Taking responsibility for your actions
- Becoming more aware of your feelings through reflection
- Accepting your feelings rather than denying them
- Accepting the feelings of others
- Expressing your feelings in responsible ways
- Seeking support and guidance when feelings and emotions seems to be getting out of control
- Building a strong social network
- Being open to continual personal development
- Practicing positive behaviors that enhance security and emotional stability



Occupational Wellbeing

Occupational wellbeing is about enjoying your occupational endeavours and appreciating your contributions. This dimension of wellbeing encourages personal satisfaction and enrichment in one's life through work. Being occupationally well allows you to find personal self-fulfilment and to make a contribution to the wellbeing of the community at large.

Practices that enhance emotional wellbeing include:

- Developing functional and transferable skills
- Choosing a career which is consistent with your personal values, interests and beliefs
- Learning to accurately assess your strengths and weaknesses
- Exploring your talents and interest
- Maintaining healthy work-life balance
- Seeking professional development opportunities
- Participating in mentorship



Physical Wellbeing

Physical wellbeing relates to maintaining a healthy body and seeking care when needed. Physical health is attained through exercise, eating well, getting enough sleep and paying attention to signs of illness and getting help when needed. Physical wellbeing can lead to psychological benefits such as enhanced self-esteem, self-control, determination and a sense of direction.

Practices that enhance physical wellbeing include:

- Getting physical activity on a regular basis
- Practicing safe and responsible sex
- Getting enough sleep
- Nourishing your body by eating a balanced diet of healthy foods
- Maintaining a healthy weight
- Abstaining from tobacco / smoking
- Abstaining from recreational drugs
- Drinking alcohol in moderation or abstaining from alcohol
- Practicing good hygiene
- Getting regular medical check-ups and screenings
- Paying attention to the signs of symptoms and diseases and seeking medical attention when ill
- Taking safety precautions such as using a seat belt or practicing safe lifting techniques



Intellectual Wellbeing

Intellectual wellbeing involves having an open mind when you encounter new ideas and continuing to expand your knowledge. It encourages active participation in academic, cultural and community activities. Intellectually well people are open to new ideas, think critically and seek out new challenges. People who develop intellectual wellbeing are more likely to maintain good cognitive function as they age.

Practices that enhance intellectual wellbeing include:

- Obtaining good study and time management skills
- Learning to trust your ability to make good decisions
- Challenging yourself to see more than one side of an issue
- Recognising and valuing learning as a life-long process
- Develop creative and resourcefulness
- Practicing discernment when taking in information from TV, the internet, newspapers, etc.
- Keeping abreast of current events, issues and ideas
- Reading
- Developing new skills such as learning a language, how to play an instrument or engage in a new hobby
- Learning to manage your finances



Social Wellbeing

Social wellbeing entails valuing living in harmony with your fellow human beings, seeking positive, interdependent relationships with others, and developing healthy communications skills. Social wellbeing involves embracing interconnectedness and understanding how your actions affect other people and their community. Socially well people consciously choose to enhance personal relationships, nurture important friendships, and build a just and caring community.

Practices that enhance social wellbeing include:

- Building a strong social support network
- Learning and practicing healthy communication techniques
- Developing the ability to relate with people in a variety of settings
- Dealing with interpersonal conflict in a healthy and respectful manner
- Explore diversity by interacting with people of other cultures, backgrounds, and beliefs
- Being aware of the social concerns in your community and getting involved in solving community problems
- Volunteering in the community



Financial Wellbeing

Financial wellbeing involves the process of learning how to successfully manage financial expenses and plan for retirement. Money plays a critical role in our lives and not having enough of it impacts health as well as performance. Financial stress can also impact absenteeism, employee productivity, retirement, and healthcare cost.

Practices that enhance financial wellbeing include:

- Enhance employees' understanding and appreciation of benefit plans
- Learning sound financial skills for every day life situation
- Increase comfort with making choices
- Peer-to-peer support
- Reading financial literature
- Retirement planning



Spiritual Wellbeing

Spiritual wellbeing allows you to develop a set of values that help you seek meaning and purpose. Spirituality can be represented in many ways, for example, through relaxation or religion. A sign of spiritual wellbeing is the ability to integrate your beliefs and values into your actions.

Practices that enhance spiritual wellbeing include:

- Pondering the meaning of life / reflection
- Respecting the beliefs of others
- Living in a way that is consistent with your values and beliefs
- Serving your community through volunteering, giving or service projects
- Taking time for quiet reflection prayer or meditation
- Spending time in nature

Treasury Report

File No.: 17/290

1. Purpose

To present to the Finance, Audit & Risk Subcommittee the Bancorp Treasury Report for the March 2017 quarter.

2. Recommendation

- 2.1 That Report 17/290 Treasury Report be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

This Quarterly Treasury report is produced by our treasury advisors, Bancorp Treasury Services Limited, and is produced for the benefit of Senior Management and Council.

4. Issues for Consideration

The first 3 months of the calendar year has seen;

- 1) Trump fails to create the economic growth as anticipated after his election
- 2) US FOMC has increased the US Fed Funds rate (the equivalent to NZ OCR) where all indicators have a positive bias
- 3) The Global economic growth has started to lift as is global inflation
- 4) Dairy prices have risen and Fonterra's pay-out has also risen above \$6
- 5) The Reserve Bank has left the official cash rate at 1.75% which appears to be here through until mid-2019
- 6) Banks have started to increase their retail mortgage rates as they face higher cost of funds competing for deposits.
- 7) Immigration and tourism continue to drive growth in New Zealand

Council has borrowed a net \$12m this year. Our strategy was to borrow short term at the favourable rates 2.175% for a half yearly term. We have since (12th June) refinanced this at a lower interest rate of 2.075%. Council now has \$12m at this rate until December 2017. I note from the LGFA weekly borrowing rates advice that the indicative rate has bounced back to 2.135%.

During the quarter Council refinanced a \$3m fixed rate bond at a rate of 5.05% with another fixed rate bond of \$3m at 4.2% maturing on 15/4/2025

Borrowing is higher than expected, but still lower than the Annual Plan suggested, which was \$18m. The delay in major projects has caused this to occur; however, a delay in the associated capital grants and subsidies has also occurred. This has meant higher borrowing for the Te Awahou project in particular ahead of the associated capital grants being received.

Council's weighted average interest rate over all our borrowing is 4.15% down from 4.61% in June 2016 and 4.2% in March. This is calculated with the bank line fee and interest rate swaps included.

Council is compliant with its Liability Management Policy (LMP).

Attachments


There are no attachments for this report.

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law Chief Financial Officer	
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Approved by	Doug Law Chief Financial Officer	
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Standard and Poors Credit Rating

File No.: 17/293

1. Purpose

To present to the Finance, Audit and Risk committee the Standard and Poors' report on the review of Council's credit rating.

2. Recommendation

- 2.1 That Report 17/293 Standard and Poors Credit Rating be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

Council has to undergo a review of its credit rating in May every year on or about the anniversary of obtaining the first credit rating in May 2015.

4. Issues for Consideration

On 17 May 2017 Standard and Poors (S&P) affirmed Council's A+ long-term credit rating and A-1 short-term issuer rating with a stable outlook.

However, this year they included a paragraph they have called "Downside scenario". This paragraph states

"We might lower our rating if we perceive that the council's financial management has deteriorated. This could occur if political disagreements within the council delay important fiscal decisions or lead to a significant deterioration in strategic planning or financial outcomes. We could also lower our rating if the council were to significantly boost its capital expenditure without offsetting adjustments to revenue or operating expenditure, and further weaken its liquidity coverage."

This identifies 3 risk areas;

1. The current political situation
2. Any major changes to our capital programme without increasing revenue and operational expenditure
3. Or weaken our liquidity.

The political risk is only where we fail to make "important fiscal decisions". These could include a failure to adopt an Annual Plan, LTP, Rates resolutions, Financial and Infrastructural strategies and the like or perhaps implement plans/decisions that are fundamental to Council's overall financial position/sustainability.

S&P consider that, although Council has shown a lower capital spend, the expenditure need still exists, specifically mentioning Council's capital works programme which is termed "poor budgeting performance" even though operational budgeting is good.

S&P mark Council up for things like financial management, ability to rate and strong institutional and legal frameworks. They have moderated their economic outlook to "broadly supportive" from the previous assessment of weak.

S&P comment that they consider Council's liquidity management to have weakened. This relates to the increase in the use of short-term borrowing (commonly called Commercial Paper or CP). This was \$7m at 30 June 2016 but coupled with borrowing due within 12 months (\$9m) results in a current debt level of \$16m. Currently this is \$14m. S&P are of the opinion that the refinancing risk of this (especially the CP) was greater. This is primarily a result of the GFC experiences in 2008/9. However, it was argued that currently at least, this risk is no higher than normal especially now that LGFA provide bespoke lending at short notice and Council has the BNZ \$10m Committed Cash Advance Facility (CAAF). Whilst unable to convince S&P otherwise the credit rating has not been adversely impacted.

Officers are investigating what if anything can be done to reduce this liquidity risk for next year. It may be as simple as increasing the CAAF to \$15m, but that will come at a cost.

Attachments


No.	Title	Page
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Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law Chief Financial Officer	
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Approved by	Doug Law Chief Financial Officer	
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S&P Global
Ratings

RatingsDirect®

Research Update:

**Horowhenua District Council Ratings
Affirmed At 'A+/A-1', Outlook
Remains Stable**

Primary Credit Analyst:

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Secondary Contact:

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WWW.STANDARDANDPOORS.COM/RATINGSDIRECT

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Research Update:

Horowhenua District Council Ratings Affirmed At 'A+/A-1', Outlook Remains Stable

Overview

- Horowhenua District Council (Horowhenua)'s institutional settings, broadly supportive district economy, and management continue to support its ratings.
- We believe Horowhenua's capital spending will remain high, leading to after-capital deficits, but a sustainable debt burden, while liquidity coverage is falling.
- We have affirmed our 'A+' long-term foreign-currency and local-currency ratings and 'A-1' short-term ratings on Horowhenua.
- The stable outlook reflects our expectations that Horowhenua's financial management will remain strong and supportive of sound financial outcomes, while after-capital-account deficits will remain sizeable as the council addresses its significant infrastructure backlog.

Rating Action

On May 17, 2017, S&P Global Ratings affirmed its 'A+' long-term foreign currency and local currency and 'A-1' short-term issuer credit ratings on Horowhenua District Council, a New Zealand local government. The outlook on the rating remains stable.

Outlook

The stable outlook reflects our expectations that Horowhenua's financial management will remain strong and supportive of sound financial outcomes, while after-capital-account deficits will remain sizeable as the council addresses its significant infrastructure backlog.

Downside scenario

We might lower our rating if we perceive that the council's financial management has deteriorated. This could occur if political disagreements within the council delay important fiscal decisions or lead to a significant deterioration in strategic planning or financial outcomes. We could also lower our rating if the council were to significantly boost its capital expenditure without offsetting adjustments to revenue or operating expenditure, and further weaken its liquidity coverage.

Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1', Outlook Remains Stable

Upside scenario

Upward momentum is unlikely, but could occur if the after-capital account balances improved substantially to surplus during a sustained period while the council continues to address its infrastructure backlog. This would help stabilize or reduce its debt burden. Additionally, the council's liquidity management and coverage would need to substantially improve to support upward momentum.

Rationale

We have updated and extended our forecasts for Horowhenua until 2019. We still expect the institutional settings, broadly supportive districts economy, and strong budgetary flexibility to support Horowhenua's credit profile. Financial management has renewed its focus on asset-management planning and infrastructure replacement. Horowhenua's capital spending will remain high, leading to after-capital deficits and increasing but sustainable debt levels.

A supportive institutional framework, strong management, and broadly supportive economy underpin Horowhenua's creditworthiness

The institutional framework within which New Zealand local governments operate is a key strength supporting Horowhenua's credit profile. We have identified this institutional framework as being one of the strongest and most predictable globally. The New Zealand local government system also promotes a strong management culture, fiscal discipline, and high levels of financial disclosure among local councils. The system allows Horowhenua to support higher debt levels than some of its international peers can tolerate at its current rating.

Horowhenua's financial management team is experienced and similar to that of most New Zealand councils'. The council prepares a 10 year long-term plan every three years, ensuring a forward-looking approach to prudent financial management and setting an important baseline for the council's operating and capital expenditure requirements, and its funding strategy. We don't expect that recent political disagreements between the mayor and councilors that followed the October 2016 election will translate to weaker financial governance in the short term. The council does not borrow in foreign currency and hedges the majority of its interest-rate risk. However, we consider its liquidity management and long-term capital planning to be weaker relative to peers.

We consider Horowhenua's liquidity management to have weakened during the past year. The council is significantly increasing its reliance on short-term borrowing by issuing commercial paper with less than 12 months' maturity without maintaining a liquidity buffer. In our view, this increases its refinancing risk.

While the council is now focused on improving asset-management planning and

Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1', Outlook Remains Stable

infrastructure-replacement forecasting with better data and surveillance, it has historically fallen short in the level of renewals required to keep its infrastructure up to date. This has resulted in an underground infrastructure backlog and much higher capital expenditure in the medium term as the council seeks to improve and upgrade its infrastructure. We believe the council's weaker long-term planning, specifically unrealistic capital-expenditure project timeframes, has resulted in significant variations between actuals and budget.

The economy is broadly supportive of Horowhenua's credit profile. We estimate Horowhenua's GDP per capita between 2014 and 2016 to be on average about US\$23,051, which is relatively high in an international context, but lower than New Zealand's national level of US\$43,183. The district is set to transform from a period of stagnation; economic growth rose to 3.5% in 2016 compared with average growth of 0.5% during the past 10 years. It is buoyed by the prospect of a better transport connection from the Wellington Northern Corridor, the State Highway 1 route between Wellington and Horowhenua. This road project is likely to encourage a higher level of development in the district because it will cut travelling time and freight costs, possibly making Horowhenua more desirable and productive, and provide opportunities for population and industry growth.

Capital spending to remain high, leading to after-capital deficits and increasing but sustainable debt, while liquidity coverage is falling

Capital expenditure will continue to weigh on Horowhenua's budgetary performance in coming years. A backlog of infrastructure renewals still exists, particularly in the council's water assets, which will likely keep capital expenditure elevated in a medium term. Horowhenua's after-capital account deficit has improved slightly from our previous forecast, but this is mainly due to a one-time revenue gain from the asset sales of the councils pensioner housing portfolio and Foxton beach subdivision of about NZ\$8.7 million in fiscal 2018, and 40% capital underspend in 2016, particularly its wastewater projects. We project the council will post average after-capital deficits of 10.3% of total revenues between 2015 and 2019. This will offset its high operating surpluses, which we expect to average 21% of operating revenue during the corresponding period.

We expect the council's debt burden to remain high during the medium to long term due to challenges in maintaining aging core infrastructural assets as well as building new infrastructure. With the council selling its pensioner housing portfolio and using proceeds from the sale to repay its debt, we have lowered our debt forecast moderately relative to last year. We forecast Horowhenua's debt to increase to 175% in 2019 of adjusted cash operating revenue from 152% in 2016. Interest expense reflecting this decrease in debt will be about 8% of operating revenue in 2017-2019. Taking into account the possibility of under-execution of the capital projects, it is possible that borrowings will not be as high as our forecasts.

Horowhenua's liquidity position is weak and has deteriorated during the past

Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1', Outlook Remains Stable

year. We forecast free cash, liquid assets, and bank facilities will average NZ\$14 million during the next 12 months, covering about 73% of Horowhenua's debt-servicing needs. This compares unfavorably with last year's coverage of 174% due to the council increasing its reliance on cheap short-term debt. While this reduces interest costs in the short term, we believe it significantly increases refinancing risk in the event of unforeseen circumstances. We forecast that the council will hold approximately NZ\$4.3 million in liquid assets and undrawn bank facilities of NZ\$10 million available to cover debt of NZ\$16 million maturing within the next 12 months and interest expense of NZ\$3.7 million.

While the council's financial metrics are ratings weaknesses, we consider Horowhenua to have strong budgetary flexibility. About 96% of its cash operating revenues are modifiable, which includes council rates, user charges, fees, and fines. Like all New Zealand councils, there are no legal restrictions on Horowhenua's ability to increase rates, though Horowhenua's large share of the elderly population on fixed incomes tends to influence the council's consideration on large rate hikes. On the expenditure side, while the share of Horowhenua's spending allocated to capital expenditure is high, at about 35.9% between 2015 and 2019, we believe much of this spending is difficult to defer without increasing its infrastructure backlogs.

Horowhenua's contingent liabilities are low, representing less than 2% of its operating revenues. Most of the council's contingent liabilities reflect a NZ\$5.2 million interest-free loan received from Housing New Zealand Corp. to construct and modernize the council's social housing for the elderly. As part of the condition of sale, this loan will be transferred from the council to the new owner of pensioner housing portfolio in fiscal 2018.

Key Statistics

Table 1

Horowhenua District Council Key Statistics

	--Year ending June 30--					
	2014	2015	2016	2017bc	2018bc	2019bc
Selected indicators (mil. NZ\$)						
Operating revenues	37.1	40.7	43.0	44.6	47.1	48.7
Operating expenditures	31.5	31.8	32.8	35.5	38.2	38.9
Operating balance	5.7	8.9	10.2	9.1	8.9	9.7
Operating balance (% of operating revenues)	15.3	21.9	23.8	20.4	18.8	20.0
Capital revenues	4.9	2.2	3.5	8.5	12.4	2.9
Capital expenditures	15.9	11.8	19.1	29.4	22.6	19.6
Balance after capital accounts	(5.4)	(0.7)	(5.4)	(11.8)	(1.4)	(6.9)
Balance after capital accounts (% of total revenues)	(12.8)	(1.6)	(11.6)	(22.3)	(2.4)	(13.4)
Debt repaid	11.0	10.8	8.0	0.0	0.0	0.0
Gross borrowings	15.0	14.0	13.0	11.8	1.4	6.9

Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1', Outlook Remains Stable

Table 1

Horowhenua District Council Key Statistics (cont.)						
	–Year ending June 30–					
	2014	2015	2016	2017bc	2018bc	2019bc
Balance after borrowings	(1.4)	2.6	(0.4)	0.0	0.0	0.0
Modifiable revenues (% of operating revenues)	97.8	93.7	95.9	96.6	96.5	96.8
Capital expenditures (% of total expenditures)	33.6	27.1	36.8	45.3	37.2	33.4
Tax-supported debt (outstanding at year-end)	57.2	60.2	65.2	77.1	78.5	85.4
Tax-supported debt (% of consolidated operating revenues)	154.0	147.9	151.7	172.7	166.6	175.5
Interest (% of operating revenues)	7.8	7.7	7.2	8.2	7.9	8.3
Local GDP per capita (single units)	30,100.0	30,306.0	30,807.0	N/A	N/A	N/A

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade. BC--Base case. N/A--Not applicable.

Ratings Score Snapshot

Table 2

Ratings Score Snapshot	
Key Rating Factors	
Institutional Framework	Extremely predictable and supportive
Economy	Average
Financial Management	Strong
Budgetary Flexibility	Strong
Budgetary Performance	Weak
Liquidity	Strong
Debt Burden	Very High
Contingent Liabilities	Very Low

*S&P Global Ratings issuer ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the rating.

Key Sovereign Statistics

Sovereign Risk Indicators. Interactive version available at <http://www.spratings.com/sri>

Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1', Outlook Remains Stable

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Public Finance System Overview: New Zealand's Institutional Framework For Local And Regional Governments, Dec. 11, 2016

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee agreed liquidity has worsened and debt burden improved. All other key rating factors were unchanged. Key rating factors are reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1', Outlook Remains Stable

Ratings List

Ratings Affirmed

Horowhenua District Council	
Issuer Credit Rating	A+/Stable/A-1

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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Projects Update June 2017

File No.: 17/258

1. Purpose

To provide the Finance, Audit & Risk Subcommittee with an update on projects being undertaken by the Projects Team.

2. Recommendation

- 2.1 That Report 17/258 on Projects Update June 2017 be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background

Information is provided in the attached reports.

4. Issues for Consideration

There are no issues for consideration.

Attachments


No.	Title	Page
A	NE Levin Stormwater (<i>Under Separate Cover</i>)	
B	Levin Water Treatment Plant Upgrade (<i>Under Separate Cover</i>)	
C	Water Reticulation Renewals 2016/17 (<i>Under Separate Cover</i>)	
D	Wastewater Reticulation Renewals 2016/17 (<i>Under Separate Cover</i>)	


Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Gerry O'Neill Projects Manager	
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Approved by	Gallo Saidy Group Manager - Infrastructure Services	
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Statutory Rates Write Off

File No.: 17/295

1. Purpose

To approve the write off of rates and penalties that are no longer collectable under the Local Government (Rating) Act 2002.

2. Recommendation

- 2.1 That Report 17/295 Statutory Rates Write Off be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.
- 2.3 That the Horowhenua District Council approves the write off of rates and penalties that are no longer collectable under the Local Government (Rating) Act 2002 totalling \$106,654.30.

3. Background/Previous Council Decisions

S65 of the Local Government (Rating) Act 2002 imposes a limitation of time of six years for the recovery of rates.

These are rates on Maori Freehold land where Council cannot use the normal debt collection procedures available under the Rating Act, such as selling the land.

There are 43 rating assessment that have outstanding rates beyond the time limitation.

Council periodically writes off those rates where they exceed the limitation imposed by s65.

4. Issues for Consideration

Audit NZ raised the issue of write off of these rates in its audit of the 2016 Annual Report.

Other than the fact that Council will not receive the cash for these rates there is no financial impact as these rates have been provided for as part of the Council's doubtful debt provision.

Attachments



There are no attachments for this report.

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Jeff Paulin Finance Manager	
Approved by	Doug Law Chief Financial Officer	

Risk Management Update

File No.: 17/307

1. Purpose

The purpose of this report is to provide the Finance, Audit and Risk Subcommittee (FAR) with an update regarding Risk Management at HDC and encourage discussion regarding the committee expectations going forward.

2. Recommendation

- 2.1 That Report 17/307 on Risk Management Update be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

- 3.1 On 12 July 2016 HDC adopted a Risk Management Policy with a review date of 01 July 2017.
- 3.2 A risk management policy had not previously existed; therefore a learning journey ahead was recognised as the organisation worked towards achieving a synergized approach to risk by December 2017.
- 3.3 A Risk Framework was created with a review date aligned to the policy of July 2017. The framework set out the steps that HDC would need to take to build the foundations for risk awareness throughout the organisation. It reflected an initial period of engagement with the business to understand the risk context and the support which would be offered to embed the policy and processes.

4. Issues for Consideration

- 4.1 The policy and framework have been in place for 12 months. During this period a centralised risk register for the organisation has been developed, enabling a central port for reporting of risk. Direction from the FAR Subcommittee is sought regarding expectation of risk reporting and frequency going forward.
- 4.2 Future decision making processes should identify potential risks resulting from key decisions that are being made and these should be outlined in all documents that contain significant recommendations. Feedback from the FAR Subcommittee is sought as to any specific requirements for reporting of risk in such reports.
- 4.3 Direction from the FAR Subcommittee will then be embedded in the organisational controls and reflected in the responsibilities under our policy and framework review.
- 4.4 Risk Management is an ongoing process and a focus on continual improvement. Creating a risk-aware culture at HDC is a crucial part of implementing and sustaining the risk management journey which has begun.

Attachments



No.	Title	Page
A	Risk Management Policy - Version 1.0 - Final	91

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Nicki Brady Group Manager - Business Services	
Approved by	David Clapperton Chief Executive	



Risk Management Policy

Section	Leadership Team
Contact	Group Manager Business Services
Approval	Leadership Team
Date Approved	12 July 2016
Next Review	01 July 2017
TRIM Doc. No.	D16/5103

Purpose

To ensure that risk management forms part of Horowhenua District Council's (HDC) internal control and governance arrangements.

HDC is committed to the implementation of a comprehensive risk management framework, but acknowledges that it will take some time for our risk maturity to grow. HDC is working towards the end goal of achieving a synergised approach to risk across the organisation by the end of 2017.

Principals

Risk Management at HDC is based on the following principles:

- Risk management creates and protects Value*
 - by contributing to the achievement of objectives and improving performance, e.g. via legislative and regulatory compliance, use of reliable and accurate information for decision-making, effective project management, operational efficiency and robust governance
- Risk management is an integral part of all organisational processes*
 - including governance, strategic planning, project management, change management and business as usual activities
- Risk management is part of decision-making*
 - by helping decision-makers at all levels in the organisation to accurately assess situations, make informed choices, prioritise actions and select the most appropriate course of action
- Risk management addresses uncertainty*
 - by identifying and describing the nature and source of that uncertainty
- Risk management is systematic, structured and timely*





- a. to ensure consistent, comparable and reliable results which contribute to efficiency
6. Risk management is based on the best available information
 - a. including historical data, experience, stakeholder feedback, observation, evidence, forecasts, expert judgement
 - b. while taking into account any limitations of the data or modelling used, or possible divergence of expert opinion
7. Risk management is tailored
 - a. to align with the organisation's context and risk profile
 - b. to be relevant - it is not a one size fits all approach
8. Risk management is transparent and inclusive
 - a. to ensure that the views of all stakeholders are taken into account in the process of identifying, assessing and treating risks
 - b. to ensure that risk management remains relevant and up-to-date.
9. Risk management is dynamic, iterative and responsive to change
 - a. to ensure that risk management senses and responds to changes in the external and internal context, including changes in knowledge. New risks emerge, current risks change and others disappear.
10. Risk management facilitates continual improvement of the organisation
 - a. by implementing risk treatments which improve the organisation's capability of achieving its goals
 - b. by building the organisation's capacity to recognise and reduce risk in both the present and the future.

Scope

This is an organisation wide policy. All staff members and elected members (through the Projects and Audit, Finance and Risk committee) play a role in the successful implementation of this policy in conjunction with the Risk Management Framework.

Risk identification and management is to be undertaken across all of our activities as part of our:

- Strategic planning
- Strategic analysis
- Annual planning
- Business case development
- Procurement plan development
- Project and programme management
- Day to day operations

Failure to comply with this policy may result in disciplinary action.

Definitions

For the purpose of this policy, unless otherwise stated, the following definitions apply:

- **Risk Appetite:** the communication of the level of risk we are prepared to tolerate or accept in the pursuit of





our strategic objectives and delivering our services to the community.

- **Risk:** the threat or possibility that an event, action or set of circumstances will adversely or beneficially affect Horowhenua District Council's ability to achieve its objectives.
- **Risk Management:** the culture, processes and structures that are directed towards the effective management of potential opportunities and possible adverse effects within Council's environment.
- **Risk Management Framework:** provide the foundations for designing, implementing, monitoring, reviewing and continually improving risk management throughout Horowhenua District Council.
- **Risk Management Process:** systematic application of the practices relating to communicating, consulting and establishing the context of risk.
- **Risk Assessment:** overall process of risk identification, risk analysis and risk evaluation.
- **Risk Mitigation/Treatment:** process to modify risk which can involve avoiding the risk, accepting the risk to pursue an opportunity, removing the source of the risk, changing the likelihood or consequence, sharing risk, and/or retaining the risk by informed decision.
- **Risk Control:** a measure put in place to modify risk and it can include any process, policy, device, practice, or other actions which modify risk.
- **Risk Owner:** person or entity with the accountability and authority to manage risk.
- **Internal Controls:** Internal controls are the processes, policies and procedures we use to govern HDC's work, or any additional mitigating actions that we take to deal with a particular, or potential situation.

Related Procedures/Documents

Policies and frameworks which support this policy:

- HDC Risk Appetite Statement
- HDC Risk Management Framework
- HDC Business Continuity Plan
- HDC Procurement Policy and Guidelines
- HDC Fraud Policy
- HDC Health and Safety Policy
- HDC Information Management Policy
- HDC Media and Communications Policy
- HDC Electronic Communication Policy
- HDC Gift and Rewards Policy

Relevant Reference Materials:

- AS/NZS ISO 31000:2009 – Principals and Guidelines

It is acknowledged that as Horowhenua District Council embeds consistent risk management into our everyday





practice, additional material may be developed to support those already available to staff.

Signed by Leadership Team:

Chief Executive:		Date: <u>1/08/2016</u>
Group Manager Customer & Community Services:		Date: <u>1/08/2016</u>
Chief Financial Officer:		Date: <u>16/08/2016</u>
Senior Manager People and Capability:		Date: <u>1/08/2016</u>
Group Manager Business Services:		Date: <u>16/08/2016</u>
Group Manager Infrastructure Services:		Date: <u>1/08/2016</u>
Senior Manager Strategic Planning:		Date: <u>16/08/2016</u>
Economic Development Manager:		Date: <u>5/08/2016</u>

Monitoring Report - Issues Identified during the 30 June 2015 Audit

File No.: 17/306

1. Purpose

To present to the Finance, Audit & Risk Subcommittee the Monitoring Report covering issues identified during the 30 June 2015 Audit.

2. Recommendation

- 2.1 That Report 17/306 Monitoring Report - Issues Identified during the 30 June 2015 Audit be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

Attachments

No.	Title	Page
A	Monitoring Report - Issues Identified During Year End 30 June 2016 Audit	96

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:





- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.



Signatories

Author(s)	Nicki Brady Group Manager - Business Services	
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Approved by	Doug Law Chief Financial Officer	
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FINANCE, AUDIT & RISK SUBCOMMITTEE
Monitoring Report – Issues identified during the 30 June 2016 Audit







- Complete 
- On track or Ongoing [**green light**]: 
- Off track but mitigation in place [**orange light**] 
- Off track [**red light**]: 

Ref	Recommendation	Urgent	Necessary	Beneficial	Status	Officer Comment
2.1.2	<p>Performance measure rules</p> <p>Continue to review the effectiveness of the collection and reporting of data.</p>		✓			<p>A programme of improvements was developed in April 2016 based on the recommendations of Audit New Zealand. A number of those improvements have been implemented inclusive of the development of reporting guidelines and improvements to data capture and extraction within current systems. Council has also built in improved work order tracking within the asset management system which will deliver the improvements required in the management of job sheets and quality review over data entry. Council will continue to build on the improvements made to date and look forward to Audit NZ's review of our progress when they return to HDC.</p> <p>N Brady – 20 April 2017</p>
3.1	<p>Procurement review</p> <p>Implement the improvements identified from the procurement reviews in 2.1 and include any policy improvements in the 2017 procurement policy update.</p>		✓			<p>Council adopted its Procurement Strategy in April 2014.</p> <p>In 2015 the Business Services Manager was appointed to review the strategy and its implementation. As result of that review a number of improvements were identified in a project plan which has been worked through. HDC engaged an external auditor to</p>

					<p>review the improvements made, the procurement strategy and policy itself as well as appropriateness of our processes.</p> <p>Overall the audit found that HDC's procurement processes were consistent with accepted good procurement practice and MBIE's Government Rules of Sourcing. A copy of this audit was provided to Audit NZ as well as HDC management and elected members.</p> <p>The audit acknowledged the sound policy, guidance toolkits and training which had been provided to staff as part of the review. Audit NZ have noted further enhancements which HDC could make and these will be taken on board. HDC commended the review in April 2017 as per the agreed timelines and look forward to the review of Audit NZ on our progress when they return to HDC.</p> <p>N Brady - 20 April 2017</p>
3.2	<p>Rates strike</p> <p>Review the approved rates strike resolution, to be included in the publicly available minutes, to ensure the completeness and accuracy of the information.</p>		✓		<p>●</p> <p>The official minutes have been updated and a peer review of future minutes will be undertaken to avoid this happening again.</p> <p>J Paulin - 19 April 2017</p>
3.4	<p>Monitoring of swimming pool revenue</p> <p>Develop a robust system for reviewing revenue for the admissions to the individual pools so revenue streams can be more accurately monitored and any potential issues detected early.</p>		✓		<p>●</p> <p>We have kept a clear record of member and casual swim use of each facility, with a cumulative YTD count and monthly count delivered at each monthly report. We can run daily, weekly, monthly and date specific reports on attendance if required. We have also captured each aqua programme class size for each class. Retail income can now be tracked through Centaman too.</p> <p>J Richmond – 20 April 2017</p>
3.5	<p>Provision against rates debtors</p> <p>Review provisioning for rates debtors and fully impair</p>		✓		<p>●</p> <p>This will be reviewed as part of the Annual report in June 2017.</p> <p>J Paulin - 19 April 2017</p>

	historically uncollectible rates debtors.					
3.6	Work-in-progress (WIP) Balance to be transferred Monitor WIP balances on a regular basis to ensure that WIP is capitalised at the time the asset is first in use.		✓		●	This is only completed at year end. However an adjustment for depreciation on assets commissioned during the year can be done to catch any missed depreciation. A Chamberlain - 19 April 2017
4.2	Annual Report Summary Review the summary annual report format to ensure that it is succinct and easily read by the ratepayers.			✓	●	Need to reduce the number of SSPs reported. Looking at a graphical representation of key measures. Will be done for next summary report. A Chamberlain – 21 April 2017
Status of previous recommendations						
	Segregation of duties in expenditure process Review and enhance the purchase order controls in the expenditure system to require purchases orders to be approved on a one up basis. Develop a user friendly report that highlights self-approved purchase orders/invoices to allow for a specific review of these transactions prior to payment.	✓			●	Prior response to this issue was that one up approval would not be implemented at HDC, however an interim measure was implemented to report on all purchase order activity and the segregation of raising, approving and receipting. As part of the Procurement Policy review which commenced in April 2017 the Business Services Manager is looking into the ability of Council's existing system to deliver on this functionality as well as impact of implementation. This will be explored as a business case in the 2017/2018 work programme. N Brady - 20 April 2017
	Enforcement of the delegated financial authority Remind staff of the need to comply with delegated financial authority and remind processing staff to be more diligent in making sure the delegated financial authority is appropriately followed. Encourage staff to use of the Online Requisition system to reduce the risk of payments being approved outside staff delegation.		✓		●	This is an ongoing process with educating staff and further enhancements to the automated requisitioning system. J Paulin – 19 April 2017

	<p>Creditor master file review Complete an independent review over the creditor master file changes made year to date as soon as possible to provide assurance to management that changes made were bona fide. Reinstate the monthly review of the creditor master file, evidenced by way of a signature and date prior to each creditor payment run.</p>		✓			<p>Creditor master file changes will continue to be reviewed and authorised. We will see if any improvements can be made to this process. J Paulin – 19 April 2017</p>
	<p>Parking meter tickets Track the sequential numbers on the parking meter tickets in the reconciliation to ensure that the Council receives all coins from the parking meters</p>		✓			<p>Complete. Ongoing process now in place where the parking meter receipt numbers are tracked on a spreadsheet along with the amount of money received from the meters. M Leyland - 18 April 2017</p>
	<p>Reporting of unplanned and deferred maintenance Report planned unplanned and deferred maintenance on a regular basis to Council to allow monitoring and action as required.</p>		✓			<p>Planned and Unplanned maintenance is recorded in the ledger and reported to activity managers and Council/FAR. A Chamberlain – 21 April 2017</p>
	<p>Keeping the interest register up to date Remind elected members and other key management personnel to update the interest register on a regular basis.</p>		✓			<p>In the work programme for 2016/17. J Paulin - 19 April 2017</p>
	<p>Risk management Council formally endorse the risk policy and review its current risk management framework/processes for appropriateness.</p>		✓			<p>A framework is in place which includes an implementation plan that spans to December 2017 for a full organisation wide approach to the management of risk. Progress under this framework is reported on to Management and Elected Member regularly. N Brady – 20 April 2017</p>
	<p>Project management improvements Formalise the methodology for managing projects and ensure there is a planned approach to post</p>		✓			<p>Agree that this is an area where Council could look to improve through implementation of an organisation wide approach to project management principals and methodology. This will be</p>

	implementation review in place.					factored into the work programme for the 2017/2018 year. N Brady – 20 April 2017
	Procurement Strategy and Policy Align the current Procurement Strategy and Policy with best practice, with a view to having an integrated policy that can be used by the entire organisation.		✓			As per commentary on 3.1. N Brady - 20 April 2017
	Sensitive expenditure policy Review the sensitive expenditure policy, in conjunction with the employee handbook, to ensure consistency between the two documents.		✓			Completed J Paulin – 19 April 2017
	Mobile/PDA policy We recommend that the Mobile/PDA policy be reviewed in line with OAG guidelines.		✓			Complete. Mobile device policy updated and adopted by the organisation on the 11 th April 2017. This will be reviewed by Audit NZ when the next IT audit is conducted. N Brady – 20 April 2017
	Conflicts of interest policy Review and update the Conflicts of Interest policy to reflect best practice in the sector. We recommend: <ul style="list-style-type: none"> Policy to be reviewed and endorsed by EMT; and The policy includes a clearer mechanism on how breaches are handled or on what the consequences are for non-compliance.		✓			This was completed in August 2016. A Chamberlain – 21 April 2017
	Legislative compliance Council to look at mechanisms to actively monitor compliance with legislative requirements.		✓			This is now sitting with the new position of Legal Counsel and will be managed in-house going forward. S Wood – 21 April 2017
	Collectability of rates debtors Implement a robust process to identify and monitor rates which are no longer legally collectable under the		✓			A report is being written to support this recommendation and extraction of the required information. This will be completed for the 2017 Annual report.

	Local Government (Rating) Act 2002, and write them off.				J Paulin - 19 April 2017
	Contract management Council to endorse an integrated policy for organisation-wide use.		✓		● Agree that this is an area where Council could look to improve through implementation of an organisation wide policy and procedures. This will be factored into HDC's work programme for the 2017/2018 year. In the short term, a contract register has been created and populated or all existing contracts and this is reported on monthly. N Brady – 20 April 2017
	PPE additions - missing contract documentations Retain all contract information and ensure it is appropriately filed and archived to enable monitoring of key KPIs and contract conditions. All contracts should be appropriately approved and payments approved in line with delegated authority.		✓		● The missing documentation from Design Group has been followed up. This highlights the need for improvements and will be incorporated with the point above covered in the Contract Management section into HDC's work programme for 2017/2018. N Brady – 20 April 2017
	Maintenance of fixed assets WIP schedule/depreciation Monitor WIP balances on a regular basis to ensure that any WIP that should be capitalised is done so. All significant capital additions are depreciated when the asset becomes available for use. As depreciation is only calculated at year end, council should review larger additions to check if depreciation should be recognised earlier.		✓		● This is still only done at year end. However an adjustment for depreciation on assets commissioned during the year can be done to catch any missed depreciation. A Chamberlain – 21 April 2017
	Maintenance of fixed asset register (FAR) Perform a full review of the FAR to ensure valid data is contained in the module. Review accounting policies to		✓		● Now have resourcing to do a full check of infrastructure assets. This won't be completed before next annual plan. Will review depreciation rates to accounting policies before year end. Reconciliation still not done as not all assets are loaded into

	<p>ensure depreciation rates appropriate and detailed enough for assets which are commonly added to the schedule.</p> <p>Implement regular reconciliations between the Asset Management Systems maintained by the asset managers and the Fixed Assets Register maintained by the finance team. The reconciliations should be reviewed by an independent person evidenced with a dated signature.</p>					<p>AMS. A Chamberlain – 19 April 2017</p>
	<p>Policy on deposits and bonds Adopt a policy on deposits and bonds and review deposits and bonds held to determine whether those no longer required should be refunded or recognised as revenue.</p>		✓		●	<p>Historical outstanding bonds will continue to be reviewed. Any assistance from Audit NZ on existing good practice in place in Local Govt would be appreciated, from which we will develop our policy from. J Paulin – 19 April 2017</p>
	<p>High annual leave balances Employees with excessive leave balances be encouraged to reduce their leave balances.</p>		✓		●	<p>An annual leave balance report is generated monthly and sent to managers to monitor and ensure adequate leave is taken. Managers have met with staff and completed leave plans for those with high leave balances. A Cotter-Hope – 4 May 2017</p>
	<p>Valuation of property, plant and equipment</p> <ul style="list-style-type: none"> Ensure quality assurance review is carried out to future in-house revaluations. Ensure completeness and accuracy of the data contained within the asset management records. <p>Query assumptions used by external valuers.</p>		✓		●	<p>On track A Chamberlain – 21 April 2017</p>
	<p>Organisational Business Continuity and IT Disaster Recovery</p>	✓			●	<p>This will be completed in 17/18 as part of our planned testing of our implementation of the business continuity pan. An update on</p>

	<p>Finalise and test the Organisational Business Continuity and IT Disaster Recovery. Perform formal test restores to ensure data can be recovered from tape.</p>				<p>this project was provided as part of the IT audit conducted and we look forward to commentary from Audit NZ on our progress when they return to HDC. N Brady – 20 April 2017</p>
	<p>Patching and Virus Management improvements Review patch and virus management procedures to ensure that the systems are managing all of council's current devices. Establish an after-hours outage window so that IT staff are able to take servers down to perform maintenance and configuration. Establish reporting on the status of patching and virus management to ensure councils systems are protected.</p>		✓		<p>○ All patching of servers is carried out on a regular scheduled basis. A regular after hour's outage window has been set and these updates/maintenance tasks are reported every quarter in the Spark Managed Service report. K Tegg – 28 April 2017</p>
	<p>Establish regular testing of backups Establish a cycle of testing the restoration of data from backups as part of Council's business continuity planning</p>		✓		<p>○ This will be completed in 17/18 as part of our planned testing of our implementation of the business continuity plan. All HDC Data has been replicated to the Revera data centre. A full schedule of testing will be confirmed once we have migrated to the Cloud in Quarter 2 (2017/18). A progress update was provided as part of the IT audit conducted recently and we look forward to commentary from Audit NZ on our progress when they return to HDC. K Tegg – 28 April 2017</p>

Explanation of priority rating system

Audit's recommendations for improvement and their priority are based on Audit's assessment of how far short Horowhenua District Council is from a standard that is appropriate for the size, nature, and complexity of the business.

Audit has developed the following priority ratings for recommended improvements.

<p>Urgent Major improvements required</p>	<p>Needs to be addressed urgently These recommendations relate to a significant deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm</p>
<p>Necessary Improvements are necessary</p>	<p>Address at the earliest reasonable opportunity, generally within 6 months These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency</p>
<p>Beneficial Some improvement required</p>	<p>Address, generally within 6 to 12 months These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weaknesses that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in Audit's view, it is beneficial for management to address these.</p>

Exclusion of the Public : Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following part(s) of the proceedings of this meeting.

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

This resolution is made in reliance on section 48(1)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public, as follows:

C1 Peer Review of the Internal Auditor's Review of Sensitive Expenditure

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(a) - The withholding of the information is necessary to protect the privacy of natural persons, including that of a deceased person.	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.