

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

Date: Wednesday 25 May 2022
Time: 4.00 pm
Meeting Room: Council Chambers
Venue: Horowhenua District Council
Levin

Finance, Audit & Risk Committee

OPEN AGENDA

MEMBERSHIP

Chairperson	P Jones	
Deputy Chairperson	Cr C B Mitchell	
Members	Cr D A Allan	Cr W E R Bishop
	Cr R J Brannigan	Cr T N Isaacs
	Mr B J Jackson	Cr S J R Jennings
	Cr V M Kaye-Simmons	Cr R R Ketu
	Deputy Mayor J F G Mason	Cr P Tukapua
	Mayor B P Wanden	

Contact Telephone: 06 366 0999
Postal Address: Private Bag 4002, Levin 5540
Email: enquiries@horowhenua.govt.nz
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
Te Awahou Nieuwe Stroom, Foxton,
Shannon Service Centre/Library, Plimmer Terrace, Shannon
and Te Takeretanga o Kura-hau-pō, Bath Street, Levin

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1 Apologies

2 Public Participation

Notification of a request to speak is required by 12 noon on the day of the meeting by phoning 06 366 0999 or emailing public.participation@horowhenua.govt.nz.

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 Committee, 27 April 2022

Resolution

That the minutes of the Finance, Audit and Risk Committee, 27 April 2022, be accepted as a true and correct record

6 Announcements

Finance, Audit and Risk Committee Resolutions and Actions monitoring report 2022

File No.: 22/239

1. Purpose

The purpose of this report is to report to the Finance, Audit & Risk Committee on previous resolutions.

2. Recommendation

- 2.1 That Report 22/239 Finance, Audit and Risk Committee Resolutions and Actions monitoring report 2022 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 Finance, Audit and Risk Committee notes the Finance, Audit and Risk Committee resolution and actions monitoring report.

3. Issues for Consideration

This paper reports on actions generated from Committee resolutions, and any requests noted through the minutes, or requested for action accepted by the Chair.

This paper is provided for information. Much like the Committee Work Programme, the Resolution Monitoring Report will be standing item, and reported through at each committee meeting.

Attachments


No.	Title	Page
A.1	Finance Audit and Risk Committee monitoring report 2022	9


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 advantages and disadvantages, 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)	Grayson Rowse Principal Advisor - Democracy	
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Approved by	Ashley Huria Business Performance Manager	
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Finance, Audit and Risk Committee Actions Monitoring Report 2022

	Completed
	In progress
	Transfer
	Off track

Reference	Resolution/Action	Officer	Due date	Status	Officer Comment
20/465	Customer & Strategy – Activity Update <ul style="list-style-type: none"> To provide further information with regard to current and future consenting activity – trends to be identified in the growth dashboard 	M Leyland			Awaiting changes to reports and processes
	Infrastructure Operations – Activity Update <ul style="list-style-type: none"> Levin Wastewater Treatment Plant digesters – one digester had failed and replacement options being looked at - report to come to Council, including any risks to Council 	A Crawford			Several assessments have been carried out including condition assessment of digester and associated mechanical equipment. A cost/benefit evaluation and associated risks with each option have been performed on the available options to determine the appropriate way forward. It has been concluded that a repair has to be done in the short term to increase the life of digester. It is very risky to operate the plant with one digester only. Digester #1 repair completed with pre-commissioning tests this week. Commissioning will start week commencing 23rd May. It will take up to two months for the digester to be fully operational.
21/337	Health & Safety Report <ul style="list-style-type: none"> Enhanced risk management reporting, over time, in response to the SafePlus comment “some risk controls were being monitored but 	T Glavas			The effectiveness of the controls is being monitored through ongoing incident reporting.

D22/59985

Last update: 19-May-22

	effectiveness of controls were not being verified”				
21/392	Finance, Audit & Risk Committee Work Programme <ul style="list-style-type: none"> • Council’s Risk Register – what should be added in terms of risk due to the proposed reforms – Local Government, RMA, and Three Waters to be considered. Also what was learned during the recent CouncilMARK process to be included. 	A Huria			A risk management improvement programme is underway. Risk management status report and Risk Policy are included in May agenda. Further risk reporting will be developed over the coming months including update of documentation.
21/433	Three Month Report 1 July 2021 – 30 September 2021 <ul style="list-style-type: none"> • Provide a summary of the potential changes in the timing to the capital programme & what it is currently looking like. 	J Straker			This has been updated as part of the Annual Plan briefings and is included in the Ten Month Finance Report.
21/433	Three Month Report 1 July 2021 – 30 September 2021 <ul style="list-style-type: none"> • Reprogramme the borrowing profile. 	J Straker			This has been updated as part of preparing the 2022/23 annual plan proposal.
21/485	Finance, Audit & Risk Committee – Actions <ul style="list-style-type: none"> • Delegation work stream 	A Huria			Scheduled in workplan
22/60	Seven Month Report to 31 January 2022 <ul style="list-style-type: none"> • That the Committee Directs the Chief Executive to provide a briefing to councillors on: <ul style="list-style-type: none"> ○ the reasons for the underspend of CAPEX to date, the interventions required to address the underspend, the resources that are available for those interventions, the consequences for our levels of service, the impact on ability to meet growth projections, ○ the impact on meeting our funding partner obligations, and ○ the impact on debt; 	D Wright			A series of briefings commenced 23 March 2022

	<ul style="list-style-type: none"> ○ what is the potential cost escalations, and how that might be managed; ○ a genuine look at what our capacity to deliver; ○ provides an updated cash flow. 				
22/59	<p>Finance, Audit & Risk Committee Work Programme</p> <ul style="list-style-type: none"> • It was agreed that there would be a risk update brought to the Finance, Audit and Risk Committee meeting in March 	A Huria			Risk update provided in April 2022

Finance, Audit and Risk Committee Work Programme

File No.: 22/230

1. Purpose

The purpose of this report is to provide the Finance, Audit and Risk Committee with an outline of a Draft Work Programme.

2. Recommendation

- 2.1 That Report 22/230 Finance, Audit and Risk Committee Work Programme 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 Finance, Audit & Risk Committee notes the Finance, Audit and Risk Committee Work Programme.

3. Issues for Consideration

This report will be a standing item on ever Finance, Audit and Risk Committee, with the aim to assist the Committee in understanding how identified priorities and commitments are progressing.

This report, also aims to remind the Committee of its Terms of Reference, and delegations with the aim of guiding both Councillors and Committee members on how that aligns with any guidance, decisions or noting is required.

The Work Programme tabled will evolve over the coming months. At this point it is worth noting that the committee work programme does not include:

- Reporting outcomes which may be agreed as part of The Horowhenua Alliance Principals Group discussions.
- Confirmation of all areas of focus and timing for Internal Audit. These items will be added as the audits are agreed.
- Additional focus areas to be discussed by the Finance, Audit and Risk Committee through workshops.
- Any additional matters raised through the Audit New Zealand management letter.

The Work Programme includes:

- All current reporting expectations agreed by the Finance, Audit and Risk Committee.
- Anticipated Audit New Zealand work programme, noting dates to be confirmed for those in italics.

Finance Audit and Risk Areas of Focus

The Finance, Audit and Risk Committee provides objective advice and recommendations regarding the results of Council's financial processes, risk management, control and governance frameworks and processes. It is responsible for exercising active oversight of all areas of the Council's control and accountability in an integrated and systematic way.

The Finance, Audit and Risk Committee ensures Council takes responsibility for:

- the robustness of the internal control framework and financial management practices
- the integrity and appropriateness of internal and external reporting and accountability arrangements

- the robustness of risk management systems, processes and practices
- the independence and adequacy of internal and external audit functions
- compliance and applicable laws, regulations, standards and best practice guidelines
- the establishment, maintenance and effectiveness of controls to safeguard the Council's financial and non-financial assets. In fulfilling their role on the Finance, Audit and Risk Management Committee, members shall be impartial and independent at all times.

Finance Audit and Risk Terms of Reference and delegations

The Finance, Audit and Risk Committee assists Council to fulfil its responsibilities by:

1. Undertaking the administration of all statutory functions, powers and duties within its terms of reference, other than those specifically delegated to any other committee or subcommittee, or retained by Council.
2. Internal Control Framework
 - a. review whether management's approach to maintaining an effective internal control framework is sound and effective
 - b. review whether management has taken steps to embed a culture that is committed to probity and ethical behavior
 - c. review whether management has in place relevant policies and procedures and how these are reviewed and monitored
 - d. review whether there are appropriate systems, processes and controls in place to prevent, detect and effectively investigate fraud.
3. Internal Reporting
 - a. regularly review Council's performance against budget, Financial Strategy parameters and service level performance targets set out in the relevant Long Term Plan and/or Annual Plan
 - b. regularly review Council's performance against the benchmarks set under the Local Government (Financial Reporting and Prudence) Regulations 2014 and any subsequent amendments
 - c. consider the processes for ensuring the completeness and quality of financial and operational information being provided to Council
 - d. seek advice from internal and external auditors regarding the completeness and quality of financial operational information that is provided to Council.
4. External Reporting and Accountability
 - a. review and recommend to Council for adoption, the Council's Annual Report, and the financial and service performance reporting aspects of the Long Term Plan (including the Financial Strategy and Infrastructure Strategy) and Annual Plans
 - b. agree the appropriateness of Council's existing accounting policies and principles and any proposed change
 - c. satisfy itself that financial statements and statements of service performance are supported by appropriate management signoff in relation to significant estimates and judgements and the adequacy of the systems of internal control.
5. Risk Management
 - a. review whether management has in place a current, comprehensive and effective risk management framework and associated procedures for effective identification and management of Council's significant risks

b. consider whether appropriate action is being taken by management to mitigate Council's significant risks.

6. Internal Audit

a. review and approve the internal audit coverage and annual work plans, ensuring these plans are based on the Council's risk profile

b. review the adequacy of management's implementation of internal audit recommendations

c. review the internal audit charter to ensure appropriate organisational structures, authority, access, independence, resourcing and reporting arrangements are in place.

7. External Audit

a. prior to the commencement of each audit, confirm the terms of the engagement, including the nature and scope of the audit, timetable and fees, with the external auditor

b. at the completion of each audit receive the external audit management report and review and monitor the resolution of the action(s) to be undertaken by management on significant issues and recommendations

c. if so desired, host a members-only session with the external auditor to raise / discuss any matters that either side wishes to bring to the other's attention.

8. Compliance with Legislation, Standards and Best Practice Guidelines

a. review the effectiveness of the system for monitoring Council's compliance with laws including governance legislation, regulations and associated government policies, with Council's own standards, and best practice guidelines as applicable.

Attachments

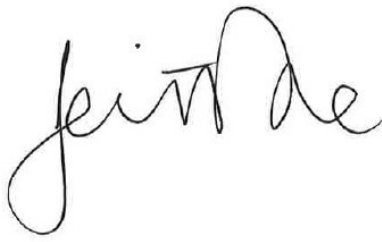
No.	Title	Page
A1	Finance, Audit and Risk Committee work programme 2022	17

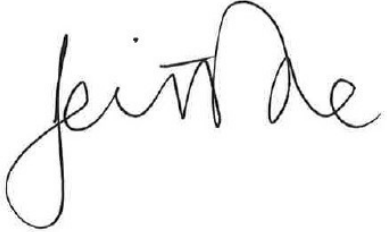
Confirmation of statutory compliance

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 advantages and disadvantages, 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)	Jacinta Straker Chief Financial Officer	
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Approved by	Jacinta Straker Chief Financial Officer	
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Finance, Audit and Risk Committee Work Programme 2022

	Completed
	In progress
	Transfer
	Off track

	Topic	Planned meeting date	Status	Note
1.	Activity Report – Customer Strategy	May 2022		This has been moved to the June Council meeting as it more correctly fits under Council's terms of reference.
2.	Activity Report – Project Steering	May 2022		
3.	Financial Report - April	May 2022		
4.	FAR Work programme – May	May 2022		
5.	Insurance Strategy and Plan	May 2022		
6.	2021/22 Annual Report <ul style="list-style-type: none"> • Audit engagement letter • Project Plan 	May 2022		Engagement letter yet to be provided by Audit NZ
7.	Risk Status Update Risk Policy/Key Risks	May 2022		
8.	Monitoring Report – Audit Recommendations 2020/21	June 2022		
9.	Activity Report – Project Steering Group	June 2022		
10.	Financial Report - May	June 2022		
11.	FAR Work programme - June	June 2022		
12.	Health & Safety Report	June 2022		
13.	Draft Internal Audit Work Programme for 2022/23	June 2022		
14.	Monitoring Report - Internal Audit	June 2022		
15.	Delegations Policy	June 2022		Briefing to be arranged with a view to bring a paper back to the Council meeting in August.
16.	Risk Matrix and Assessment Framework	June 2022		
17.	Audit NZ Management Report – quarterly monitoring report	June 2022		
18.	Activity Report – Infrastructure	August 2022		This has been moved to the August Council meeting as it more correctly fits under Council's terms of reference.
19.	Activity Report – Project Steering	August 2022		
20.	Quarterly Financial Report (June)	August 2022		

D22/57508

Last update: 19-May-22

21.	FAR Work Programme	August 2022		
22.	PwC Tax Governance Presentation	August 2022		
23.	Rates Review – Stage 1 – Rates Affordability	August 2022		
24.	Activity Report – Customer Strategy	September 2022		This has been moved to the September Council meeting as it more correctly fits under Council's terms of reference.
25.	Activity Report – Project Steering	September 2022		
26.	Financial Report (August)	September 2022		
27.	FAR Work Programme	September 2022		
28.	Health & Safety Report	September 2022		
29.	Audit NZ Management Report – quarterly monitoring report	September 2022		

Monthly Financial Report April 2022

File No.: 22/233

1. Purpose

To present to the Finance, Audit & Risk Committee the financial report for the ten months to 30 April 2022.

2. Recommendation

- 2.1 That the Monthly Financial Report April 2022 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

Total Capital Spending \$22.3m is \$21.4m less than the YTD budget of \$43.7m	Grants and Subsidies (Capital & Operating) \$7.9m is \$7.3m less than the YTD budget of \$15.2m	Total Net Borrowings \$114.5m is 163% of budgeted operating income (financial strategy limit is 225%)
Total Operating Revenue \$46.5m is 3% more than the YTD budget of \$44.9m	Total Operating Expenditure \$54.3m is 12% more than the YTD budget of \$48.6m	Total Surplus/(Deficit) (\$7.9m) is \$4.1m less than the YTD budget of (\$3.7m)

The Council has completed \$22.3m towards the budgeted capital programme at the end of April. The budget of \$57.7m for 2021/22 includes the \$55.5m approved in the Long Term Plan (LTP) together with \$2.2m in additional approved carry forwards.

The level of capital grants is also lower than budgeted due to the timing of the capital programme changing from what was originally planned.

A revised capex programme forecast has been completed. The forecast capital spend for 2021-22 is expected to be \$31.6m. This is explained in more detail in the capital spending section.

The level of operating income is \$1.6m higher due to higher levels of income in Planning & Regulatory, as a result of increased consenting and building activity. There has also been higher levels of operational grants, including funding for the Mayor's Task for Jobs (\$538k) and Three Waters Stimulus Funding (\$158k).

Overall, the level of operational expenditure is \$2.7m higher than the level set in the Long Term Plan (LTP) which is primarily due to higher emergency works spending for Gladstone Road, higher spending in the landfill activity due to the work required to support the Future of

the Levin Landfill Consultation, increased resources to support the additional work in Planning & Regulatory and the Mayors' Task Force for Jobs programme.

The Council has completed further work on the year end operational forecast to factor in savings and additional costs that may be funded in future years. The Council is currently forecasting the underlying rates deficit is \$0.5m higher than budget.

Attachments

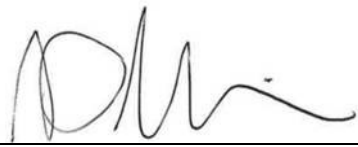
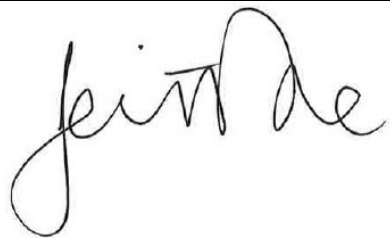
No.	Title	Page
A↓	Financial Reporting - Monthly Report - 30 April 2022 - FAR Committee	21

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 advantages and disadvantages, 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)	Abraham Chamberlain Manager Financial Planning and Reporting	
Approved by	Jacinta Straker Chief Financial Officer	



Executive Summary

<p>Total Capital Spending</p> <p>\$22.3m is \$21.4m less than the YTD budget of \$43.7m</p>	<p>Grants and Subsidies (Capital & Operating)</p> <p>\$7.9m is \$7.3m less than the YTD budget of \$15.2m</p>	<p>Total Net Borrowings</p> <p>\$114.5m is 163% of budgeted operating income (financial strategy limit is 225%)</p>
<p>Total Operating Revenue</p> <p>\$46.5m is 3% more than the YTD budget of \$44.9m</p>	<p>Total Operating Expenditure</p> <p>\$54.3m is 12% more than the YTD budget of \$48.6m</p>	<p>Total Surplus/(Deficit)</p> <p>(\$7.9m) is \$4.1m less than the YTD budget of (\$3.7m)</p>

The Council has completed \$22.3m towards the budgeted capital programme at the end of April. The budget of \$57.7m for 2021/22 includes the \$55.5m approved in the Long Term Plan (LTP) together with \$2.2m in additional approved carry forwards.

The level of capital grants is also lower than budgeted due to the timing of the capital programme changing from what was originally planned.

A revised capex programme forecast has been completed. The forecast capital spend for 2021-22 is expected to be \$31.6m. This is explained in more detail in the capital spending section.

The level of operating income is \$1.6m higher due to higher levels of income in Planning & Regulatory, as a result of increased consenting and building activity. There has also been higher levels of operational grants, including funding for the Mayor's Task for Jobs (\$538k) and Three Waters Stimulus Funding (\$158k).

Overall, the level of operational expenditure is \$2.7m higher than the level set in the Long Term Plan (LTP) which is primarily due to higher emergency works spending for Gladstone Road, higher spending in the landfill activity due to the work required to support the Future of the Levin Landfill Consultation, increased resources to support the additional work in Planning & Regulatory and the Mayors' Task Force for Jobs programme.

The Council has completed further work on the year end operational forecast to factor in savings and additional costs that may be funded in future years. The Council is currently forecasting the underlying rates deficit to be \$0.5m higher than budget. This is outlined on the following page.

	(More) / less spending and revenue (\$000)
Operational Forecast Summary - drivers of the forecast deficit	
Employee Costs - This is due to vacancies across the organisation	1,144
CEO - Additional professional services - This includes the Interim CE fees.	(390)
Communities & Partnerships & Business - This is mainly due to lower staff recoveries with some of it due to the Deputy CE position not in place for the second part of the year	(149)
Community Facilities - Reduced spending across the activity including events costs offset by lower income due to COVID	43
Community Infrastructure - This is due to higher grants funding for a payment planned to Save our Rivers Trust (SORT).	(186)
Customer and Strategy - This is due to additional contract resource to support the team and is offset by reduced employee costs above.	(243)
Infrastructure Development - This is due to lower labour recovery	(409)
Infrastructure Operations - Lower employee costs offset by lower staff recoveries as a result of vacancies in the team and lower capital programme.	(244)
People and Culture - Relates to additional recruitment across the organisation as well as consultancy support.	(401)
Planning & Regulatory - The forecast higher net income is due to increased building and subdivision activity offset by additional contract resources to support the team.	117
Property - This is due to a loss on sale of endowment land.	(136)
District Plan and Sustainable Growth Planning - District plan work was advanced earlier than originally planned in the District Plan Programme in the LTP and O2NL consultancy not budgeted but particularly reimbursed	(552)
Road Transport - The net increase in costs is due to emergency works for Gladstone Road - This forecast includes an assumption of 62% funding from Waka Kotahi.	(32)
Solid Waste - The net overspend relates to reduced revenue and additional costs related to the Future of the Levin Landfill consultation. This excludes additional work required towards a future decision.	(603)
Treasury - Relates to reduced net interest costs as a result of the lower capital programme. This will be used to offset future interest costs.	309
Wastewater Management - Due to reductions across the activity.	63
Water Supply - Water by meter is expected to be \$262k down and the balance is made of increased internal charges and insurance costs.	(73)
Other	(2)
Adjust for items not affecting rates surplus/deficit for 2021/22 (See below)	1,260
Underlying rates surplus/ (deficit)	(484)

Adjust for items not affecting rates surplus/deficit for 2021/22	
Exclude grant for hockey turf - funded by reserves	322
Exclude loss on sale	157
Exclude District Plan brought forward (Funded by borrowings and sustainable growth planning).	552
Exclude Interest savings to be used to reduce rates for 2022/23	-300
Solid waste - potential to use borrowings to fund the Future of the Levin Landfill consultation and recover through rates (over 3-5 years)	530
Total	1,260

Abraham Chamberlain – Manager Financial Planning and Reporting

Operational Summary

Total Operating Revenue	Total Operating Expenditure	Total Surplus/(Deficit)
\$46.5m is 3% more than the YTD budget of \$44.9m	\$54.4m is 5% more than the YTD budget of \$51.7m	(\$7.9m) is \$1.1m less than the YTD budget of (\$6.8m)
S U S T A I N A B I L I T Y		

Rates to operating revenue	69%
Rates revenue	\$35.96m
Operating revenue	\$51.80m

69% of operating revenue is derived from rates revenue. Rates revenue excludes penalties, water supply by meter and is gross of remissions. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives.

Balance budget ratio - Actual	95%
Balance budget ratio - Target	100%
Operating revenue	\$51.80m
Operating expenditure	\$54.39m

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 95% of operating expenditure.

Net Debt to total projected revenue - Actual	163%
Net Debt to total projected revenue (Borrowings Limit)	225%
Total net borrowing	\$114.53m
Total budgeted operating revenue	\$70.35m

With net borrowing of \$114.53m we are still under the set limit of 225% of operating revenue. Total net borrowing is external borrowings less cash at bank.

Interest to rates revenue - Actual	7%
Interest to rates revenue - Limit	25%
Net Interest	\$2.51m
Rates revenue	\$35.96m

7% 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, water supply by meter and gross of remissions (LGFA Cov.)

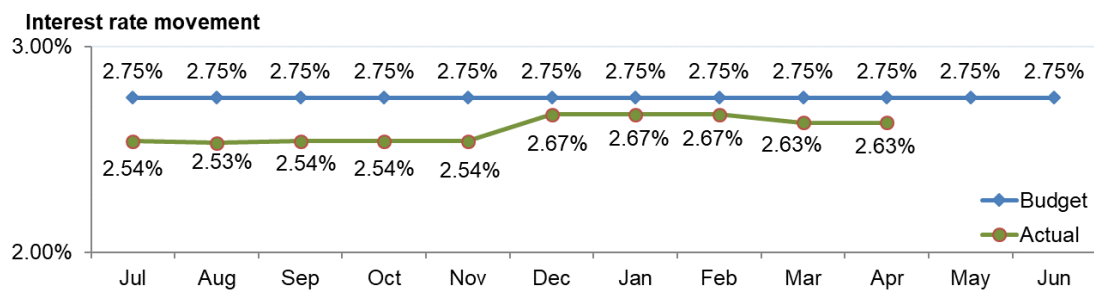
Interest to operating revenue - Actual	5%
Interest to operating revenue - Limit	20%
Net Interest	\$2.51m
Operating revenue	\$51.80m

5% of operating revenue is paid in interest. Our set limit is 20% of operating revenue. Net interest is interest paid less interest received (LGFA Cov).

Available financial accommodation to external indebtedness - Actual	126%
Available financial accommodation to external indebtedness - Minimum required	110%
Net debt	\$114.5m
Undrawn committed facilities	\$30.00m

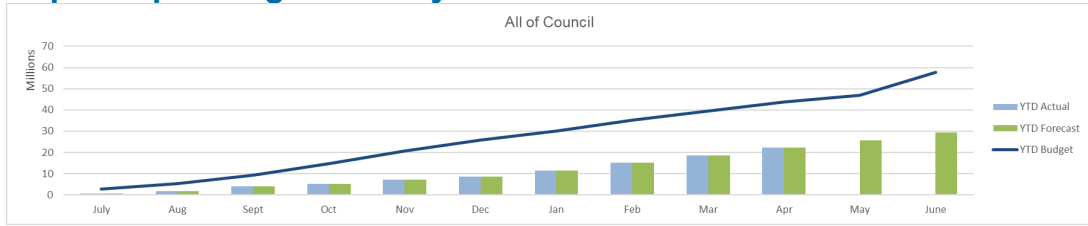
The committed bank facility enables us to borrow up to 126% of our current external debt immediately. The LGFA covenant minimum is 110%.

Weighted Average Interest Rate



Detailed treasury planning will be occurring this month following the re-forecasting work completed. This will help to ensure that Council can optimise its borrowings and keep interest rates as low as possible.

Capital Spending Summary



The Council has completed \$22.2m towards the budgeted capital programme at the end of April. The budget of \$57.7m for 2021/22 includes the \$55.5m approved in the LTP together with \$2.2m in additional approved carry forwards.

Summary of capital programme by activity and programme	Revised Budget 2021-22 (Including Carry Forwards)	April YTD Actual 2021-22	Forecast 2021/22	YR2 2023 (LTP)	YR2 2023 Revised (includes projects carried forward)	Detailed planning completed for Year 2	LTP (Combined 2 year budget)	Annual Plan (Combined 2 Year budget)	2 Year variance (to be spread over year 3-5)	Notes
(\$000)										
Wastewater										
Tara-Ika - Wastewater	3,900	1,931	1,345	3,623	2,000	(2,000)	7,523	3,345	(4,178)	There is an additional spend of \$250k forecast in the current year for work on Enterprise drive. This will be funded by the Horowhenua Company.
WW Marae Improvements	259	-	-	-	-	-	259	-	(259)	This is not spent as it has been treated as operational funding.
WW Property renewals	4	-	-	-	5	-	4	5	1	
WW Pump stations	100	62	100	160	160	-	260	260	-	
WW Reticulation	5,285	207	1,717	4,521	5,401	(2,880)	9,806	7,118	(2,688)	There is \$2m in the LTP for Levin Growth funding and renewals funding. Cambridge street is currently at tender and is going to be completed next year (\$1.2m).
WW Treatment	6,093	3,539	5,293	8,537	4,368	(2,949)	14,629	9,661	(4,968)	Amend the cashflow to reflect the availability of parts and materials for the treatment plant spending, including items such as \$800k for the digester and \$1m for the sludge tank and head works. \$3.7m in year 2 is for the completion of the automation project at the POT with the balance for land purchase and wetland development. The remaining \$2.5m is the upgrade of various treatment plant components. e.g. Tokormaru will have some construction underway in year 2.
	15,640	5,740	8,455	16,840	11,934	(7,829)	32,481	20,389	(12,092)	
Water Supply										
Growth	855	219	347	553	-	-	1,408	347	(1,060)	This reduction relates to orijects being cash flowed forward to year3. Noting that Taraika will deliver a lot of the year2 growth works.
Tara-Ika - Water Supply	-	21	41	2,381	(41)	41	2,381	-	(2,381)	Change in timing for the Taraika works due to PC4 and coordination with roading projects
Water Reticulation network	3,795	882	1,323	2,265	3,720	(2,716)	6,061	5,043	(1,018)	Amended reticulation spending to meet resource capacity. Shannon Mangaore Road new water main will be in year 2.
Water Treatment	1,205	202	245	347	808	-	1,551	1,053	(499)	Shannon improvement budget is \$450k to be completed during Year2
	5,855	1,325	1,957	5,545	4,486	(2,675)	11,401	6,443	(4,958)	
Stormwater										
Major Project - Lake Horowhenua	500	-	-	1,035	-	-	1,535	-	(1,535)	Assume spending is unlikely for year 1 & 2. No current project scope
Major Project - Levin East	2,804	505	555	155	1,200	(1,200)	2,959	1,755	(1,204)	These are the attenuation ponds at NE Levin. Delayed due to extended consent period. Remaining works contracted for completion in year2.
Stormwater Reticulation	150	53	80	166	275	-	316	355	39	Amended cash flow over two years. Rua St Waitarere (\$200k) underway next month. Salisbury Street Levin (\$450K) underway early Year2. Both have renewal and growth components
Stormwater Pumps Stations	49	15	15	47	81	-	96	96	(0)	Complete the same level of work over two years
Stormwater improvements	2,553	602	1,118	716	1,047	-	3,270	2,165	(1,105)	Reduced for funding for Horizons for Foxton East Drainage (Assume year 3). Council to decide whether to fund. Waitarere underway. Foxton Beach underway. Levin starting year2.
Taraika	-	102	177	2,070	1,854	(1,854)	2,070	2,031	(39)	Change in timing for the Taraika works due to PC4 and coordination with roading projects
	6,057	1,277	1,944	4,189	4,457	(3,054)	10,245	6,401	(3,844)	

Summary of capital programme by activity and programme	Revised Budget 2021-22 (Including Carry Forwards)	April YTD Actual 2021-22	Forecast 2021/22	YR2 2023 (LTP)	YR2 2023 Revised (includes projects carried forward)	Detailed planning completed for Year 2	LTP (Combined 2 year budget)	Annual Plan (Combined 2 Year budget)	2 Year variance (to be spread over year 3-5)	Notes
Solid Waste										
Buildings and equipment	122	51	310	111	90	-	232	400	168	
Pre-closure capping and development.	1,112	1,560	1,560	232	400	-	1,343	1,960	616	This may be changed in year 2 based on the future of Levin Landfill decisions to be made.
	1,233	1,610	1,870	343	490	-	1,576	2,360	784	
Roading										
Bridges	-	-	-	30	30	(30)	30	30	-	
Cycle facilities	850	39	200	950	250	(250)	1,800	450	(1,350)	Due to reduced funding from Waka Kotahi (Assume that FAR rate is 61%)
Drainage	275	158	350	275	275	(275)	550	625	75	This relates to SW work
Footpaths	750	489	650	750	650	(650)	1,500	1,300	(200)	This is progressing well.
Major Project - O2NL	-	-	-	3,000	-	-	3,000	-	(3,000)	Shift to Year 4. No indication from WK at this time that any significant improvement work will proceed early
Major Project - Gladstone Road Realignment	5,000	2,565	3,500	-	2,000	(2,000)	5,000	5,500	500	Latest outturn estimate has escalated due to materials and resource cost increases. Now expected to be \$5.5m. Works are under contract and will be completed year2.
Roads	4,445	2,751	3,461	4,420	4,570	(4,570)	8,865	8,031	(834)	\$700k is due to the bridge consent for Koputaroa Road pavement rehabilitation. The roading improvements budget is also down due to the same project. Works and budgets will catch up during year 2.
Taraika - Roading	4,000	56	86	2,000	2,000	(2,000)	6,000	2,086	(3,914)	The budget includes land purchase that has been delayed by PC4, slower than anticipated WK progress, and the adjacent private developers yet to submit applications.
	15,320	6,057	8,246	11,425	9,775	(9,775)	26,745	18,021	(8,724)	
Properties										
Animal Control	21	4	21	-	-	-	21	21	-	
Community buildings	662	576	713	199	199	-	861	913	51	
Waitarere Beach Surf life club saving design and build	1,504	166	343	1,654	2,815	(2,815)	3,158	3,158	-	Note that Waitarere beach surf club budget forecasting a further \$700k at outturn. There is an assumption of co-funding for \$1m. Likely the project will extend over three years.
Depot	62	19	62	-	-	-	62	62	-	
New water source	500	239	432	514	605	(605)	1,014	1,037	24	
Strategic land and Development	2,700	972	1,100	1,541	-	-	4,241	1,100	(3,141)	Carry forward budget not spent to year 3. No strategic purchases in train. No decision in developing land for sale.
Civic Building	-	-	-	-	-	-	-	-	-	
	5,449	1,975	2,672	3,907	3,619	(3,420)	9,356	6,291	(3,065)	

Summary of capital programme by activity and programme	Revised Budget 2021-22 (Including Carry Forwards)	April YTD Actual 2021-22	Forecast 2021/22	YR2 2023 (LTP)	YR2 2023 Revised (includes projects carried forward)	Detailed planning completed for Year 2	LTP (Combined 2 year budget)	Annual Plan (Combined 2 Year budget)	2 Year variance (to be spread over year 3-5)	Notes
(\$000)										
Community Facilities										
Aquatic Facilities	2,042	433	442	1,324	2,923	(277)	3,366	3,366		More detailed costings will be available for the Foxton Pool Project in approximately 4 weeks. It is anticipated that there will be an increase to build cost due to escalation. Note this includes the splashpad as well.
Community Centres	-	-	-	237	237	-	237	237		This is for the TANS roof. This is worst case scenario and funding will need to be brought forward into year 2.
Libraries - incl books	661	467	676	569	551	(502)	1,230	1,227	(3)	
	2,703	901	1,118	2,130	3,711	(779)	4,832	4,829	(3)	
Community Infrastructure										
Cemeteries	-	-	-	123	123	-	123	123	-	
Foxton Futures	-	511	660	-	-	-	-	660	660	Completion of public toilet and drainage at River Loop. Note PGF part fund, but no LTP budget. Works now complete. So Yr.2 budget required.
Halls and Pavillions	27	-	27	29	29	-	56	56	-	
Levin Domain Grandstand	-	4	-	-	-	-	-	-	-	
Parks and reserves	3,193	2,057	2,960	1,811	1,756	(90)	5,004	4,716	(288)	This relates to escalation of materials costs across the projects.
Streams and Lakes	16	4	16	16	16	-	32	32	-	
Taraika - Community Infra	-	0	-	-	-	-	-	-	-	
Toilets	506	129	589	58	447	(389)	564	1,036	472	Hank Edwards toilet upgrade (50k) required CF to 2022/23 due contractor availability and Covid. Splash Pad project includes replacement of Jubilee Park amenities block funded from Toilet Major Projects, funding \$474k approved by Council to be brought forward from Yr3 for that project. Project requires deposit of \$135,273 in current year to secure construction of building.
Tracks and Beach access	50	19	50	36	396	-	86	446	360	This is to develop new vehicle access to Waikawa beach \$300k and \$60k for Foxton Beach - For discussion with Council.
	3,792	2,725	4,302	2,073	2,767	(479)	5,865	7,069	1,204	
Planning & Regulatory Services										
Animal Equipment and Facilities	84	74	84	45	45	-	129	129	-	
	84	74	84	45	45	-	129	129	-	

Summary of capital programme by activity and programme	Revised Budget 2021-22 (Including Carry Forwards)	April YTD Actual 2021-22	Forecast 2021/22	YR2 2023 (LTP)	YR2 2023 Revised (includes projects carried forward)	Detailed planning completed for Year 2	LTP (Combined 2 year budget)	Annual Plan (Combined 2 Year budget)	2 Year variance (to be spread over year 3-5)	Notes
(\$000)										
Governance & Community Leadership										
Levin Town Centre programme	500	1	-	500	500	-	1,000	500	(500)	This could be moved to year 3 and brought forward if funding is required.
	<u>500</u>	<u>1</u>	<u>-</u>	<u>500</u>	<u>500</u>	<u>-</u>	<u>1,000</u>	<u>500</u>	<u>(500)</u>	
Community Support										
Minor assets	75	15	75	10	10	-	85	85	-	
	<u>75</u>	<u>15</u>	<u>75</u>	<u>10</u>	<u>10</u>	<u>-</u>	<u>85</u>	<u>85</u>	<u>-</u>	
Treasury and Support										
Data and Digital	172	58	122	23	73	-	195	195	-	
Fleet	490	238	436	134	163	-	624	599	(25)	
IT - Software and Hardware	335	257	290	246	316	-	581	606	25	
Other	-	(2)	-	-	-	-	-	-	-	
	<u>997</u>	<u>551</u>	<u>848</u>	<u>403</u>	<u>552</u>	<u>-</u>	<u>1,400</u>	<u>1,400</u>	<u>0</u>	
TOTAL	57,705	22,250	31,571	47,410	42,346	(28,010)	105,115	73,918	(31,197)	

Statement of Comprehensive Revenue and Expense

	LTP Budget YTD Apr-22 \$000	Actual YTD Apr-22 \$000	Variance YTD Apr-22 \$000		Notes
Revenue					
Rates Revenue	35,865	35,961	96	😊	
Operational Grants & Subsidies	1,756	2,576	820	😊	1
Finance Income	165	6	(159)	😞	
Fees & Charges	3,927	3,582	(345)	😞	2
Other Revenue	3,190	4,344	1,154	😊	3
Total Revenue	44,903	46,469	1,566	😊	
Expenditure					
Employee Benefit Expenses	14,642	13,580	1,062	😊	4
Finance Costs	2,470	2,500	(30)	😞	5
Depreciation and Amortisation	12,269	12,377	(108)	😞	
Other Expenses	22,328	25,930	(3,602)	😞	6
Total Expenses	51,709	54,387	(2,678)	😞	
Operating surplus/(deficit) before capital revenue and taxation	(6,806)	(7,918)	(1,112)		
Capital Grants and Subsidies	13,470	5,326	(8,144)	😞	7
Development Contributions	2,287	17	(2,270)	😞	8
Investment (Gains)/Losses	14	-	(14)	😞	
(Gain)/Loss on sale of assets	-	50	50	😊	
Gain on Derivatives	-	2,876	2,876	😊	9
Loss on Derivatives	-	-	-	😊	
Total Surplus/(deficit)	8,965	351	(8,614)	😞	

Note 1 Operational Grants and Subsidies **favourable** variance of \$820k.

The additional funding of \$90k in Community Facilities relates to the final portion of the PGF funding received for The Mahi Space, additional funding in Economic Development for the Mayors' Taskforce for Jobs (MTFJ) \$548k and an additional \$158k in Sustainable Growth Planning for Three Waters Stimulus funding originally planned to be capital funding.

The Mayors' Taskforce for Jobs (MTFJ) is a nationwide network of New Zealand's Mayors, working together, through Local Government New Zealand (LGNZ) towards the vision of all young people under 25 being engaged in appropriate education, training, work or other positive activity in their communities. The Council was awarded \$250,000 in the 2020/21 financial year as a pilot for the programme, and was then successful in securing funding in 2021/22 to run the programme for a further 12 months.

Note 2 Fees & Charges **unfavourable** variance of \$345k year to date is mainly due to less income in the solid waste activity due to reduced waste going to the landfill of \$257k and lower revenue from pools, libraries and community centres due to COVID19 of \$273k.

Note 3 Other Revenue **favourable** variance of \$1.2m. This primarily relates to additional revenue received for building consents of \$536k, resource consents of approximately \$84k as a result of increased building and development activity in the district and almost \$112k due to the timing of the dog registrations. Parking revenue is also down \$93k due to COVID19 affecting the number of vehicles parking in the CBD and the impact of the Government extensions for car registrations and warrants of fitness between August and November 2021.

In addition, funding was received from MBIE for the second year of the Welcoming Communities programme with the combined total now at \$100k. Welcoming Communities Te Waharoa ki ngā Hapori is led by Immigration New Zealand (INZ) in collaboration with the Office of Ethnic Communities, along with the Human Rights Commission. The Horowhenua District Council joined the Welcoming Communities programme, as part of the refugee settlement programme, aimed at welcoming people to the district and improving engagement with the local community.

Recovery of costs for O2NL consultancy services totalling \$195k appears as unbudgeted revenue under the Reserves activity.

The additional revenue forecast of \$649k is due to the increased building and resource consent activity. This is partially offset by increased resourcing to support the team.

Note 4 Employee Benefit Expenses **favourable** variance of \$1.1m relates to vacancies across Council operations.

Note 5 Finance Costs **unfavourable** variance of \$30k relates to interest paid in advance. Currently it is forecast that interest costs will be \$314k lower by the end of the year due to lower capital spending. Interest rates were also budgeted based on 3% but the current weighted average is 2.63%.

Note 6 Other Expenses **unfavourable** variance \$3.6m as detailed below:

Note 6 Other Expenses	LTP	Actual	Variance		Year End	LTP	Variance	Notes	
	YTD	YTD	YTD		Projection	Jun-22	Jun-22		
	Apr-22 \$000	Apr-22 \$000	Apr-22 \$000		Jun-22 \$000	Jun-22 \$000	Jun-22 \$000		
Professional Services	4,744	5,900	(1,156)	⊗	8,746	5,751	(2,995)	⊗	6A
Materials	100	111	(11)	⊗	134	119	(15)	⊗	
Maintenance	13,466	14,720	(1,254)	⊗	17,274	16,296	(978)	⊗	6B
Grants Paid	399	825	(426)	⊗	1,283	603	(680)	⊗	6C
Utilities	874	1,011	(137)	⊗	1,483	1,239	(244)	⊗	
Communications	180	214	(34)	⊗	267	215	(52)	⊗	
Other Expenses	4,500	4,420	80	⊗	6,337	5,473	(864)	⊗	
Vehicle Expenses	97	113	(16)	⊗	171	114	(57)	⊗	
Other Treasury Expenses	105	123	(18)	⊗	199	181	(18)	⊗	
Labour Recoveries for Capex projects	(2,137)	(1,506)	(631)	⊗	(2,087)	(3,058)	(971)	⊗	6D
Total Other Expenses	22,328	25,931	(3,603)	⊗	33,806	26,933	(6,873)	⊗	

Note 6A Professional Services **unfavourable** variance \$1.2m. The higher spending relates to additional resourcing in Planning & Regulatory to support the increased volume of work of \$618k and additional costs in the Solid Waste activity to support the current Statement of Proposal on the Future of the Levin Landfill of \$485k.

Note 6B Maintenance Costs **unfavourable** variance of 1.3m. The primary driver for the increased maintenance costs relate to the Roding activity and emergency works of \$880k for Gladstone Road. There is also a \$236k and \$155k variance in Wastewater and Water Supply respectively.

Note 6C Grants Paid **unfavourable** variance \$426k. \$322k relates to grant for the hockey turf which will be funded by special funds. \$130k relates to unbudgeted beautification works to the Foxton Surf Lifesaving club rooms. \$67k has been received from SLNZ to help fund this.

Note 6D Labour Recoveries for CAPEX Projects **unfavourable** variance \$631k reflecting the lower capital project expenditure and lower staff time allocation than budgeted.

Note 7 Capital Grants and Subsidies **unfavourable** variance \$8.1m relates to the timing of the capital programme. Grants for Three Water Stimulus funding are not forecast to be received until later in the year and the revenue for Tara-Ika will likely occur next financial year due to the revised timing of the programme.

Note 8 While the Council has assessed new developments for development contributions since 1 July 2021, the invoicing will not occur until separate titles (224C) are applied for meaning no revenue has been realised yet. Current work to assess the timing of the 224C application from the point of application means that we are likely to only receive \$309k for the year. The forecast will be updated for the 2022/23 Annual Plan as well and the supporting modelling will be presented to Council.

Note 9 This is a non-cash gain which reflects the increase in interest rates.

Statement of Comprehensive Revenue and Expense by Activity

REVENUE	LTP	Year to date (YTD)			Notes
	2021/22	Actual	Budget	Variance	
	\$000	\$000	\$000	\$000	
Significant Activities					
Community Facilities	8,197	6,669	6,831	(162)	⊗ 8
Community Infrastructure	7,048	4,902	5,207	(305)	⊗ 3
Community Support	2,843	3,040	2,383	657	😊 12
Property	1,044	1,021	870	151	😊 10
Regulatory Services	6,147	5,728	5,094	634	😊 1
Representation & Com. Leadership	4,318	3,760	3,598	162	😊 13
Road Transport	5,323	4,215	4,412	(197)	⊗
Solid Waste	3,997	3,178	3,394	(216)	⊗ 7
Stormwater	1,750	1,383	1,458	(75)	⊗
Treasury	3,561	2,131	2,979	(848)	⊗ 9
Wastewater Management	9,593	6,818	7,880	(1,062)	⊗ 5
Water Supply	7,472	5,715	5,915	(200)	⊗ 4
Total Activity Revenue (A)	61,293	48,560	50,021	(1,461)	⊗
EXPENDITURE					
	LTP	Year to date (YTD)			Notes
	2021/22	Actual	Budget	Variance	
	\$000	\$000	\$000	\$000	
Significant Activities					
Community Facilities	8,197	6,327	6,780	453	😊 2
Community Infrastructure	5,581	4,778	4,648	(130)	⊗ 17
Community Support	2,843	2,930	2,511	(419)	⊗ 12
Property	1,528	1,311	1,139	(172)	⊗
Regulatory Services	6,147	4,982	5,072	90	😊
Representation & Com. Leadership	5,873	5,269	4,873	(396)	⊗ 14
Road Transport	8,050	7,638	6,708	(930)	⊗ 6
Solid Waste	4,337	3,649	3,466	(183)	⊗ 11
Stormwater	1,927	1,540	1,592	52	😊
Treasury	3,529	2,996	2,891	(105)	⊗ 15
Wastewater Management	9,522	7,998	7,726	(272)	⊗ 16
Water Supply	8,518	7,111	7,077	(34)	⊗
Total Activity Expenditure (B)	66,052	56,529	54,483	(2,046)	⊗
Corporate business Units - net revenue /(exp) - C	15,085	8,320	13,427	5,107	😊
Total Surplus/(deficit) = A-B+C	10,326	351	8,965	8,614	😊

- Note 1** Planning & Regulatory Services revenue **favourable** variance \$634k. The higher revenue is due to increased subdivision and building activity.
- Note 2** Community Facilities **favourable** expenditure variance of \$453k relates to the capitalisation of staff time budgeted for \$219k and timing of expenditure happening after it was assumed in the LTP. \$122k relates less spend on event programmes and VIN Travel & Accommodation as result of the impact of COVID.
- Note 3** Community Infrastructure **unfavourable** revenue variance of \$305k relates to the lower Development Contributions revenue received.
- Note 4** Water Supply **unfavourable** revenue variance of \$200k reflects the Development Contributions revenue received.
- Note 5** Wastewater **unfavourable** revenue variance of \$1.1m reflects the lower Development Contributions revenue received.
- Note 6** Road Transport **unfavourable** expenditure variance of \$930k reflects the emergency works at Gladstone Road that have yet to come through as revenue from Waka Kotahi.
- Note 7** Solid Waste **unfavourable** revenue variance of \$216k relates to lower user charges at the landfill over the last period \$66k and Recycling activity \$132k.
- Note 8** Community Facilities **unfavourable** revenue variance of \$162k reflects the lower fees and charges received at the swimming pools.
- Note 9** Treasury **unfavourable** revenue of \$848k due to lower internal interest revenue due to the less internal debt than as forecast.
- Note 10** Property **favourable** revenue variance of \$151k is mostly made up of \$76k of unbudgeted capex funding and \$72k unbudgeted rental income from Commercial property.
- Note 11** Solid Waste **unfavourable** expenditure variance of \$183k reflects the additional consultancy fees associated with the landfill deliberations \$493k offset with lower spending on maintenance \$127k and internal charges \$77k.
- Note 12** Community Support **favourable** revenue variance \$657k and **unfavourable** expenditure variance of \$419k. The majority is a result of additional funding received and spent for the Mayors' Taskforce for Jobs (MTFJ). The additional expenditure also relates to the June 2021 Flooding event (\$109k).
- Note 13** Representation and Community Leadership **favourable** revenue variance of which \$162k relates to the three water stimulus funding which will be transferred to the relevant activities as the projects are completed.
- Note 14** Representation and Community Leadership **unfavourable** expenditure variance of \$396k relates mainly to work on O2NL notice of requirement work which is to be reimbursed.
- Note 15** Treasury **unfavourable** expenditure variance of \$105k relates to lower external interest paid due to the less debt than as planned.
- Note 16** Wastewater **unfavourable** expenditure variance of \$272k relates to \$139k increase in insurance costs, \$158k increase in electricity spending and \$236k more on maintenance off set by \$254k savings on interest costs.
- Note 17** Community Infrastructure **unfavourable** expenditure variance of \$130k is the result of the grant for the hockey turf \$322k which will be funded by special funds offset with \$112k less on maintenance.

APPENDIX

Asset maintenance contract	General contract works, repairs, planned and unplanned maintenance, materials and consumables, cleaning and hygiene, inspections and reporting.
Finance cost	Interest on borrowings and interest on swaps.
Gains	Fair value revaluation gain and gain on sale.
General grants	Grants given to various organisations and individuals like Creative NZ, neighbourhood support, beach wardens, community development and youth scholarships.
Grants and subsidies	Grants and subsidies received from government and other organisations for roading, library, community hubs, cemeteries and aquatic centres.
Infringements and fines	Parking tickets, Prosecutions on WOFs and unregistered vehicles.
Employee benefits	Salaries and wages, training costs, FBT and ACC levies, superannuation, and staff recognition.
Other expenses	Printing, publication, postage, stationery, advertising, food and catering, photocopying, internet and communication and any other office expenses.
Professional services	Consultants, contractors, membership fees, legal fees, lab services, audit fees or any other professional services charges.
Regulatory revenue	Planning fees, building fees, animal fees, liquor fees and health fees.
Rendering of services	Commissions, car income, and any other income received for rendering services.
Rental income	Rent from Halls, residential and commercial properties, grazing land, reserves and other lease income.
Targeted rates	Rates for roading, waste management, representation and governance, stormwater, wastewater, water by meter and water supply.
User charges	Revenue received from admission, shop sale, Cemetery fees, trade waste, utility connection, events and exhibitions.
Utilities	Water use, electricity and gas charges

Risk Management Status Report

File No.: 22/229

1. Purpose

The purpose of this paper is to report to the Finance, Audit and Risk Committee on Council's risk landscape, risk management work in progress and to continue a discussion with the Committee about risk.

This report is provided for information purposes only and has been assessed as not significant.

2. Recommendation

- 2.1 That Report Risk Management Status 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.
- 2.3 That the Finance, Audit and Risk Committee endorse the direction of the work underway to better understand risk, and Council's role in managing that.

3. Background/Previous Council Decisions

The Risk Status Report now forms part of regular and routine designed to provide governance with oversight and input into the way that identified risks are being managed with Council.

Further to the obvious benefits of 'reporting up' risk, Officers consider that these reports should be the basis of discussion that covers and adds value to all elements of the risk management spectrum (Identify, Analyse, Evaluate, Treat, Monitor/Report). That is, Officers intend that these reports facilitate discussion that identifies new risk, as well as focussing on existing listed and managed risks.

The Council has previously developed a Risk Management Strategy and Work Plan. This was presented at the Finance, Audit and Risk Committee Meeting 27 April 2022.

The Risk Management Strategy and Work Plan outlined further improvement initiatives which aim to raise the risk maturity of the Council and enable it to have appropriate oversight of the Council's risk activities.

In February the Executive Leadership Team and members of the FAR committee engaged in a risk workshop that covered risk purpose, management, identification, framework and development of maturity. The workshop also included the identification of current top risks and provided an understanding of best practice risk management including governor's role in risk management.

4. Discussion

Overview

The key elements of the Enterprise Risk Management Framework include; risk management, procurement improvement programme; corporate business continuity management and business risk and assurance, which include both internal and external audit work.

The main work streams are:

- regular risk discussions with staff and managers and embed the day-to-day management of risks in work streams such as: projects, activity delivery, and asset management.

- communicate and report risk up to Council/Committees.
- provide fraud awareness training.
- provide business assurance oversight and complete business assurance work; and
- improve the understanding and tools to support good procurement practices.
- have a Business Continuity Management System for effective response to a range of potential business disruptions.
- Ensure the Council has a robust internal audit programme.

Risk is defined as the effect of uncertainty on expected results and is managed on a continual basis.

The intended outcomes from performing this risk management programme will assure:

- stakeholders, external auditors, the Council and management that the real risks are being identified and managed effectively. Risks can be negative or positive:
 - a negative risk is a threat and/or potential problem. It creates concern or uncertainty around our delivery of overall programmes, projects, strategies, or other expectations that can result in major health and safety, financial, fraud, operational and reputational impacts. Identifying negative risks before they occur means that we can take measures to mitigate or remove the threat, so that it does not materialise.
 - a positive risk is an opportunity which has a positive impact on our objectives. When these are identified the appropriate action is to make use of the opportunity and leverage them to cause them to occur. For example, ensuring that everything is looked at and actions are put in place to make risks as small as possible, might highlight the value of using new technology to increase quality assurance and improve service delivery.
- better decision making throughout the business through greater awareness of the real risks and how these are going to be addressed; and
- clarification and socialisation of the Council's risk appetite and tolerance.

Risk Management Improvement Programme

The Council is in the earlier stages of the journey aimed at increasing overall risk maturity.

The intent is to provide regular updates on the work streams within this programme of work, including regular risk register reporting through this paper to demonstrate progress and increase awareness of risk across the council. This committee can expect a status report on Risk Management to be a standing item on the FAR agenda.

For this report we have attached the following:

1. **Draft Risk Management Policy** - The initial document to go under review to ensure consistency and is meeting ISO 31:000 standards is the Risk Management Policy which is attached in draft form for your reference and demonstrate progress. This will be brought to the Committee in a separate paper for endorsement.
2. **Draft Insurance Strategy** - Insurance is one of the most important and commonly implemented methods of risk management. It is a form of risk transfer for unforeseen events resulting in financial loss, e.g. through loss or damage to Council property or liability to third party. Selecting the right approach to insurance is a critical part of Council's business for the following reasons:

The Local Government Act (2002) specifies a range of requirements on insurance, including promoting prudent, effective and efficient management of insurance expenditure.

The annual costs of transferring risk through insurance represent a significant expense for Council and premiums have increased year-on-year in recent years. Current conditions indicate that costs are likely to further increase with global losses experienced by insurers.

By purchasing the right insurance, and ensuring funds are available when needed, the organisation is more likely to achieve its objectives. In some cases, having the right insurance may be critical to the organisation's ongoing survival.

Council officers are currently reviewing our insurance cover with the aim of ensuring it is at an optimal level.

3. **Risk Register** – While more detailed risk reporting is being completed, it is important that there is visibility of the key risks in the interim and so the focus for this report is on identifying the very highest strategic and operational risks that the Council faces.

This list will change from report to report as risks become live, escalate in terms of priority or are mitigated and no longer require reporting at this level. The maturity of the way in which these risks are reported, will progress as the maturity of our risk management also evolves.

Risk	Risk Linkage	Description of Risk and Update
Ability to secure and retain resources to complete work (Staff Attraction and Retention)	Strategic	<p>A more adaptive approach to retention is being deployed in order to retain critical staff. Focus on on-boarding and off-boarding to improve overall employee experience.</p> <p>Highly competitive recruitment market and shortage of skilled workers are leaving some areas understaffed. Timelines set by government has increased worker demand in some areas with consultants also working at capacity.</p> <p>Ongoing pandemic impacts on workforce and contractor availability. Use of critical role premiums for critical roles are being reintroduced in some key areas.</p> <p>Council's Executive Leadership Team are actively coordinating and supporting a range of recruitments across the organisation.</p>
Maintaining customer consenting services	Service Delivery	<p>The level of development activity occurring in the current growth environment results in the resource and building consent services being unable to delivering these consenting services within the statutory timeframes. The impact of this on the customer can be a delay in receiving their consent.</p> <p>This risk has attempted to be mitigated within the Resource Consenting area with the engagement of external support, however there have been constraints (including carrying internal vacancies, covid and access to technical experts) that have continued to make it challenging to meet the timeframes. Council has continued to see an</p>

		<p>increase in building consent applications. Successful recruitment to fill vacant roles coupled with engaging external contractor support has helped keep up with the demand and improve building consent processing timeframes from earlier in the year. Ongoing mitigation through recruitment of the vacant roles continues. Feedback has also been sought from the sector to identify potential improvements that could enhance the service provided.</p>
<p>Health and Safety - incidents and injuries resulting from poor processes and practices.</p>	<p>Compliance Operational</p>	<p>Everyone who comes to work should go home healthy and safe.</p> <p>All workers and (anyone impacted by work) should be given the highest level of protection against harm to their health, safety and wellbeing from risks.</p> <p>The PCBU (council) has a constant focus on ensuring workers are not put a risk in any activity they undertake by ensuring appropriate management and control actions of risks.</p> <p>To mitigate the risk, we identify, plan, do, check and review risks.</p> <p>HDC has health and safety risk identification documentation, continual updating of H&S risk registers, active review processes and appropriate reporting to ELT and FAR.</p>
<p>Ability to secure resources to deliver capital work programme (External)</p>	<p>Financial / Reputational</p>	<p>Delivery of work programme is delayed due to Covid-19, disruptions to supply chains and labour markets which are impacting on deliverability of the capex programme as well as the provision of services.</p> <p>Tightened supply chain is resulting in delays in material and product arriving in the country – this is affecting pipe supply and may result in delays in project(s) commencing and/ or cost increases as supply ability aims to keep up with demand.</p>
<p>Affordability - Adequacy of revenue to support programme delivery</p>	<p>Financial</p>	<p>Reduce ability to increase debt funding in the future constraining council's ability to deliver. Lack of revenue from other sources also may reduce the ability of resident's to pay rates as costs increase. This is because the Council's costs are mostly paid by rates.</p>
<p>Responding to Three Waters Reform</p>	<p>Strategic / Financial / Service Delivery</p>	<p>Recent decisions made and direction given regarding the National 3 Waters Reform Programme create risk for Council in how it responds. There is political risk as decisions made will need to be understood by a range of stakeholders and operational risk as Council must manage its networks and teams through any transition phase.</p>

<p>Time spent to reach agreement between Council and Waka Kotahi</p>	<p>Strategic</p>	<p>Council are actively working to ensure we are positively and constructively working with Waka Kotahi, with a focus on on achieving agreement on some current key areas of disagreement.</p>
<p>Landfill - inability to demonstrate how we meet affordability, cultural, environmental expectations</p>	<p>Strategic</p>	<p>The decision to seek a formal review of the Landfill business case, and subsequent advice to Council that will come on the future of the landfill presents significant challenges, as Council seeks to find a balance between meeting economic, social, environmental and cultural outcomes for the community.</p>
<p>Loss of community support and trust</p>	<p>Reputational</p>	<p>The community loose trust and support in Council due to not giving equal or appropriate weight to the views and aspirations of the community in decision making.</p> <p>This diminishes the willingness of the community to participate in decision making and erodes trust that decisions made by council are in the best interest of the wider community.</p>
<p>Growth occurs faster or slower than planned</p>	<p>Strategic / Financial</p>	<p>Growth occurs at a slower rate than planned resulting in less growth across the district. The impact of this is that rates and costs of funding growth are shared across fewer ratepayers, or it takes Council longer than planned to recover the costs of funding growth infrastructure where that infrastructure has been provided in advance of the growth occurring.</p> <p>OR</p> <p>Growth occurs at a faster rate than planned. The impacts of this include the available infrastructure capacity is used up faster and infrastructure needed to support growth is not ready in time. Council is not able to deliver regulatory services that can keep up with the activity levels. Council is unable to take full advantage of the growth opportunity and the potential benefits for the district.</p> <p>Council monitors this risk by reporting key growth indicators such as consent trends. The number of consented dwelling units is used as the key measure of tracking growth rates. As at the end of April the number of new dwelling units consented was tracking ahead of the projected growth rate indicating that the district was developing at a slightly faster rate than anticipated. Ongoing monitoring will continue to check whether this trend continues to the end of the financial year.</p>

<p>Council regulation do not meet regulatory compliance and legislative requirements</p>	<p>Legal</p>	<p>Council’s regulatory responsibilities are undertaken in a way that fails to comply with the legislative requirements, resulting in Council being the subject of legal challenge.</p> <p>Internal systems and processes are continually reviewed for compliance.</p>
<p>Maintaining capacity in borrowings</p>	<p>Financial</p>	<p>Inflationary pressures may impact on the Council’s ability to deliver the required capital programme for the same level of funding. This causes pressure on our ability to maintain some capacity below the 225% of operating income limit.</p>
<p>Cyber Security</p>	<p>Service Delivery</p>	<p>We are living and working in an increased online, digital environment where there is a constantly changing risk of more complex and harder to detect cyber-security events such as ransomware and destructive virus attacks.</p> <p>As a Council, we continually monitor and adjust our technology and network environment to ensure that our, and our customer’s information and data is kept safe and secure. It is also important that we make it as safe as possible for our customers and community to engage with us online or digitally through our websites or kiosks at our facilities. We are taking measures to ensure that the risk continues to be mitigated as much as possible – through greater awareness, communication, training and, investment in appropriate cyber-security technologies and services.</p>
<p>Emergency Management - Impact on business operations from Covid.</p>	<p>Reputational</p>	<p>Covid restrictions have impacted aspects of the business through the Orange and Red traffic light settings as some services had been delayed or hampered by changes.</p> <p>The Emergency Management lead agencies group such as Fire, St John’s, Electra and Horizons meet with the Local Controller and Response Manager regularly to stay fully connected across the District. The Welfare, PIMs and Operations teams have worked seamlessly throughout the pandemic to ensure community remains informed and enabled. The Response Manager is coordinating work with Iwi so our Maraes are able to fully support their whānau now and in the future.</p> <p>Staff are returning into the office and numbers of affected staff has reduced however we are preparing for the next wave of Covid-19.</p> <p>Council observes community fatigue and the wider impact of Covid restrictions.</p>
<p>Judicial Review of the National Land Transport Programme</p>	<p>Financial</p>	<p>A judicial review has been brought against Waka Kotahi in relation to the adoption of the 2021-24 National Land Transport Programme and this may have an impact on the funding and delivery of</p>

		Council's current land transport programme. Officers will monitor the progress of the review and understand what impact this might have on Council's funding strategy for its local land transport programme
Increasing economic pressures	Financial	Council's is facing a number of external challenges and inflationary pressures from the external market. This includes likely increases to interest rates, continued substantial increases to carbon pricing, wage pressures, and general inflationary costs. Officers will continue to closely monitor these pressures and make decisions based on risk.

5. Next Steps

Officer's focus on Risk Management continues to be the establishment and embedding of a common single system for managing and reporting all risks.

Officers welcome feedback and guidance of the Committee and its members on the future of this report and other matters with respect to Risk Management in the organisation.

Attachments


No.	Title	Page
A	DRAFT Horowhenua District Council - Risk Management Policy - Rev 1.0	47
B	Horowhenua District Council - Insurance Strategy - Rev 1.0	51

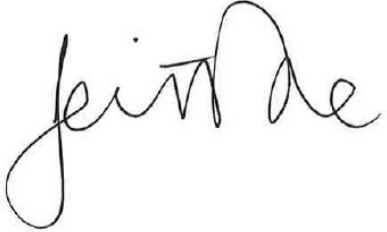
Confirmation of statutory compliance

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 advantages and disadvantages, 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)	Ashley Huria Business Performance Manager	
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Approved by	Jacinta Straker Chief Financial Officer	
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Risk Management Policy

Section	Executive
Policy Owner	Chief Executive Officer
Approval	Council
Date Approved	TBC
Next Review	TBC
TRIM Doc. No.	TBC

1. Purpose

Horowhenua District Council (HDC) have established this risk management policy to facilitate a current, comprehensive and effective risk management framework and associated procedures, internal controls, and governance for effective identification and management of Council's material risks.

2. Policy Statement

HDC is committed to managing risk in a structured and practical way, and integrating risk management appropriately and consistently across the Council. This policy contributes to a positive risk aware culture where:

- All staff take a pro-active approach to risk management.
- Risks are managed in accordance with the risk management framework.
- Risks are escalated timely and at the appropriate level.
- The risk management approach is integrated into the decision-making process across all levels.
- Risks are managed in the context of the Vision of the Council and the Strategic Community Outcomes to achieve:
 - A vibrant economy.
 - An outstanding environment.
 - Fit for purpose infrastructure.
 - A partnership with Tangata Whenua.
 - Strong communities.

3. Scope

All HDC staff, elected members, consultants and contractors play a role in the successful implementation of this policy.

Risk identification and management shall be undertaken across all HDC activities, including: strategic planning, strategic analysis, annual and long-term planning, business and community partnerships, business case development, procurement plan development, project and programme management, contract management, and day to day operations.

4. Responsibilities Under this Policy

The management of risk is a core responsibility and cannot be delegated. All staff (management and employees) are accountable for managing risks within their area of control to aid the achievement of HDC objectives. A process to ensure risk has been adequately identified, considered and managed should be evident in all key decision-making processes.

Elected members and the Finance, Audit and Risk Sub-Committee are responsible for setting policy which defines risk, HDC risk appetite, assessing and monitoring strategic risks ensuring HDC maintains an effective risk management framework.

Elected members and the Finance, Audit and Risk Sub-Committee should ensure that risks to HDC are identified, evaluated and that effective controls and responses are developed.

5. Commencement

This policy comes into effect on [HDC to confirm].

6. Definitions

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

Risk - the effect of uncertainty on objectives.

Risk Appetite - the communication of the level of risk HDC is prepared to accept in the pursuit of our strategic objectives and delivering our services to the community.

Risk Management - the culture, processes and structures that are directed towards the effective management of potential opportunities and possible adverse effects within HDC's environment.

Risk Management Framework - provide the foundations for designing, implementing, monitoring, reviewing and continually improving risk management throughout HDC.

Risk Management Strategy and Plan – risk strategy prioritises focus areas and sets out an action workplan to lift and strengthen the HDC risk management capabilities and maturity.

Strategic and Operational Risk Register - a risk register with systematic application of the practices relating to communicating, consulting and establishing the context of risk.

Risk Management Process - 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.

7. Key elements of the Risk Management Framework

HDC draws on the best practice principles outlined by the joint Australian New Zealand International Standard Risk Management - Principles and Guidelines (AS/NZS ISO 31000:2018) to identify, analyse, assess, and report risks which may have an impact on the Council's Vision and Strategic Community Outcomes.

The key steps involved in the risk management process are:

- **Identification of Risk** - Staff members are empowered, and required by the Chief Executive, to identify and communicate risks to the 5 key areas of Strategic, Financial, Legal, Reputational and Service Delivery using an agreed reporting mechanism to escalate such risks. Material risks are recorded in a Strategic Risk Register held on behalf of the Chief Executive to ensure that the risks are appropriately managed.
- **Analysis of Risk** - Risks are reviewed and analysed to identify the potential likelihood of occurrence and impact on the objectives of HDC.
- **Evaluation of Risk** - Risk owners evaluate the level of risk, the treatment of options, including costs, impact on the community and alignment with risk appetite.
- **Treatment of Risk** - Risk treatment is an iterative or ongoing process. As part of this process, risk owners identify the most appropriate responses to reducing the risk level to a status that is acceptable and within the Council's risk appetite.
- **Review and Reporting** - HDC assigns specific risk responsibilities to specific roles to provide clarity on ownership and accountability. A reporting structure will be implemented to ensure that HDC, the Chief Executive and delegates are advised of risk as appropriate in a timely manner.

8. 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 Downer Alliance 3-Water Operations, Maintenance & Renewals Agreement
- HDC Fraud Policy
- HDC Protected Disclosures (Whistle-blowers) Policy
- HDC Health and Safety Policy
- HDC Information Management Policy
- HDC Media and Communications Policy
- HDC Electronic Communication Policy
- HDC Gift and Rewards Policy
- HDC Code of Conduct
- HDC Conflict of Interest Policy
- HDC Delegations
- HDC Mobile Device Policy
- HDC Electronic Communication Policy



9. Acknowledgement

For the future of this policy and associated procedures it is acknowledged that as Horowhenua District Council embeds a consistent risk management process into its everyday practice, additional material may be developed to support those already available.

DRAFT



AON

With you, every step of the way



Horowhenua District Council

Draft Insurance Strategy

2022

Draft Insurance Strategy

Prepared for:

Horowhenua District Council

Aon New Zealand

Level 21, Aon Centre,
29 Customs Street West
Auckland, New Zealand

www.aon.com



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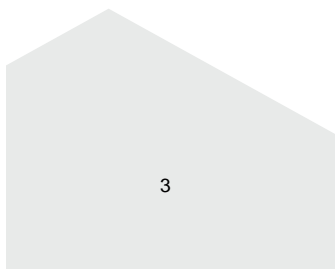


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Appendix A - Asset Selection and Valuation Methodology Guide








DRAFT



Executive Summary

Against a backdrop of accelerated change globally, nationally and regionally, the way organisations view risks and purchase insurance is evolving. Global insurance markets have been severely impacted by natural catastrophe events, Covid-19 and major cyber-attacks. This creates challenges such as increased market pricing, reduced coverage and reduced capacity for organisations that use insurance as a risk management tool. Historical approaches, typically transactional in nature, need to be replaced by a more strategic approach to ensure insurance can be used as a long-term sustainable source of risk financing.

Horowhenua District Council (Council) engaged Aon's expertise to support the development of an Insurance Strategy. Throughout this engagement, and the Insurable Risk Profiling exercise undertaken in 2021, Aon consulted with Council staff, reviewed information and data provided by Council, considered internal and external drivers, risk optimisation options and procurement strategies available to optimise insurance outcomes. Based on this analysis, the following is the Draft Insurance Strategy for Council to consider:

- **1 Informed insurance purchasing**
Insuring exposures where risk exceeds Council's risk appetite and the benefits exceed the costs, or where there is a contractual or legal requirement to insure.
- **2 Reviewing and validating assumptions**
Regularly reviewing and testing assumptions that underpin key decisions to ensure they remain valid and fit for purpose, e.g. asset valuations and loss modelling to inform policy limits.
- **3 Leveraging shared procurement**
Continue leveraging Council's membership with LAPP and MWLASS to take advantage of shared group procurement.
- **4 Forging strong, long-term relationships**
Continue building strong, long-term relationships with broker and local and global insurers.
- **5 Lifting risk maturity**
Focusing resource and attention on lifting Council's risk management maturity to respond to potential limitation of insurance coverage in some markets as well as differentiating Council as a good investment for insurers.
- **6 Regular monitoring of changes**
Regular monitoring and review changes to both the internal and external environment, and adapting the strategy to impacts of the changes, e.g. insurance market dynamic, central government funding, three-waters reform.
- **7 Insurer Selection**
Continue implementing an insurer selection methodology having regard to financial strength, diversification and levels of market competition.

A suggested work plan is provided in the main body of this document as part of the Draft Insurance Strategy (refer Section 6)

1 Introduction

1.1 Risk Management Overview

Horowhenua District Council (Council) undertakes a diverse range of activities and faces a wide range of risks which can affect the organisation's ability to meet its objectives as outlined in the Long-Term Plan. It is the organisation's responsibility to identify these risks and determine appropriate responses. There are various risk management options available, including:

- **Terminating** – electing to not undertake any activity that creates the risk in the first place, or terminating the activity, thereby completely eliminating the risk.
- **Treating** – using a range of techniques or activities to prevent the risk occurring or mitigate the consequences if it does.
- **Transferring** – assigning or moving the consequences of the risk to a third-party.
- **Tolerating** – acknowledging the risk and choosing not to avoid or further reduce or transfer the risk.

Risk management involves selecting from the above options to modify the risk to a residual level that is acceptable to the organisation based on its risk tolerance, risk appetite and risk criteria.

However, what has worked up until today, might not work for tomorrow and beyond. Risk management methods evolve, and their effectiveness can vary significantly over time. An increase in the cost of one method, e.g. the cost of risk transfer, can act as a stimulus for the development or application of alternative methods, such as enhancements in risk reduction or informed risk acceptance.

1.2 Insurance as a Risk Management Tool

Insurance is one of the most important and commonly implemented methods of risk management. It is a form of risk transfer for unforeseen events resulting in financial loss, e.g. through loss or damage to Council property or liability to third party. Selecting the right approach to insurance is a critical part of Council's business for the following reasons:

- The Local Government Act (2002) specifies a range of requirements on insurance, including promoting prudent, effective and efficient management of insurance expenditure.
- The annual costs of transferring risk through insurance represent a significant expense for Council and premiums have increased year-on-year in recent years. Our observation of the existing market conditions indicate that costs are likely to further increase with global losses experienced by insurers.
- Purchasing insurance the organisation doesn't need is effectively a waste of ratepayer money.
- The consequences of taking up insurance arrangements that do not provide Council with the required financial resources when needed can have significant adverse impact on the community it serves.

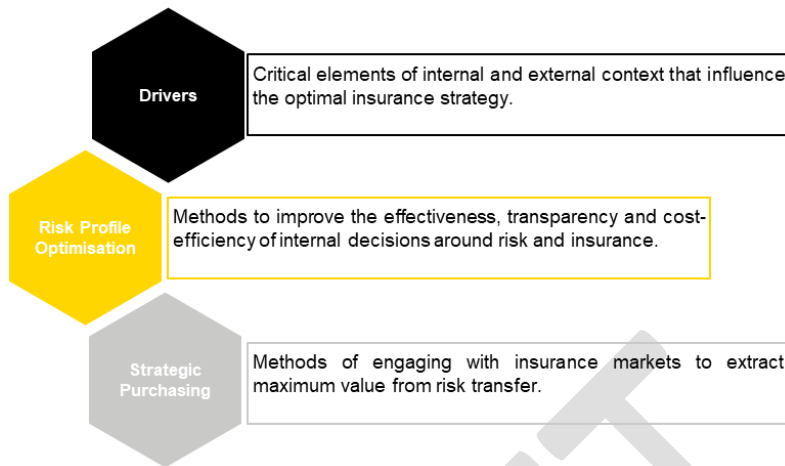
Council can achieve cost efficiencies by only purchasing the insurance the organisation needs. By purchasing the right insurance, and ensuring funds are available when needed, the organisation is more likely to achieve its objectives. In some cases, having the right insurance may be critical to the organisation's ongoing survival.

1.3 Insurance Strategy Objectives and Principles

The core objective of Council's Draft Insurance Strategy is:

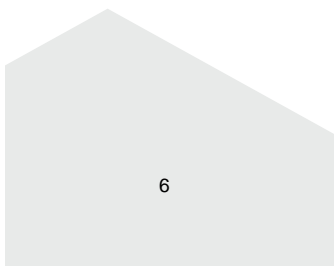
To ensure that the required financial resources are made available when needed to help Council recover from catastrophic events and unforeseen losses, while ensuring that any risk transfer is carried out in a cost effective and prudent manner that best serves the community.

To achieve this objective, Council's Insurance Strategy should consider internal and external drivers, ways to optimise Council's risk profile, and methods of strategic purchasing that extract the most value from insurance markets. The high-level framework guiding the development of the Insurance Strategy is shown below.



Key principles based on this framework are outlined below. These are expanded upon in the following sections.

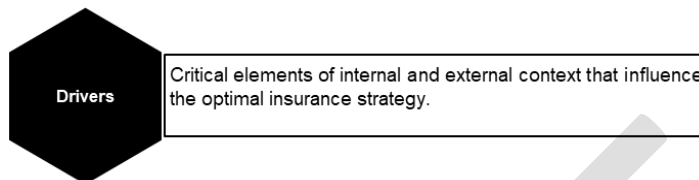
Drivers	Risk Profile Optimisation	Strategic Purchasing
<p>Meeting Council's legal and regulatory obligations under the Local Government Act 2002 and other legislation.</p> <p>Meeting commercial market, legal or contractual requirements.</p> <p>Council's size, financial position, assets, activities, Long-Term Plan and internal policies are factored in.</p> <p>Potential funding and support from Central Government is understood and considered.</p> <p>Insurance market dynamics and factors such as market pricing, coverage and capacity deployment are considered.</p> <p>There is regular monitoring and reviewing changes to both the internal and external environment and adapting the strategy to impacts of the changes.</p>	<p>The Council's Enterprise Risk Management sets the overarching basis of Council's approach to insurance.</p> <p>Insurable exposures are accurately identified, analysed, evaluated when considering options on risk management</p> <p>Decision-making around the scope of insurance and key insurance parameters (e.g. limits) are transparent and evidence-based.</p> <p>Decision-making consider Council's risk appetite / tolerance and legal or contractual requirements.</p> <p>Assumptions that underpin decisions are regularly reviewed and tested to ensure they remains valid and fit for purpose.</p>	<p>Council continues to build strong relationships with its broker and insurers, focussing on long-term partnerships.</p> <p>Broker's insurer selection methodology considers financial strength, diversification, and levels of market competition.</p> <p>Council and broker continue to leverage memberships as part of shared services groups to take advantage of shared procurement.</p> <p>Council and broker continue to raise risk management maturity to respond to future potential for limited insurance availability in some markets or for certain exposures.</p> <p>Council and broker engage in proactive marketing and risk communication to differentiate its risk profile to insurers.</p>



2 Drivers

2.1 Overview

This section outlines the “Drivers” component of the Draft Insurance Strategy framework outlined in Section 1.3. The table below contrasts a transactional approach to insurance with the key principles of this Draft Insurance Strategy and provides a comment on what Council has done to date to support these principles.



Transactional Approach	Strategic Approach / Principles	The Journey so Far
Unsure whether decisions align with Local Government requirements, or other legal and contractual requirements	Council’s responsibilities under the Local Government Act 2002 and other legislation are considered. Commercial and contractual obligations are understood and considered.	✓Ongoing review of the impact of existing and new legislation and contracts on risk and insurance requirements and decisions.
Unique council factors, e.g. size and financial position, not considered.	Council’s size, financial position, assets, activities, Long Term Plan and internal policies are considered.	✓Ongoing review of these factors in existing and future procurement
Limited understanding and consideration of funding from Central Government.	Potential funding and support from Central Government is considered and factored in.	✓Ongoing awareness understanding of benefits and limitations, which are factored into procurement
Same approach regardless of insurance market dynamics and macro cycles.	Insurance market dynamics and factors such as market pricing, coverage and capacity deployment are considered.	✓Ongoing awareness and consideration of insurance market dynamics
Strategy stays the same. Insufficient monitoring and review of internal and external environment.	There is regular monitoring and review to allow the strategy to adapt to changes in the internal or external environment.	✓Development of first formally documented Insurance Strategy.

The principles of a strategic approach are expanded upon further in the following sections.

2.2 Local Government Responsibilities

Local Government Agencies in New Zealand have an extensive range of responsibilities, including:

- Promoting prudent, effective and efficient management of insurance expenditure (Section 122B, Local Government Act 2002).
- Managing and protecting revenues, expenses, assets, liabilities, investments, and financial dealings generally, in accordance the principles that are detailed in the Act (S122C, Local Government Act 2002).
- Ensuring the cost-effectiveness of current insurance arrangements for meeting the ongoing needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions (Section 17A, Local Government Act 2002).
- Disclosing risk management arrangements, such as insurance, for physical assets (2014 Amendment to the Local Government Act 2002)

- Complying with Audit New Zealand best practice guidance and international risk management standards (i.e. AS/NZS ISO31000 Risk Management Principles and Guidelines, SAA/SNZ HB 141:2011 Risk Financing Guidelines).

2.3 Council Assets, Activities, Strategies and Policies

Council Snapshot

Council operations include activities that carry many risks and potential financial liabilities. While insurance is often seen as financial cover for damage to physical assets, it is also available to cover potential financial losses from adverse events affecting Council’s operations. Insurance covers are available for a number of areas to protect value including:

- Property damage, including buildings, facilities and forestry.
- Business interruption resulting from property damage.
- Three-waters infrastructure damage due to natural catastrophe.
- Damage to contract works.
- Third party liability claims, e.g. professional liability, public liability, statutory liability, and environmental impairment.
- Financial, aviation, marine, agricultural, human resource and technology risks (e.g. cyber-attacks).

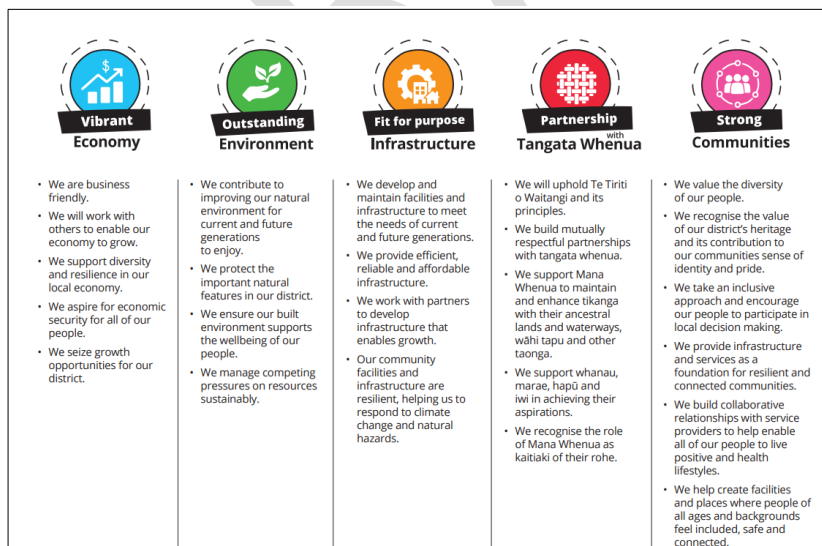
Council’s activities, asset portfolio and asset prioritisation change from time to time, with the needs of the communities.

Long Term Plan

On 30 June 2021 Council adopted its plan for the next 20 years, *2021-2041 Long Term Plan*.

The Council’s risk function plays an important role in supporting the delivery of the Council’s strategy and aligns with the delivery of its community outcomes (Ngā Putanga Hapori):

Figure 1 - Community Outcomes (Long Term Plan)



Internal Strategies and Policies

Implementation of the Insurance Strategy should consider internal strategies, policies and documents such as:

- | | |
|---|--|
| <ul style="list-style-type: none"> ▪ Vision ▪ Community Outcomes ▪ Long Term Plan ▪ Risk Strategy ▪ Risk Policy ▪ Risk Management Framework | <ul style="list-style-type: none"> ▪ Activity/Asset Plans ▪ Business Plans ▪ Treasury Policy ▪ Procurement Policy ▪ Infrastructure Strategy ▪ Finance Strategy |
|---|--|

Three-Waters Reform

The government has proposed the creation of four new, publicly owned water service delivery entities. These entities will be responsible for the management of New Zealand’s three water services, drinking water, wastewater and stormwater. The reform would result in the transfer of ownership of three-waters assets from local government to the new entities.

There is significant uncertainty around the three-waters reform, and it is therefore recommended that Council closely monitors proposed changes and developments.

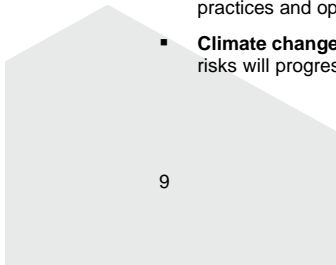
2.4 Insurance Market Dynamics

Insurance works on the premise that premium paid by the many is sufficient to pay for the losses of the few, as well as providing a return on the insurer’s capital investment. When large catastrophic or cumulative losses destroy insurer profitability, capital moves away from insurance market causing a shortage in capacity, rates are then increased to recoup past losses.

We are currently facing a challenging insurance market, characterised by constrained capacity, increasing rates, prudent insurer attitudes and overall challenging conditions from a purchasing perspective.

Key observations of current insurance markets include:

- **Cyber risk** – the Cyber landscape has remained volatile and Cyber risk, especially ransomware, is growing in complexity and volatility and, as insurer appetite adjusts, coverage options and pricing models continue to evolve.
- **Conflict in Eastern Europe** – direct and indirect impacts related to the unfolding geopolitical events in Eastern Europe have been profound and are expected to continue as rising commodity prices fuel inflationary pressures, decreased demand dampens global trading, and global supply chains suffer further disruptions. Insurers, looking to manage volatility, have already begun modifying coverage terms and conditions - including those related to cyber, terrorism, sanctions, and war, as well as coverage territories.
- **Underwriting rigor continues** – insurers remain focused on reducing volatility through best-in-class risk selection.
- **ESG** - Insurers are becoming increasingly focused on Environmental, Social and Governance (ESG), looking carefully at their own, their clients’ and their business partners environmental, social and ethical risks that can arise from a myriad of complex, interconnected factors related to the evolution of business practices and operations.
- **Climate change means more claims from more frequent storms, floods, droughts and fires** - climate risks will progressively be priced into insurance for properties exposed to changes such as sea level rise.



Organisations could potentially face removal of capacity for some sites or enforced sublimits or higher deductibles.

Recent years have been significantly challenging globally due to natural disasters, pandemics and cyber-attacks. The table shows the current status of key insurance market factors.

Table 1 - Summary of Insurance Market Dynamics¹

Factor	Description	Status
Overall Conditions	Synthesis of all factors below.	Stabilising
Rates	Unit of cost that is multiplied by an exposure base to determine the insurance premium.	+ 1-10%
Capacity	The largest amount of insurance or reinsurance available from a company or the market in general.	Ample
Insurer Attitudes	Insurers' chosen approach to underwriting in the face of uncertainty.	Prudent
Limits	The maximum amount payable by the insurer under a section or sections of each insurance policy.	Flat
Deductibles	The first amount of any loss which is payable by the insured.	Flat
Coverages	The scope of insurance provided by insurers for a specific risk.	Stable

The business climate has never been more complex and connected. Business models are being reshaped, while organisations across the globe are responding to and, at the same time, recovering from the once-in a lifetime set of challenges posed by the Covid-19 pandemic. Financial losses from large scale natural disasters and man-made events continue to loom and adversely impact lives and businesses.

Insurance market conditions are still tough for transitional exposures, with limited appetite for emerging exposures, and negotiations with insurers are increasingly complex. There is continued evolution of underwriting practices in the industry as a growing number of insurers transition to centralised underwriting for many risks.

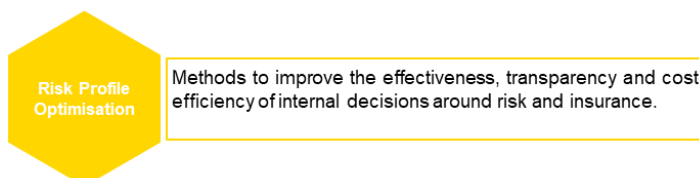
Challenges such as increasing pricing, cover reductions, risk exclusions, lowering limits, and changes to terms and conditions can substantially impact insurance policies. It is more important than ever for organisations to keep abreast of changes in today's fast-moving insurance market in order to fully understand their risk.

¹ Summary of insurance market dynamics based on available information at the time of writing.



3 Risk Profile Optimisation

This section outlines the “Risk Profile Optimisation” component of the Draft Insurance Strategy framework outlined in Section 1.3.



In 2021 Aon facilitated an Insurable Risk Profiling exercise which support the development of this draft in strategy. The findings and recommendations of the exercise are used to inform the development of the draft Insurance Strategy and workplan. A high-level overview of the insurable risk profiling process is shown in the figure below.

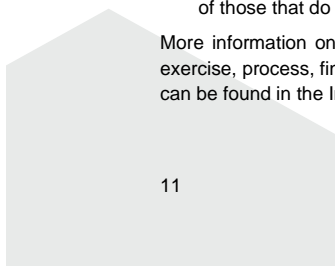


The exercise included a workshop with senior leaders and operational staff. Key elements reviewed during the process included:

- **Enterprise Risk Management** - the overarching driver of an organisation’s approach to insurance and risk management.
- **Insurable Exposures** – types of assets or activities that create the potential for a financial loss which Council may elect to transfer to insurers.
- **Insured Interests** - specific assets or activities that an insurance policy actually covers, and that can be claimed against following a loss.
- **Policy Limits** - the maximum amount payable by the insurer under a section or sections of each insurance policy.
- **Risk Retention** - represents the proportion of a risk not transferred to insurers, which is payable by the insured in the event of a loss.
- **Loss Control** - risk management activities that seek to reduce the likelihood that a loss or damage will occur and reduce the severity of those that do occur.



More information on the Insurable Risk Profiling exercise, process, findings and recommendations can be found in the Insurable Risk Profile report.



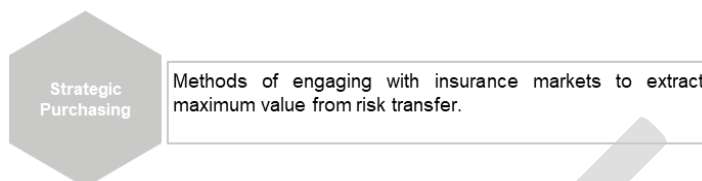
The table below contrasts a transactional approach to insurance with the key principles of this Draft Insurance Strategy and provides a comment on what Council has done to date to support these principles.

Transactional Approach	Strategic Approach / Principles	The Journey so Far...
Enterprise Risk Management and insurance procurement are separate "siloes" activities.	Enterprise Risk Management is the overarching basis of Council's approach to insurance.	<ul style="list-style-type: none"> ✓ Review of Enterprise Risk Management frameworks and processes currently underway.
Potential mismatch between exposures and insurance covers purchased. Limited consideration of other risk management options.	Insurable exposures are accurately identified, analysed, evaluated when considering options on risk management .	<ul style="list-style-type: none"> ✓ Insurable Risk Profiling exercise undertaken 2021. ✓ Development of asset selection framework and guidance to identify which assets to insure / self-insure.
Decisions around insurance scope and key insurance parameters based on historical approaches or standard for policy type.	Decisions around the scope of insurance and key insurance parameters (e.g. limits) are transparent and evidence-based.	<ul style="list-style-type: none"> ✓ Natural hazard Probable Maximum Loss assessment for infrastructure assets undertaken in 2019.
Decisions don't consider risk appetite and risk tolerance. Very low deductibles. Insurers involved in attritional losses	Decisions around risk retention consider Council's risk appetite and risk tolerance. Meaningful deductibles consistent with balance sheet capacity and risk appetite. Insurers are there for the large unforeseen event	<ul style="list-style-type: none"> <input type="checkbox"/> Opportunity to refine risk appetite statements and undertake analysis to inform risk retentions.
Assumptions not tested and reviewed. Asset values and loss modelling potentially out of date or not fit for purpose.	Assumptions that underpin decisions are regularly reviewed and tested to ensure they remains valid and fit for purpose.	<ul style="list-style-type: none"> <input type="checkbox"/> Opportunity to ensure asset valuations are suitable for insurance purposes.

4 Strategic Purchasing

4.1 Overview

This section outlines the “Strategic Purchasing” component of the Draft Insurance Strategy framework outlined in Section 1.3. The table below contrasts a transactional approach to insurance with the key principles of this Insurance Strategy and provides a comment on what Council has done to date to support these principles.



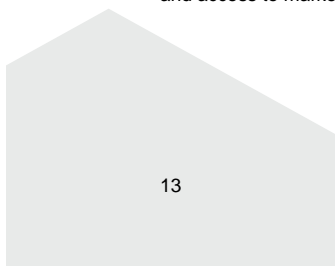
Transactional Approach	Strategic Approach	The Journey so Far
Council is heavily reliant on external insurance market with limited control on outcomes	Council continues to build a strong relationship with its broker and insurers focussing on long-term partnerships.	✓ Continue to meet regularly and work with broker and insurers to build strong partnerships.
Less diverse insurer portfolio based on market availability and premium rates.	Broker's insurer selection methodology considers financial strength, diversification and levels of market competition, as well as self-insurance options.	✓ Continue to implement procurement strategy and in discussions with Council.
Limited or no leverage on group purchase	Council and broker continue to leverage memberships as part of shared services groups to take advantage of shared procurement.	✓ Continue to leverage on MWLASS and LAPP group procurement.
Insurance is regarded as a risk management solution with limited consideration of other options	Council and broker continue to raise risk management maturity to respond to future potential for limited insurance availability in some markets or for certain exposures.	✓ Continue to work closely with broker to raise risk maturity at Council through review of risk framework in line with best practice.
Same purchasing approach regardless of insurance market dynamics and macro cycles	Council and broker engage in proactive marketing and risk communication to differentiate Council's risk profile to insurers.	✓ Continue to work closely with broker to improve and communicate risk profile to insurers.

4.2 Aon Partnership

Aon is a large multinational organisation with long-standing relationships with every approved insurer locally and overseas. The more than \$1 billion of premium Aon places into insurance markets in New Zealand and overseas market makes them the largest broker by some margin. This leverage is used to the benefit of Council in terms of:

- Achieving the broadest cover available.
- Reducing total cost of risk (premiums + administration costs + fees + retained claims costs).
- Favourable claims results.

This expertise and market leverage will continue to be used to the benefit of Council, in terms of pricing, coverage and access to markets in New Zealand and overseas.



4.3 Insurer Selection

Financial Strength

The usefulness of insurance is dependent on the insurer's ability and willingness to pay at the time of a loss. An Insurance Strategy needs to consider the financial strength and resilience of insurers as well as the aggregate dependency on any one insurer. In accordance with the Insurance (Prudential Supervision) Act 2010, Aon selects insurers that meet required financial strength ratings (e.g. as indicated by Standard & Poor's. Only engaging insurers with sound financial ratings results in best claims paying ability.

Diversification of Insurer

Aon works with the most appropriate markets to produce the best results for Council. A blend of local and overseas markets works for clients with significant natural hazard exposure. This strategy has become more important in the current challenging market and has worked well for Council in recent years. Use of overseas markets is vital in achieving best cover, price and ability to withstand market shifts.

Competitive Tension

The blended placement allows a wider range of insurers to participate on Council's programme. This means more available capacity and the generation of competitive tensions, which alleviates the pressure to increase premium.

4.4 Shared Procurement

Council is a member of Manawatu-Wanganui Local Authority Shared Services (MWLASS). Shared procurement of insurance through MWLASS allows premium, and coverage benefits and promotes best practice through membership. MWLASS provides the following benefits of economies of scale.

- Ability to maximise premium savings in soft markets and minimise premium increases in challenging markets.
- Access to offshore markets that would not otherwise be available to individual Councils.
- Greater ability to negotiate specialist covers / policy enhancements.
- Mitigation of claims impacts due to larger premium pool being established, that is less affected by claims performance, which therefore reduces overall loss ratio.
- Cost benefits to consulting work undertaken due to costs for work being shared amongst member Councils.
- Creation of exclusive Council schemes for aviation risks, staff health and benefits and cyber risk.

While group purchasing arrangements provide significant pricing and coverage benefits, it is important that the policies are sufficiently flexible to tailor for individual Council's risk appetites and tolerances.

Council shares in the combined benefits of their current LASS or group arrangements, while still being able to have individuality around chosen limits and deductibles.

Council purchases Infrastructure insurance through the Local Authority Protection Programme (LAPP). Recent loss modelling has shown that, given LAPP coverage including current reinsurance arrangements, this solution is suitable for Council's infrastructure exposure. Additionally, with proposed three-waters changes, it would be beneficial for Council to remain with LAPP.

4.5 Developing Risk Maturity

Insurers looking to deploy their capital at an affordable price require detailed information to optimise the amount of cover they will provide and the premium they require to deploy it. An evolving understanding of risk is vital for Council. An Insurance Strategy needs to involve increasing the understanding of risk and risk management methods, developing risk maturity and ensuring that the insurance programmes in place are fit-for-purpose with the respective council risk profiles, by tailoring the policies accordingly.

Developing risk management maturity across Council leads to more efficient and cost-effective solutions in the future. Benefits include:

- Access to market-leading commercial terms and conditions particularly in challenging markets
- Access to market-leading risk management approaches and technologies.
- Better risk governance, monitoring and reporting and accountability to communities, stakeholders and ratepayers.
- Alignment with government's broader risk financing strategies.

4.6 Proactive Marketing and Risk Communication

In a challenging marketplace, it is vital to differentiate Council's insurance programmes when marketing to insurers. The MWLASS renewal strategy has a strong focus on Council involvement in the process of marketing to insurers. We believe this is critical to achieving best results and differentiates Councils from other insurance buyers seeking the same capacity. Benefits of this tripartite approach include:

- Allowing underwriters to see locations first-hand on an annual or biennial basis (when global travel restrictions permit).
- Building long term relationships with insurance markets. The results can often be preferential pricing and cover over several years.
- A differentiator of Council's risk to overseas underwriters, who see hundreds of submissions each year.
- Allows direct questions and answers and negotiation across the table. Premium and coverage advantages far outweighing the cost outlay of this approach.
- Enhanced claims outcomes as underwriters become invested in Council's risk when they meet staff in person.

5 Conclusion

Against a backdrop of accelerated change globally, nationally and regionally, the way organisations view risks and purchase insurance is evolving. Global insurance markets have been severely impacted by natural catastrophe events, Covid-19 and major cyber-attacks. This creates challenges such as increased market pricing, reduced coverage and reduced capacity for organisations using insurance as a risk management tool. Historical approaches, typically transactional in nature, need to be replaced by a more strategic approach to enable insurance to be used as a long-term sustainable source of risk financing.

Aon consulted with Council staff, reviewed information and data provided by Council, considered internal and external drivers, risk optimisation options and procurement strategies available to optimise insurance outcomes. Based on this analysis, the following is a summary of the drivers, risk optimisation options and Aon's insurance procurement strategies:

Drivers	Risk Profile Optimisation	Strategic Purchasing
<p>Meeting Council's legal and regulatory obligations under the Local Government Act 2002 and other legislation.</p> <p>Meeting commercial market, including legal or contractual requirements</p> <p>Council's size, financial position, assets, activities, Long Term Plan and internal policies are factored in.</p> <p>Potential funding and support from Central Government is understood and considered.</p> <p>Insurance market dynamics and factors such as market pricing, coverage and capacity deployment are considered.</p> <p>There is regular monitoring and reviewing changes to both the internal and external environment and adapting the strategy to impacts of the changes.</p>	<p>The Council's Enterprise Risk Management sets the overarching basis of Council's approach to insurance.</p> <p>Insurable exposures are accurately identified, analysed, evaluated when considering options on risk management</p> <p>Decision-making around the scope of insurance and key insurance parameters (e.g. limits) are transparent and evidence-based.</p> <p>Decision-making considers Council's risk appetite / tolerance and legal or contractual requirements.</p> <p>Assumptions that underpin decisions are regularly reviewed and tested to ensure they remains valid and fit for purpose.</p>	<p>Council continues to build strong relationships with its broker and insurers, focussing on long-term partnerships.</p> <p>Broker's insurer selection methodology considers financial strength, diversification and levels of market competition.</p> <p>Council and broker continue to leverage membership as part of a shared services group to take advantage of shared procurement.</p> <p>Council and broker continue to raise risk management maturity to respond to future potential for limited insurance availability in some markets or for certain exposures.</p> <p>Council and broker engage in proactive marketing and risk communication to differentiate its risk profile to insurers.</p>

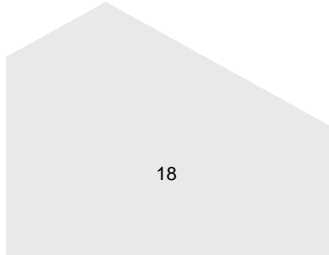
Based on the information provided and analysis undertaken, the following is the Draft Insurance Strategy for Council to consider and approve:

- 1 Informed insurance purchasing**
Insuring exposures where risk exceeds Council's risk appetite and the benefits exceed the costs, or where there is a contractual or legal requirement to insure.
- 2 Reviewing and validating assumptions**
Regularly reviewing and testing assumptions that underpin key decisions to ensure they remain valid and fit for purpose, e.g. asset valuations and loss modelling to inform policy limits.
- 3 Leveraging shared procurement**
Continue leveraging Council's membership with LAPP and MWLASS to take advantage of shared group procurement.
- 4 Forging strong, long-term relationships**
Continue building strong, long-term relationships with broker and local and global insurers.
- 5 Lifting risk maturity**
Focusing resource and attention on lifting Council's risk management maturity to respond to potential limitation of insurance coverage in some markets as well as differentiating Council as a good investment for insurers.
- 6 Regular monitoring of changes**
Regular monitoring and review changes to both the internal and external environment, and adapting the strategy to impacts of the changes, e.g. insurance market dynamic, central government funding, three-waters reform.
- 7 Insurer Selection**
Continue implementing an insurer selection methodology having regard to financial strength, diversification and levels of market competition.

A suggested work plan is provided in the following section.

6 Suggested Work Programme

The Journey so Far...	2021/22	2022/23	2023/24
<ul style="list-style-type: none"> ✓ MWLASS and LAPP membership leveraged to achieve shared purchasing benefits. ✓ Natural Hazard Probable Maximum Loss assessment for infrastructure assets undertaken in 2019. ✓ Aon reappointed following competitive tender for insurance broking services. ✓ Insurable Risk Profiling exercise undertaken 2021. ✓ Development of asset selection framework and guidance to identify which assets to insure / self-insure. ✓ Commence review of risk management practice framework with heightened focus on best practice on risk management and risk governance reporting. 	<ul style="list-style-type: none"> □ Ensure asset valuations are suitable for insurance purposes. □ Improve property schedule development processes based on Aon guidance. □ Continue to work closely with broker to improve and communicate risk profile to insurers. □ Continuous review and refinement of Enterprise Risk Management framework and processes. □ First formally documented insurance strategy. □ Monitor the three-waters regulatory reform. 	<ul style="list-style-type: none"> □ Undertake risk retention analysis and refine risk appetite statement. □ Continue to work with Aon to raise risk maturity at Council through review of risk framework in line with best practice. □ Continue to work closely with broker to improve and communicate risk profile to insurers. □ Monitor the three-waters regulatory reform. □ Consider undertaking earthquake modelling for above ground assets (if required). 	<ul style="list-style-type: none"> □ Undertake property underwriting surveys for major sites (>\$20m value and/or water treatment plants). □ Continue to work closely with broker to improve and communicate risk profile to insurers. □ Refresh Insurable Risk Profile. □ Review and update Insurance Strategy. □ Monitor the three-waters regulatory reform. □ Update earthquake Probable Maximum Loss assessment for infrastructure assets (if applicable).





Aon offers holistic risk management services to help our clients identify, assess and manage existing and emerging risks. We assist with the selection and implementation of appropriate risk transfer, risk retention and risk mitigation strategies and provide the right advice following a major claim. We add distinctive, long-term value to optimise your overall insurance programme and enhance your risk management.

Aon is a leading provider of insurance broking, risk management and associated services in New Zealand, and around the globe. From quote to claims management, **we're with you every step of the way.**

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