Notice is hereby given that an ordinary meeting of the Horowhenua District Risk and Assurance Committee will be held on:

Date:	**Wednesday 16 August 2023**
Time:	**1:00pm**
Meeting Room:	**Council Chambers**
Venue:	**126-148 Oxford St Levin**

Risk and Assurance Committee

OPEN AGENDA

MEMBERSHIP

Chairperson	Cr Sam Jennings	
Deputy Chairperson	Cr Paul Olsen	
Members	Cr Alan Young	
	Cr Clint Grimstone	
	Cr Jonathan Procter	
	Cr Piri-Hira Tukapua	
	Mayor Bernie Wanden	
	Jenny Livschitz	Independent Member
	Sarah Everton	Independent Member

Contact Telephone: 06 366 0999
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Website: www.horowhenua.govt.nz

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

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

Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. Should Members require further information relating to any reports, please contact the Chief Executive Officer or the Chairperson.

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KARAKIA

PROCEDURAL

Karakia

Whakataka te hau ki te uru	Cease the winds from the west
Whakataka te hau ki te tonga	Cease the winds from the south
Kia mākinakina ki uta	Let the breeze blow over the land
Kia mātaratara ki tai	Let the breeze blow over the ocean
E hī ake ana te atakura	Let the red-tipped dawn come with a sharpened air.
He tio, he huka, he hau hū	A touch of frost, a promise of a glorious day.
Tīhei mauri ora!	

1 Apologies

2 Public Participation

Notification of a request to speak is required by 12 noon on the day before 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 Risk and Assurance Committee, 7 June 2023
5.2 Meeting minutes In Committee Meeting of Risk and Assurance Committee, 7 June 2023

Recommendations

That the meeting minutes of Risk and Assurance Committee, 7 June 2023 be accepted as a true and correct record.

That the meeting minutes of the In-committee Risk and Assurance Committee, 7 June 2023 be accepted as a true and correct record.

6.1 PWC Tax Governance Presentation

File No.: 23/504

1. Purpose

1.1 To present to the Risk and Assurance Committee the PricewaterhouseCoopers (PwC) annual tax update for the Horowhenua District Council, as part of the tax governance framework programme.

2. Recommendation

2.1 That Report 23/504 PWC Tax Governance Presentation be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

3.1 Council has a high public profile and as such, must maintain exemplary governance and tax compliance standards.

3.2 Although Council does not pay corporate income tax, it is required to correctly account for Goods and Services Tax (GST), Fringe Benefit Tax (FBT), Pay as you Earn (PAYE) and a range of other withholding taxes.

3.3 Inland Revenue Department (IRD) has signalled its expectation that all large organisations should have tax risk management incorporated within their governance framework.

3.4 Council has an obligation to fulfil its tax compliance obligations as required by tax legislation, including the Income Tax Act 2007, Goods and Services Tax Act 1985, and Tax Administration Act 1994.

4. Issues for Consideration

4.1 Proactive tax risk management can facilitate mitigation of operational risk, financial risk and compliance risk. Given the high profile and public nature of Council, there is a need to adopt a conservative approach towards tax compliance. Accordingly, Council adopts a “LOW” tax risk profile such that it has an open and honest working relationship with the IRD through PwC.

4.2 A tax risk governance framework was adopted by the Council as a proactive step towards identifying and managing tax risk to maintain the Council’s low risk profile. As part of the tax governance framework, PwC have prepared an annual tax update as a report to this Committee.

4.3 For financial year ended 30 June 2022, a PAYE independent tax evaluation was completed by PwC. For financial year ended 30 June 2023, a GST independent tax evaluation was completed by PwC. Recommendations resulting from both evaluations are reported to this Committee through the Monitoring Report.

4.4 For the 2023/24 financial year we are planning a review of Fringe Benefit Tax (FBT),

Attachments

No.	Title	Page
A⇩	Horowhenua District Council Annual Tax Update by PwC - July 2023	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 benefits and costs, bearing in mind the significance of the decisions; and,
b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Pei Shan Gan **Financial Controller**	

Approved by	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

Horowhenua District Council Annual Tax Update

By Phil Fisher & Michelle Macdonald

July 2023

Introduction

Introduction

A Tax Risk Governance Framework was adopted by Horowhenua District (Council) as a proactive step towards identifying and managing tax risk to maintain the Council's low risk profile. As part of the Tax Governance Framework, we have prepared this annual tax update as a report to Council's Audit and Risk Committee.

This document provides:

- A summary of the more substantive tax advice Council has sought from PwC during the period 1 July 2022 to 30 June 2023.
- Council's tax strategy achieved to date, and proposed for upcoming years.
- A more general update on the wider tax environment which may affect Council and the local authority sector more broadly.

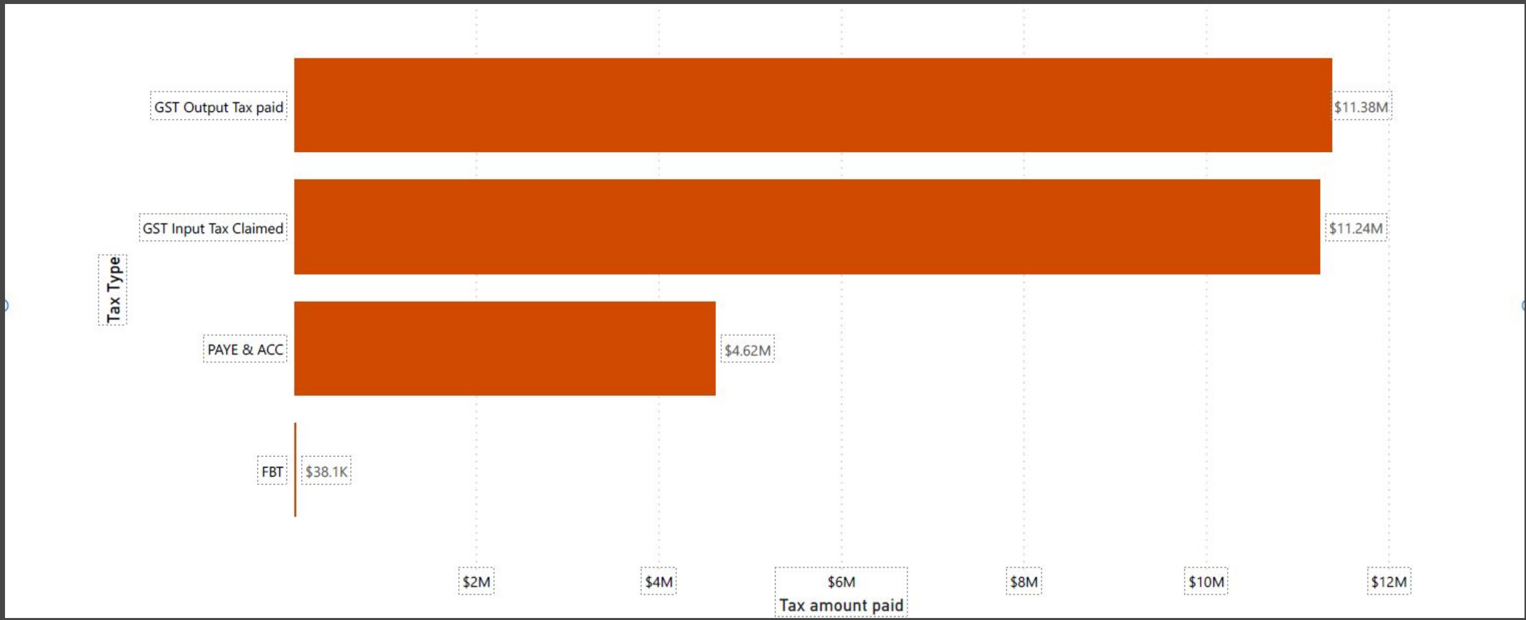
Tax Governance

Inland Revenue has increased its focus on significant enterprises and their approach to tax governance and tax risk management. This has included the issuance of tax governance review letters to a number of organisations; the questions in that letter are reproduced in Appendix One for reference.

Ultimately, Inland Revenue's guidance around good governance focuses on the need for organisations to develop an effective tax control framework. As Council has developed a comprehensive tax risk management strategy, Council can have confidence that it is meeting Inland Revenue's expectations.

Horowhenua District Council Tax Figures

Council is largely exempt from income tax, but is required to account for a number of other indirect taxes. The following provides a representation of the main taxes accounted for by Council during the year ended 30 June 2023.



Horowhenua District Council - Annual Tax Update
PwC

July 2023
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Proposed Tax Risk Management Plan

	Council's tax strategy - past and proposed future			
Financial Year to 30 June:	**2022**	**2023**	**2024**	**2025**
PwC tax helpdesk facility				
PwC online tax policies & guides	✔	✔	✔	✔
Independent tax evaluations:				
• PAYE - Standard	✔			✔
• GST - Full Review		✔		
• Payroll analytics (optional add-on)				
• FBT			✔	
• Tax Control Framework Effectiveness Assessment				✔
Report to Audit and Risk Committee on tax risk management		✔	✔	✔
External advice sought on major issues	As required	As required	As required	As required
Tax training provided to staff		✔	✔	✔

Tax advice provided during the period

Tax advice sought – period ended 30 June 2023

For the most part, the tax compliance of Council has been 'business as usual' with the various tax returns (GST, PAYE, FBT, etc.) being filed on time. Council has continued to show a proactive approach to its tax compliance and utilised PwC's assistance for various queries for a range of tax types.

Relevant work undertaken throughout the year, included:

- GST and PAYE compliance evaluations - Overall we concluded that Council had a reasonable-to-high level of both GST and PAYE compliance. There were recommendations for enhancements to be made in certain areas, including invoicing issues for both rates and dog registrations, and the setting of ESCT rates for new employees which resulted in the submission of a voluntary disclosure, as discussed below.
- Advice in relation to GST and WHT for committee members
- Assistance with a voluntary disclosure to Inland Revenue in relation to the underpayment of ESCT
- Mayoral relief fund - Council sought advice on the Mayoral relief fund application for donee status with Inland Revenue, and assistance with submission of this application to Inland Revenue.
- Advice on the GST treatment of income received by Council in relation to two rental properties.

To support the ongoing risk management, Council:

- Continued to subscribe and actively use PwC's online indirect Tax Policies.
- Commissioned PwC to provide this annual update to audit and risk committee reporting on tax governance for the year.

Recent tax developments relevant to Council

Taxation (Annual Rates for 2022–23, Platform Economy, and Remedial Matters) Act 2023

The Taxation (Annual Rates for 2022-23, Platform Economy and Remedial Matters) Act 2023, enacted 31 March 2023. Changes relevant to council include:

- Remedial changes to the GST tax invoice rules
- A fringe-benefit tax exemption for public transport and e-bikes
- Changes to GST on legislative charges (e.g. levies)
- Changes to the GST treatment of government grants and subsidies paid to public authorities

GST invoice rules

Earlier last year the Government enacted changes to the GST invoicing and record-keeping requirements effective 01 April 2022, which included removing the requirement to obtain IRD approval to issue Buyer Created Tax Invoices, removing the requirement for reissued invoices to be marked as "copy only", and changes in relation to the use of shared invoices.

A number of further proposed changes were deferred until 01 April 2023. These changes were intended to modernise business practices and provide greater flexibility to businesses - however the drafting of these rules was overly complex. As such, a number of remedial amendments have been included in the current Act to bring the new rules closer to the original policy intent. Some of the key GST invoicing changes effective from 01 April 2023 include:

- A change in terminology means "Tax invoices" are now referred to as "Taxable Supply Information" (TSI).
- The low-value threshold is increasing to $200. Where the amount is below $200 (GST incl.), there is no requirement to issue information for supplies or keep records of any taxable supply information.
- There is no longer a requirement to include the words "Tax invoice" in a prominent place on TSI.
- Where the price is over $200 (GST incl.) the TSI must include the date upon which the tax invoice is issued, or where no invoice is issued, the seller must show the date of the supply.
- The quantity or volume of the goods and services supplied is no longer required.
- Where the price is $1000 (GST incl.) or more, the TSI must still include the name and address of the buyer
- TSI for sales over $200 (GST Incl.) must include the total amount of GST charged, the GST exclusive (net) amount, and the total consideration, including GST; or the total amount including GST, and a statement that it includes GST (provided that the gross amount is inclusive of GST at 15%)

New Fringe-Benefit Tax (FBT) exemptions

The Act introduces a new FBT exemption which applies to public transport fares subsidised by an employer, where it is provided mainly for the purpose of an employee travelling between home and work. This will only apply where the public transport is via bus, train, ferry, tram, or cable car.

In addition, the Act introduces a new FBT exemption for certain vehicles (bicycles, e-bikes, scooters, and e-scooters) provided to employees for the purpose of travelling between home and work, as contained in a Supplementary Order Paper introduced on 14 March 2023. This exemption does not apply to low-interest loans provided to employees for the purchase of such vehicles.

GST on legislative charges

To ensure consistency, the Act has made changes to the GST treatment of legislative charges (e.g. levies) by deeming all such charges as subject to GST. The term "charge" is not defined, but is described as any liability to pay money. However, it does not include penalties, fines, interest, or general taxes.

There will be a staged implementation of change, and the new rule will apply in relation to any new legislative charges which come into force on or after 1 July 2023, and to existing legislative charges from 1 July 2026.

Interestingly, it appears Inland Revenue are moving away from determining the application of GST based on fundamental principles, and increasing the 'tax take' through a blanket approach of charging GST. The question to be considered by Council is whether this proposed change will affect the legislative charges overseen by Council. Regardless, it could be an opportune time to consider the GST treatment of all fees and charges imposed by Council; this can feature in the scheduled GST compliance review.

GST on government grants and subsidies paid to public authorities

The Act amends section 5(6D) of the GST Act 1985. Previously this provision deemed any payment in the nature of a grant or subsidy to another person, *other than to another public authority*, as consideration for a supply and subject to GST. This amendment removes the exclusion for *grants made to a public authority*.

This should not significantly impact Council, but is an important change to note. Where most GST issues arise for grants and local authorities, is in determining whether Council are receiving as principal, or as agent of the public authority. This is particularly pertinent when the grants relate to a Civil Defence (or similar) emergency. In case such an event occurs for Council, it would be useful to have a clear policy and procedure relating to the treatment of grants from the public sector.

Recent tax developments relevant to Council (cont.)

Tax Relief in response to flooding and Cyclone Gabrielle

In response to the North Island flooding events and Cyclone Gabrielle, the Government introduced the Supplementary Order Paper No 319 to the 2022-23 Tax Bill (the SOP). This provided tax relief for employers' welfare contributions and accommodation provided to employees. The tax relief provisions include:

- A tax exemption for ex-gratia welfare cash contributions to affected employees made within 8 weeks of the first date of the relevant event, as follows:
  - Up to $5,000 in cash or benefits (refer below); and
  - Accommodation.
- A FBT exemption for certain non-cash benefits for 8 weeks from the first date of the relevant event:
  - Benefits provided to an employee that, along with any ex-gratia cash payment, did not exceed $5,000 in total; and
  - Sundry benefits (e.g. an employer provides the 'benefits' to a recovery centre and it is hard to identify what benefits a specific employee has received). In this situation there is no specified limit.
- An extended tax exemption (from 3 - 5 years) for accommodation expenditure for employees working on projects of limited duration where the project entails relocating employees to assist the recovery and rebuild after the floods or cyclone.

Protection of Personal Information

During the response to Cyclone Gabrielle, Council may have collected / received more Personal Information than they would typically hold (for instance, missing persons lists, vulnerable people lists, volunteers, donee information etc).

During a state of emergency the Civil Defence Information Sharing Code takes effect, which means that Council may collect, use, and disclose Personal Information in order to respond to the emergency. It is designed to help agencies work together. However, this code is time bound; having finished on 13 April 2023 for Cyclone Gabrielle.

This was a useful reminder that it is important that Council has a plan in place to review the information collected or received. Particularly relevant during an emergency response, is the need to:

- Identify what information needs to be retained and what information should be deleted or destroyed
- Retrieve any information shared with third party agencies.
- Identify if Council has removed any information security controls during the emergency and, if so, has Council worked through how to reinstate those controls.
- Identify any learnings relating to information collection and sharing and whether this should be built into plans for dealing with future events.

Cross border workers and tax arrangements

The Taxation (Annual Rates for 2022-23, Platform Economy and Remedial Matters) Act 2023 also includes a number of changes for cross-border workers' tax arrangements to take effect from 1 April 2023. Some of the key changes include the new employer registration requirements and the safe harbour provisions.

New employer registration requirement

Non-resident employers with employees working in New Zealand will need to register as employers with Inland Revenue if they provide their employees with non-cash benefits or make contributions to their superannuation scheme or fund (unless an agreement is reached with the employee that the employee is responsible – this must be documented).

Safe harbour provision

A safe harbour provision has been introduced for non-resident employers who have incorrectly determined that they do not have a sufficient presence in New Zealand, and as a result, that they do not have New Zealand PAYE, FBT and ESCT obligations.

For completeness, we note the proposed change to move to consider NRCT on a 'single payer' basis was not enacted.

Whether settlement payments were taxable employment income

Inland Revenue has published Technical Decision Summary TDS 23/01 determining that settlement payments were considered taxable employment income.

The Tax Counsel Office (TCO) determined that the settlement payments were not in the nature of payments for hurt and humiliation and the Record of Settlement was not a sham to the extent of the description of settlement payments.

This is a useful publication in that it helps reinforce Inland Revenue's position in relation to payments made pursuant to s123 of the Employment Relations Act 2000, and when these may or may not be treated as tax-free. Such payments are relatively common in the local government sector.

Taxation (Annual Rates for 2023–24, Multinational Tax, and Remedial Matters) Bill

This Bill was introduced on Budget day 2023. Whilst not directly impacting local government, the Bill covers Trustee tax rate increase to 39%; New Zealand multinational taxpayers - OECD's Pillar Two measures introduced; and the introduction of the Taxation Principles Reporting Bill. It also suggests a remedial change for the treatment of lump sum payments related to ACC and MSD. The question will be whether this should be extended to cover holiday pay remediation payments more generally although this is unlikely.

Recent tax developments relevant to Council (cont.)

Commissioner’s escalation policy for technical issues

Inland Revenue issued a commissioner’s statement on 20 March 2023 in relation to Inland Revenue’s Technical Issues Escalation Policy and Process.

The intention of the policy is to ensure that Inland Revenue staff apply the legislation consistently. The statement sets out the obligations for all Inland Revenue staff but does not create any rights for customers to have issues reconsidered by Inland Revenue. It also helpfully sets out examples of circumstances when the taxpayers can rely on a view from Inland Revenue as being the Commissioner’s interpretation of the law.

FBT rate for low interest loans increased

The Income Tax (Fringe Benefit Tax, Interest on Loans) Amendment Regulations 2023 (SL 2023/22) come into force on 1 April 2023 and the regulations were notified in the New Zealand Gazette on 2 March 2023. The regulations increase the rate of interest that applies for fringe benefit tax purposes to employment-related loans from 6.71% to 7.89%. The new rate applies for the quarter beginning 1 April 2023 and for subsequent quarters.

GST Treatment on fees paid to directors and board members

Inland Revenue has released three public rulings (BR PUB 23/01, 23/02, and 23/03) relating to the GST treatment of fees paid to directors and board members - considering whether professional directors are eligible to be registered for GST.

The Commissioner has prepared an Operational Position (OP 23/01) giving guidance on the application of these rulings for professional directors who have incorrectly taken the view that they are carrying on a taxable activity. The Commissioner will not require these taxpayers to retrospectively deregister, however, those professional directors who are not carrying on a taxable activity must deregister with effect from 30 June 2023, or such other date as may be determined by the CIR. The rulings replace earlier ruling BR Pub 15/10 and apply from 1 April 2023 for an indefinite period.

IPSAS 41

The new financial instruments standard, PBE IPSAS 41 is mandatory for June 2023 financial year ends. For Council's who early adopted the interim financial instruments standard PBE IFRS 9, this will be an easier transition than for those who are transitioning from the older standard IPSAS 29. The main changes are:

- The introduction of a new model for classifying and measuring financial assets
- A new forward looking approach to impairment that takes into account expected credit losses and will likely lead to earlier recognition of doubtful debts
- A new less restrictive hedge accounting model
- Increased disclosure requirements.

The accounting for financial instruments is a complex area and the new rules are no exception to that, however as these rules largely mirror changes that were made in the for profit sector with NZ IFRS 9, there is a lot of experience from the for profit sector that can be drawn on to facilitate this transition. Numerous local authorities are requesting support with IPSAS 41 at the moment to ensure they meet their obligations.

Inland Revenue activity

Recent discussions with senior Inland Revenue staff have confirmed that they will be moving to increasing use of data analytics of tax returns submitted, in particular in relation to payroll and GST. We have already seen evidence of the power of this with Inland Revenue cross checking payroll filings for wage subsidy reconciliations.

From our meetings with Inland Revenue, it is evident we are moving into a new era of less traditional audits, and the use of targeted analytics. In response, we are increasingly providing data analytical evaluations over payroll filings, GST etc.

We note that a number of local authorities, and associated entities, are having GST refunds ‘held’ pending provision of further information to Inland Revenue. A delayed response to the initial Inland Revenue request typically results in a more substantive set of questions. Council should be mindful of this and carefully consider what and how it responds to requests for information. Furthermore, proactively notifying Inland Revenue of the rationale for the GST refund will enable quicker processing of and receipt of the refund.

Other recent tax developments include:

- The Taxation (Use of Money Interest Rates) Amendment Regulations 2023 were notified in the New Zealand Gazette on 27 July 2023 and come into force on 29 August 2023. The regulations amend the Taxation (Use of Money Interest Rates) Regulations 1998 to increase the taxpayer’s paying rate of interest on unpaid tax from 10.39% to 10.91% per annum. The Commissioner’s paying rate of interest on overpaid tax is increased from 3.53% to 4.67% per annum.
- Inland Revenue approved mileage rates have recently been released for the 2022-2023 income year. The tier 1 rate was increased from 83 cents to 95 cents per kilometre for the year, which reflects a combination of a vehicle’s fixed and running costs and is used for the business portion of the first 14,000 kilometres travelled by the vehicle in a year, or in the absence of full log-book details, the first 3,500km of business mileage. The Tier 2 rates that apply otherwise are significantly lower, and the actual rate depends on the type of vehicle (i.e. Petrol, Diesel, Electric or Hybrid).

PwC

July 2023
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Tax developments in the local authority sector

Significant developments over the past year which will impact the local authority sector:

Income Tax on Local Authorities

On 30 March 2022, the Taxation (Annual Rates for 2021-22, GST and Remedial Matters) Act received Royal Assent.

The 2021-22 Bill specifically proposed a number of changes to the way local authorities are taxed on income from CCO's.

Dividends – As initially proposed, dividends from wholly owned CCOs, port companies or energy companies are deemed to be exempt income when received by local authorities. The Act also extends the exemption to include both wholly and partly owned CCO's, port companies and energy companies. In addition, dividends received from CCO's by CCO holding companies with 100% local authority ownership will also be exempt income.

Donations – The Act has removed the ability for local authorities to claim a deduction for charitable donations, with effect from the 2022-23 income year onwards.

Imputation credits – The proposed restriction from converting imputation credits to tax losses has been removed from the Act. This is on the basis that it is no longer necessary given the changes to exempt dividends. Whilst imputation credits will not be required to be attached to the exempt dividends paid to local authorities, CCO's *may* choose to attach imputation credits if they so wish.

Interest Deductions – The Bill originally proposed that deductions for finance costs would be limited to only those incurred on loans to Council Controlled Trading Organisations (CCTO) and borrowings to acquire shares in a CCTO. This was concerning as it would have the effect of disallowing interest deductions relating to CCO's, despite there being a nexus to assessable income. Further, the definitions of CCO and CCTO between the Income Tax Act 2007 and Local Government Act 2002 were not entirely clear. As a result of the concerns raised, this proposal was deferred pending further work on the definitions of CCO and CCTO and the wider local government sector reforms. This is extremely positive, as this proposal had the potential to significantly raise the cost of borrowing for local authorities.

Tax Loss Offsets – Tax loss offsets will remain possible within local authority groups that meet the normal criteria, and we had it confirmed that a local authorities historic tax losses will still be able to be carried forward.

Flexible working arrangements

Inland Revenue has recently released an updated Determination EE004 in relation to payments to employees for working from home and for using their own telecoms/usage plans, effective for payments made by employers from 1 April 2023. There is no substantive change from the previous Determination EE003 which it replaces, though we note there is no longer an end date for the period to which this Determination applies. The 'safe harbour' thresholds have been updated as follows:

- A tax-free payment of up to $400 (no change from EE003) for furniture or equipment purchases
- A tax-free payment of up to $7/week (increased from $5/week in EE003) for telecommunication usage plans
- A tax-free payment of $20/week (increased from $15/week in EE003) for other working from home costs (e.g. electricity).

There has been a notable increase in queries from public sector organisations regarding flexible working arrangements, particularly where in order to attract appropriate talent to roles clients are engaging employees and contractors from distant locations. Some are working remotely from outside the region and some are travelling frequently to the region. In more extreme cases, Council's are looking to retain the services of employees even when they move overseas; this has significant tax compliance risks and obligations.

Further, Inland Revenue released the Operational Statement 19/05: *Employer provided travel from home to a distant workplace income tax (PAYE) and fringe benefit tax* in December 2019 which provided some guidance in this area. However, this guidance was in relation to travel costs and there are some discrepancies between how travel is treated compared to how the provision of accommodation is treated. Though this document is still in draft it provides a good indication of Inland Revenue's position on the matter.

In relation to accommodation, we note that Inland Revenue released OS 21/01 10 June 2021 *Operational Statement on the Income tax treatment of accommodation provided to employees*. While no substantial changes emerged, it does consolidate a number of the various tax rules that apply to accommodation payments.

Overall, we recommend that all flexible and remote working arrangements Council is considering entering into are discussed with the finance team prior to agreeing with an employee. Failure to do so can add a considerable unexpected tax cost and compliance burden.

Final word

The tax environment is constantly evolving, and as Inland Revenue move out of the Business Transformation phase to the Business As Usual phase, we have already seen increased focus on tax compliance and management of tax risks.

As noted earlier, Inland Revenue has issued their Tax Governance Questionnaire to a number of organisations. This campaign marks a fundamental shift in Inland Revenue's thinking and approach. Essentially, Inland Revenue is moving away from being focussed on taxpayers being compliant, and are broadening their thinking to include tax risk that is created through processes, operations and systems - essentially to protect the integrity of the NZ tax system and base.

An observation is that many New Zealand organisations would struggle to positively respond to the questions posed by Inland Revenue. Our recent experience is that many organisations have largely focussed on income tax considerations and other tax types tend to have less attention. This is particularly true for payroll, which often sits within HR and the visibility for the Finance team is limited.

At the same time, like most New Zealand organisations, Council has been grappling with the challenges of Covid-19. Accordingly, having an easily operationalised tax control framework (which Council currently has) and a focus on meeting tax compliance needs is essential, removing one of the risks that is prevalent for all New Zealand organisations. We consider Council is well-placed to meet the expectations of Inland Revenue.

Appendix One - IR is expecting more from your Tax Governance...

Inland Revenue have, over the last two years, commenced a long-term campaign focussed on considering the extent to which organisations have introduced tax governance strategies and the extent to which they have adequate controls, processes and procedures that underpin their tax compliance. Connected to this, Inland Revenue has invested significantly in data analytics and is beginning to use transactional level data to test and target taxpayers. As a large taxpayer it is important that Council's tax control framework is effective and is fit for the future. The questionnaire has so far been issued to circa 1,000 taxpayers representing a cross-section of New Zealand organisations. The questions included in the questionnaire are outlined below. Importantly, the tax governance framework, and independent tax compliance reviews commissioned by Council over recent years enables Council to have confidence in its ability to respond if it received a questionnaire or were to have its tax compliance reviewed.

Inland Revenue Tax Governance in Practice Questionnaire		
1	Does the company have a well-documented overarching tax strategy?	·
2	Does the CFO or Tax Manager formally confirm, at least once annually, that this strategy has been regularly reviewed, updated where necessary and followed in practice?	☐
3	Does the company have a tax control framework to manage day-to-day tax risks?	☐
4	Has the operation of the tax control framework been tested independently in the last three years?	☐
5	In the last three years, have any tax control deficiencies been identified? If yes, have any follow up actions been taken to remediate those deficiencies?	☐
6	Are key internal policies, procedures and controls covering the data collection, analysis, calculation, recording and reporting for tax filing and other tax compliance requirements, documented and available for examination if required?	☐
7	Does a review take place at least annually for changes to accounting policies upon which group financial statements are prepared and all items examined where tax treatment may differ materially from financial accounting treatment?	☐
8	Is there a robust process in place for the finance and/or tax teams to stay on top of all relevant changes in tax law and related Inland Revenue guidance?	☐
9	Is a process in place to identify significant transactions (including those which need to be reported to the board or relevant board sub-committees) in respect of which external advice and/or binding rulings may be required?	☐
10	Does senior management report regularly to the board or relevant board subcommittees on potentially material tax issues or risks?	☐

Council is like any other taxpayer in that it is required to be tax compliant. Whilst Inland Revenue cannot disclose the non-compliance of a taxpayer, by virtue of its public profile and the need to publish a range of documents publicly, including full financial statements, and the risk of a LGOIMA, any non-compliance by Council could become a public matter.

Accordingly, whilst there are numerous 'risks' for Council to manage, tax risk management is an integral part of good governance and Council needs to be able to demonstrate that it is committed to ensuring compliance with its tax obligations.

Tax Administration Act
New amendments introduced in March 2019 giving IRD the power to collect, use, and compel disclosure of tax information, effectively giving IR powers to regularly collect large datasets (and transactional-level data).

Thank you

pwc.com

pwc

6.2 Risk Management Status Quarterly Report - August 2023

File No.: 23/536

1. Purpose

1.1 The purpose of this paper is to report to the Risk and Assurance Committee an update of the risk landscape, risk management work in progress and to ignite discussion with the committee about risk.

2. Recommendation

2.1 That Report 23/536 Risk Management Status Quarterly Report - August 2023 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 Risk and Assurance Committee endorse the Draft Insurance Strategy & Workplan.

2.4 That the Risk and Assurance Committee endorse the Draft Council Insurance Renewal - Valuation Methodology & Asset Selection Policy 2023v3.

2.5 That the D23/103663 Council Natural Disaster Risk Assessment – 2023 be received.

3. Discussion & Progress

3.1 2023-24 is the first time we have focussed resources to ensuring our Insurance Renewal Process is accurate in the information we provide to our brokers and underwriters. As with any risk, quantifiable information is necessary in supporting our ability to make better decisions. As part of our continuous improvement and the previously established insurance renewal workplan, key workstreams continue to focus in allowing Council to evolve to a point of complete confidence that ensures each renewal process and annual submissions are professionally articulated and accurate in risk transfer. Two key pieces of work that support that business improvement are the Council Insurance Strategy & Workplan, and the Valuation Methodology and Asset Selection Policy. A draft copy of these two documents are attached for your perusal and feedback.

Insurance Strategy & Workplan (Draft)

3.2 A per previous Insurance Renewal Updates, the insurance renewal process has thrown up a number of challenges as we have aimed to provide a renewal submission that accurately and appropriately transfers risk for high valued assets. Also explained during status updates, the renewal process is complex and required a focus on providing an overarching document that assists in consistently updating our asset data collection, risk analysis and coverage information when determining the total amount of risk we transfer to insurance. Subsequently a draft Insurance Strategy & Workplan has been developed in stipulating guiding principles and business rules that provide clear understanding of key steps taken during the renewal process on an annual basis.

3.3 The Strategy is supported by the Insurance Strategy Workplan that lists a number of workstreams. These workstreams will take place over the next 5-7 months as we continuously enhance our Insurance Renewal Process.

Valuation Methodology & Asset Selection Policy (Draft)

3.4 As insurance premiums continue to skyrocket, every Local Government Agency have had to undertake a deep dive into assets that they are high value, or critical to the service we provide to our community i.e. water services in determining selection for insurance coverage or not. In 2021 Auckland Council had selected assets that represented 19% of the total asset value to be excluded for coverage, this doesn't include Water Services Ltd (Auckland

Council subsidiary) which excludes 41% of its assets covered by. This year Council removed approximately 4.7% in its total value of assets.

3.5 Subsequently an Asset Valuation Methodology & Selection Policy has been drafted, this will provide the criteria and principles that will assist in the asset selection process for annual Insurance Renewal submission. This draft will be submitted to the Executive and Risk & Assurance Committee for feedback in August 2023. This document is important from governance perspective as it sets out a criteria and process for excluding assets selected for insurance coverage. The criteria and process that excludes assets from selection for insurance coverage needs to be well understood by the executive and elected members as selection will inform the amount of risk transferred.

Council Natural Disaster Risk Assessment – 2023

3.6 Insurers look favourably on organisations when evaluating a submission who have under taken a comprehensive Loss Modelling Programme. Such modelling would include an increased focus on improved underwriting information i.e. Construction, Occupancy, Protection and Exposure (COPE - risk characteristics an underwriter reviews when evaluating a submission for property insurance). To provide accurate data as part of Council's Insurance Renewal, we need to undertake a qualitative or quantitative approach to determine the nature and extent of any disaster risk. Council does this by analysing potential hazards and evaluating existing conditions of exposure and vulnerability that together could harm people, property, services, livelihoods and the environment on which they depend.

3.7 Natural Hazards are defined in section 2(1) of the RMA as: "any atmospheric or earth or water related occurrence (including earthquake, tsunami, erosion, volcanic and geothermal activity, landslip, subsidence, sedimentation, wind, drought, fire or flooding) the action of which adversely affects or may affect human life, property, or other aspects of the environment."

3.8 Annotation: Disaster risk assessments include: the identification of hazards; a review of the technical characteristics of hazards such as their location, intensity, frequency and probability; the analysis of exposure and vulnerability, including the physical, social, health, environmental and economic dimensions; and the evaluation of the effectiveness of prevailing and alternative coping capacities with respect to likely risk scenarios.

3.9 This will allow us an organisation to improve the accuracy when choosing to transfer or retain a level of risk when determining the appropriate policy coverage and details for Material Damage & Business Interruption (MD&BI).

Attachments

No.	Title	Page
A⇩	Risk Assurance Quarterly Report 2023 - August 2023	24
B⇩	HDC Top Organisational Risks - 16 August 2023	39
C⇩	HDC Top Operational Risks - 16 August 2023	43
D⇩	HDC Insurance Strategy Workplan 2023-25	47
E⇩	HDC Insurance Renewal - Valuation Asset Selection Policy 2023	61
F⇩	HDC Natural Disaster Risk Assessment 2023	72

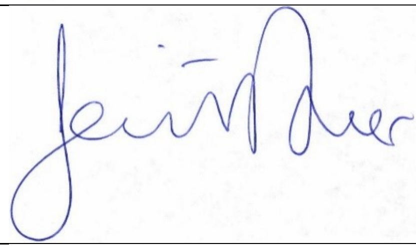
Confirmation of statutory compliance

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

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

Signatories

Author(s)	Rob Benefield **Risk Manager**	

Approved by	Ashley Huria **Business Performance Manager**	
	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

Horowhenua
DISTRICT COUNCIL

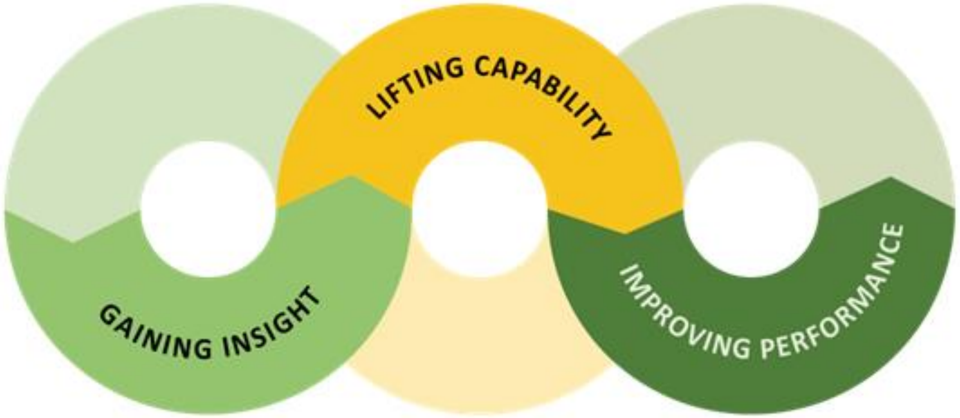
Quarterly Risk Management Report for Risk & Assurance Committee

Detailed Risk Report for 1 June 2023 to 31 July 2023

Horowhenua
2040 Vision

What this report covers

- Key Insights
- Risk Strategy Workplan Update
- Risk Register Summary Heat Map
- Updated Risk Maturity Assessment
- Quarterly Submissions
- Summary of Top Risks attached
- Risk Summary Heat Map & Stats



To support the Council in the delivery of the Council's Long- Term Plan (LTP), we are continuously assessing the impact of uncertainties and opportunity options on its objectives. The deliverables associated with the plan are diverse and complex, often prioritised on our ability to deliver with the limited resources we have. The Council's vision is to enhance its risk capability and maturity across its different business groups using a deliberate and integrated approach that will positively support the delivery of its community outcomes.
The report below is in addition to the regular risk management submission presented to the Risk and Assurance Committee where we deep dive into Risk Management.

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Key Insights

- ✓ **The Risk Management Framework and Risk Strategy & Workplan** have been endorsed by the RAC and adopted by Council on 19 July 2023
- ✓ HDC's 2023 Insurance Renewal Document was submitted to our broker AON on 7 July 2023 as per the renewal process schedule. This years submission included:
  - A reduction of approx. $14.6m in assets (4.7%). In comparison to other councils this is a small start in our Asset selection approach i.e. Auckland Council has reduced there Asset selection by 26% as they look to improve the accuracy of their coverage. Assets identified in this submission for exclusion include public toilets, playground equipment, unused buildings, assets prepared for demolition.
  - A request for 3 separate policy deductible quotes $100k, $200k & $300k levels. This will provide a more informed option of the amount of risk we choose to transfer to insurance companies.
  - An indication that we may choose to opt out of the MD/BI and PL/PI Policy extension layers. This has yet to be decided.
  - A vastly improved Asset Register that includes newly procured assets has been upgraded.
  - The HDC Natural Hazard Risk Assessment has been developed in supporting the Annual Insurance Renewal Submission for 2023.
- ✓ The **HDC Insurance Strategy and Workplan** has been drafted, this is an important document in identifying key workstreams to continuously improving our Insurance Renewal Submissions, including the ongoing improvement of the HDC Asset Register management, risk assessment and loss mapping. This draft is submitted for your feedback.
- ✓ The **HDC Asset Selection Policy and Methodology Document** has been drafted, this is significant in directing our approach to selecting Assets for Insurance coverage. This year we have identified approximately $14m in assets to exclude from insurance coverage, mainly assets that separately are small in value, low in risk of collective loss or damage and or no longer used.
- ✓ Over the last 10 weeks we have engaged and presented the EM & Staff Risk Management Induction to over 100 staff. Complementing the induction is our newly developed Risk Statement Writing Workshop, where 2 workshops have supported 22 managers with an insight in to improved risk reporting as part of the Organisation Performance Report.
- ✓ A new Risk Management Portal offering a comprehensive risk resource for staff has been developed in SharePoint. This portal includes a one source of truth on all things risk including Risk Governance & Maturity Page, HDC Risk Appetite Framework Centre, Risk Appetite and Assessment Centre, HDCs Risk Champion Group Page, Risk Management Training Centre, Insurance Renewal Framework Page, and Internal Audit Framework.
- ✓ The risk template in the OPR report has been updated in conjunction with the risk report and statement writing workshop. This has seen a substantial improvement to the content and quality of the risks reported within each activity report.

Key Insights

- ✓ A Risk Management Report and Assessment specific to the Land Transport Activity Plan has been developed in June in supporting Infrastructures submission.
- ✓ Our Risk Appetite Framework continues to be a key priority as it remains essential to understanding the amount of risk Council is willing to accept in pursuit of its goals. For this reason we have completely changed tact as we look to engage a Risk Appetite Framework that is specifically aligned to our five Community Outcomes and indicates Councils risk appetite towards the key priorities and focus areas as specified on Councils Plan on a Page. In May we released a 15 question survey to the Executive and the Elected Members looking at individual thinking on preferences towards certain statements. This will be supported by a final workshop in August 2023 that identifies where we currently sit on performance and where the Council's appetite informs what we would like the organisation to achieve
    - The survey has been completed by EM & ELT with results collated for the appetite workshop.
    - A workshop with EM and the Independent Members of the RAC has been scheduled for 9 September 2023
    - A Risk Appetite Matrix and Statement will be published in late September 2023
- ✓ The **Risk Champion Group** continues to meet every two months and is a wonderful forum to discuss new risk initiatives in adopting these initiatives organisational wide .
- ✓ As part of a deep dive into our cyber security platform and its effectiveness we are currently assessing an improved approach to the assurance management of risks associated with Cyber Security. As part of this assessment we have schedule an audit of our cyber security platform on 6 September 2023. This includes software that has the capability to manage all our IT Assets, is real-time aligned to the top ISO and Cyber Security Standards identifying immediately organisational weaknesses, encompasses all or **Cyber Risk Management Platforms** under one umbrella.
- ✓ As we look to improve the information that supports a report submitted to Council seeking resolution, we are now including an extensive risk assessment specific to the report objective and its intended outcome. This will provide elected members with an enhanced insight to the risks and opportunities associated with the resolution. The risk assessment will take a deep dive into the detail and content of the directive in an attempt to provide visibility, answers and greater assurance to councillors in making informed decisions.

Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

Risk Strategy Workplan

Strategy Element	2023	2024	2025*
Risk Maturity	Audit **Risk Maturity Assessment** - February & August. **On track**	Enhance Risk Maturity.	Audit Risk Maturity. Late 2024-2025. Independent assessment of Enterprise Risk Maturity
Risk Appetite	Assess **Risk Appetite** in defining new boundaries - Risk Workshop 6 September 2023 **In Progress**	Continue to review Risk Appetite. Align Risk Appetite to Community Outcomes as defined in the LTP.	Review Risk Appetite Statement.
Risk Framework	Develop & Adopt **Risk Management Framework**. Framework developed as governing document that includes HDC Risk Policy **Completed & Adopted**	(Incorporate policy in framework).	Review Risk Management Framework.
Risk Framework	Develop and adopt **Risk Strategy & Work Plan 2023-2025.** **Completed & Adopted**	Develop/refresh and adopt Risk Appetite.	Review Progress of Risk Strategy and Plan.
Risk Governance	**Executive Leadership Team (ELT). Agenda Item** **Completed & Scheduled.**	Monthly Agenda item on ELT Meeting. Includes deep dive into top risks and identifying new risks	Monthly Agenda item on ELT Meeting.
Risk Governance	**Risk and Assurance Committee – Scheduled Quarterly Meetings** **Completed & Scheduled.**	Quarterly Risk and Assurance Committee.	Quarterly Risk and Assurance Committee.
Risk Governance	**Organisation Performance Report (OPR).** **Completed - Ongoing**	Include high-level status overview of Risk management within HDC OPR. Includes risk review of each individual group reports.	On going
Risk Framework / Risk Communication	Review and adopt **Risk Matrix and Assessment Framework.** **Completed In Ongoing**	Develop and implement Project Management Risk Framework.	Review Project Management Risk reporting.
Risk Framework / Risk Communication	Reignite **PROMAPP Risk Register**. Work closely with GMs in defining top risks and treatment. **In Progress**	Refine Top Risk Register. Review and update Operational/Departmental Risk Registers. Develop Risk Reporting template through Power BI	Ongoing

Horowhenua 2040 Vision

Risk Strategy Workplan part 2

Strategy Element	2023	2024	2025*
Risk Communication	Review and implement reporting templates for Council meetings. **Recently started – examples tested**	Review and implement reporting templates. Report against Risk Appetite.	Ongoing
Risk Framework / Risk Communication	**Internal Audit Programme** – Cyber Security, BCP Review, Fraud, Conflict of Interest, Procurement **Started & Ongoing**	Implement deep dives of top strategic risks. Develop Risk Assurance programme.	Implement Risk Assurance programme. Focus on controls and mitigations.
Risk Awareness and Training	Develop **training and induction programme** for staff and elected members. Rolled out to Elected Members, ELT and Staff **On Track**	Roll out training to managers who produce OPR.	Ongoing
Risk Awareness and Training	Develop **Risk Report & Statement Writing training and induction programme** for staff. Rolled out to ELT & Activity Managers **On Track.**	Roll out elected member and staff training programme Phase 1.	Elected member & staff training programme Phase 2
Risk Awareness and Training	Develop internal resources including **Risk Management SharePoint Portal -** To be rolled out **Completed**	Roll out internal resources for staff.	Continue to update internal resources including-use of digital and e-learning.
Risk Governance & Strategy	**Review Insurance Renewal Process .** Develop Insurance Strategy & Workplan to provide direction on annual renewal process **Draft Completed & Submitted for Feedback**	Review Asset selection for Coverage, Update Horowhenua district natural Hazard Risk assessment, review deductibles	Review Insurance strategy that provides direction and business rules for annual Insurance renewals
Risk Governance & Strategy	**Review Asset Selection for Insurance Coverage.** Develop Asset Selection Policy & methodology – Policy provides opportunities to improve accuracies of coverage. **Draft Completed & Submitted for Feedback**	Includes enhancing Asset Register to provide accurate coverage. Reassess AON review document and recommendations. Meet with AON in July 2024 to determine new coverage expectations.	Review Asset Selection Policy and Methodology
Risk Governance	Review **Emergency Management Response and Business Continuous Planning** effectiveness within the organisation & Community. **Not yet started – October 2023**	Improved understanding of key operational roles and responsibilities within newly formed leadership teams and elected members. Greater scenario and emergency response planning and training.	Review BCPs and test
Risk Governance	Ongoing review and focus on **Procurement Framework** ensuring continued improvement programme for accountabilities and processes. **On Track**	Ongoing enhancement of procurement accountabilities and processes.	

Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

Draft Papers for Consideration

HDC Insurance Strategy & Workplan (Draft)

The purpose of the Insurance Strategy & Workplan 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. 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 HDC 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 HDC 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.

Asset Selection Policy & Valuation Methodology (Draft)

The purpose of this Asset Selection Policy and Valuation Methodology Guide is to provide Horowhenua District Council (HDC) with a structured process to guide the identification, assessment and financial quantification of assets in order to optimise asset management and risk management. This is the cornerstone of an asset management process and creates a reliable data set which forms the basis of risk strategy and risk governance decision making and helps ensure stakeholder expectations are met. It also guides insurance strategy, facilitating optimal coverage and pricing. Equally important is understanding our approach and formation of a schedule to ensure we meet our Insurance Renewals deadlines. The 2023 renewal will be assessed on existing information, partially upgraded Asset Register, limited Loss Mapping and valuations from 2023. In 2024 our approach to Insurance Renewals will be driven by the HDC Insurance Strategy which will set about to improve the accuracy of the risk assessment through comprehensive Loss Mapping that is integrated into our LTP.

This document provides useful information on:

- Local Government legal context
- Risk financing
- Asset selection process
- Asset category self-assessment checklist which HDC can integrate into its asset management policy.
- Renewal Insurance Action Plan

Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

Draft Papers for Consideration

Natural Disaster Risk Assessment 2023

- Insurers look favourably on organisations when evaluating a submission who have under taken comprehensive **Loss Modelling Programme**. Such modelling would include an increased focus on improved underwriting information i.e. Construction, Occupancy, Protection and Exposure (COPE - risk characteristics an underwriter reviews when evaluating a submission for property insurance). As part of Horowhenua District Councils Insurance Renewal Framework in providing accuracy to the data we provide when submitting our renewal applications, it is necessary as an organisation to undertake a qualitative or quantitative approach to determine the nature and extent of disaster risk by analysing potential hazards and evaluating existing conditions of exposure and vulnerability that together could harm people, property, services, livelihoods and the environment on which they depend.

- Natural Hazards are defined in section 2(1) of the RMA as: "any atmospheric or earth or water related occurrence (including earthquake, tsunami, erosion, volcanic and geothermal activity, landslip, subsidence, sedimentation, wind, drought, fire or flooding) the action of which adversely affects or may affect human life, property, or other aspects of the environment."

- Annotation: Disaster risk assessments include: the identification of hazards; a review of the technical characteristics of hazards such as their **location, intensity, frequency and probability**; the analysis of exposure and vulnerability, including the physical, social, health, environmental and economic dimensions; and the evaluation of the effectiveness of prevailing and alternative coping capacities with respect to likely risk scenarios.

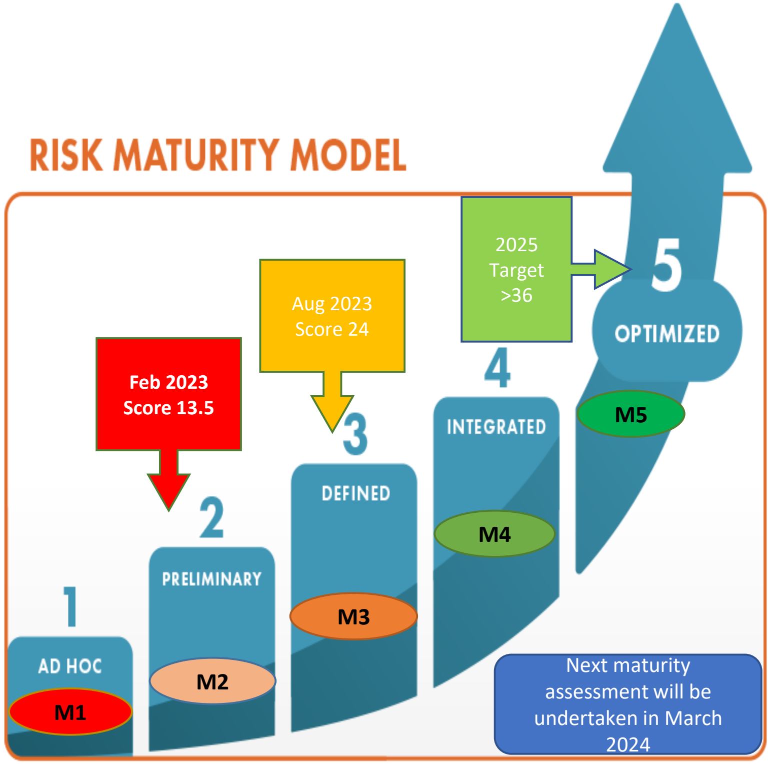
- This will allow us an organisation to improve the accuracy when choosing to transfer or retain a level of risk when determining the appropriate policy coverage and details for Material Damage & Business Interruption (MD&BI).

Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

HDC's Risk Maturity - *HDC will continue to measure our risk management journey by using the AoG Maturity Assessment Model which we will monitor every six months.*

1. In early **February 2023** the **first assessment** with a score of 13.5 had HDC sitting at M2 or **Preliminary** stage in the model.
2. The **second assessment** undertaken from **31 July & 1 August 2023** saw HDC achieve a score of 24.5 which is the lower end of Level 3 (M3) or **Defined** stage in the maturity model. Areas of the assessment where we improved include governance, policy & accountabilities, resourcing, skills and training, risk monitoring and reporting, culture & innovation.
3. With an increase in scoring of 11 points over the six months this is an excellent indication that the our Risk Maturity at HDC is evolving. With the introduction and adoption by Council of the Risk Management Strategy & Workplan and the Risk Management Strategy our risk maturing is more **defined** in its direction and understanding. All elected members, RAC independent members, ELT and the majority of staff (approx. 112) have now completed the Risk Management Induction. Staff are now identifying risks more regularly and seeking to improve their decision making through a thorough risk assessment process. This is noticeable in both the Community Infrastructure and Business Development and well supported by the Executive Leadership Team.
4. As we continuously focus on **defining** our risk management practices and risk assessments, our focus moves towards **integrating** our initiatives into our day to day process. As we continue to raise our level of risk maturity we will see the behaviours towards managing risk improve.
5. Our overall target is a score greater than **36 or Level 5**



Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

Risk Maturity – Assessment Levels

- The assessment table opposite provides a brief description of what each maturity level looks like in the AOG Risk Maturity Assessment Framework. As mentioned above we have done well to enhance our risk architecture and culture over the last nine months.
- With our improvement to date, our architecture stands out as the main contributor and key areas we need to focus on over the next 12-18 months include however are not limited to:
  - ✓ Risk Appetite – Our risk appetite and the desire for innovation are integrated into strategic planning and decision making processes through risk focussed discussions and analysis.
  - ✓ Business Resilience – We provide a clear link between disruptive and extreme event assessment and BCP / DRP planning that includes core partners as well as long term investment planning.
  - ✓ Change & Transformation - There is a portfolio view of risk related to significant change initiatives that includes active monitoring against the agency's risk appetite.
  - ✓ Risk Assessment - processes and templates are defined and applied consistently across all key business units.

Recommended Minimum Maturity Level

SCORE	MINIMUM MATURITY LEVEL	GUIDANCE
8-20	Maturity Level 2 - **February 2023**	Smaller agencies operating in relatively stable environments will likely have less formalised and sophisticated risk management practices in place. Consideration should be given to assessing the need for more mature risk management practices in specific areas such as managing risk in partnerships, reputational risk, etc.
21-28	***Maturity Level 3 -*** **August 2023**	***Medium-sized agencies operating in more complex environments should have well defined and relatively sophisticated risk management practices in place. Consideration should be given to assessing the need for more mature risk management practices in specific areas such as managing risk in partnerships, organisational change, reputational risk, etc. In addition, a higher level of maturity would be expected if the agency plays an active role in contributing to inter-agency, sector or AoG outcomes.***
29-36	Maturity Level 4 (Target Level)	Large agencies operating in complex and changing environments should have embedded and sophisticated risk management practices in place. Risk management practices should extend beyond organisational boundaries to better manage system level risks to support the delivery of inter-agency, sector or AoG outcomes.
>36	Maturity Level 5	Best in class agencies will have fully integrated risk management practices in place and be able to demonstrate these are operating effectively to manage system level risks to support the delivery of inter-agency, sector or AoG outcomes. They take the lead in developing innovative ideas and techniques to better mange these risks.

Horowhenua 2040 Vision

HDC Inherent and Residual Risk Summary

1. The HDC Risk Register currently has 86 identified risks reports of which
   - **40 are Reputational**
   - **34 are Legal**
   - **51 are Service Delivery**
   - **25 are Strategic**
   - **39 are Financial**
2. An increase of **13 new risks** logged over the last 8- 10 weeks
3. The Risk heat map below continues to indicate the uptake and improvement of risk analysis within the organisation. As the awareness of the risk management framework grows so will the recognition and understanding of the benefits achieved by an enhanced risk maturity. Measuring our maturity through tangible outcomes is essential to the success of enhancing our risk culture.
4. Improving the visibility of our risk journey is paramount and over the last 6 weeks a number of our significant risks have been treated in a way that sees their impacts and likelihood reduced i.e. LTPA completed, Landfill decision, Solid Waste Disposal Agreement (SWDA) approved, Waitarere Surf club Funding approved.
5. As we treat a specific risk there are often occasions where new risks appear for example as we signed off the SWDA, the Waste Management Minimisation Plan (WMMP) becomes critical to controlling the outcomes of our waste disposal in the future.
6. Attached are our top organisational and operational risks for your perusal. While as an organisation we continue improve in identifying, analysing and treating risk

   - ✓ <u>Organisational Risks</u> are the pure risks that can impact HDC strategically (i.e. exposures to risks that impact the whole organisation, natural hazards, and perils, pandemics, GEO Economics, Central Govt Reforms), of which collectively create uncertainty as to the financial or wellbeing outcomes.
   - ✓ <u>Operational Risks</u> are the risk of losses caused by flawed or failed processes, policies, systems or events that disrupt business operations. They are heavily dependent on the human factor: mistakes or failures due to actions or decisions made by a company's employees.

Horowhenua DISTRICT COUNCIL

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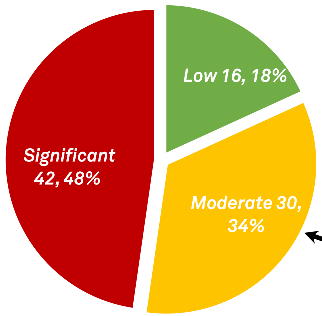
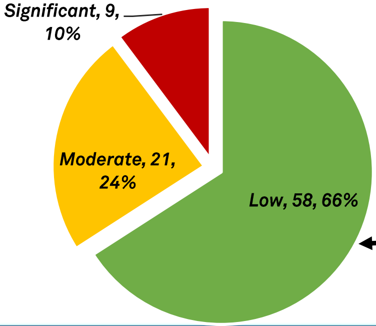
Risk Reporting Dashboard

HDC - total number of inherent risks



HDC - total number of residual risks ratings

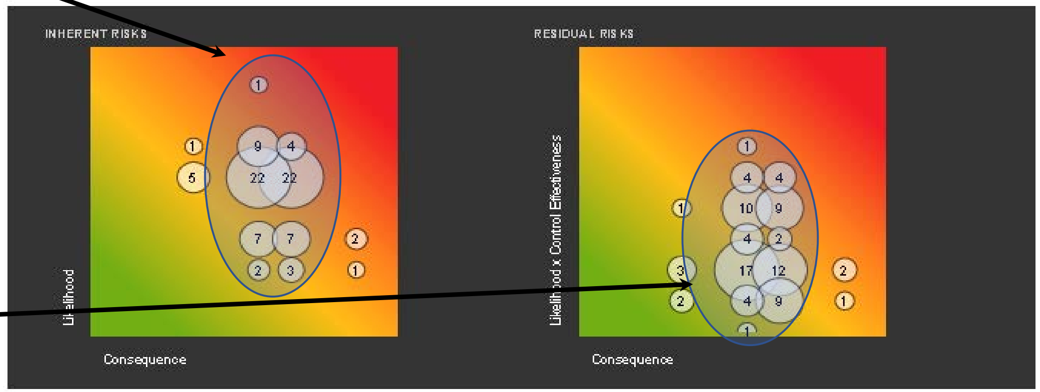


The success of any Risk Management Framework is measured by the journey of each risk from its natural state (inherent) to its managed state (Residual). The two graphs and the heat map indicate our framework in action.

- ✓ 82% of our inherent risk is rated at Significant / Moderate, post treatment / controls this % is reduced to 33%

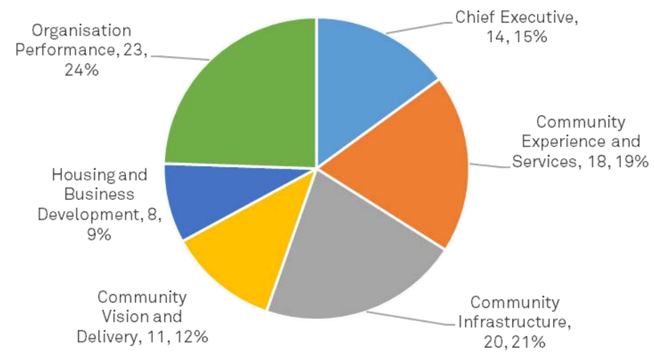
Risk Summary

TOTAL RISKS	OVERDUE / NON-COMPLIANT	TREATMENT/CONTROL CHANGES TO REVIEW
86	1	0

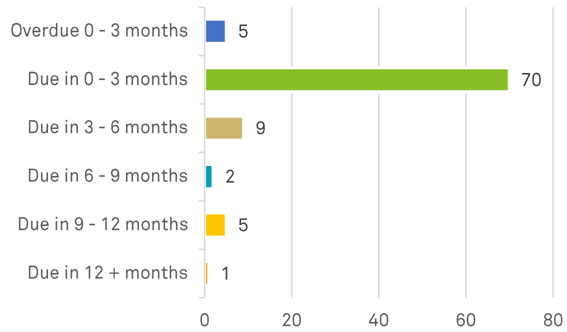


Risk Reporting Dashboard …

HDC - total number of risks by Groups

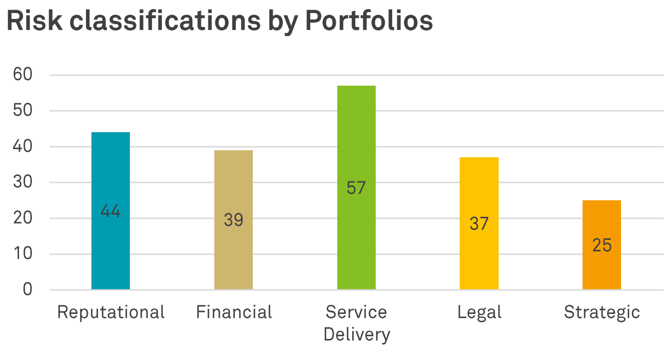


HDC - total number of risks with treatments



- The organisational performance group reaches across all of HDC groups with Democracy, Finance, Health & Safety, Information Services, Procurement & Risk, it is expected that as a group we have the larger number of risks.
  - That said Ops risks are generally supported by a high level of policy and process which treats each risk in a way that provides a low residual rating.
- Infrastructure oversees waters services that provide a critical service to the community and encompasses a number of complex operational procedures that rely heavily on a human resource influence. Natural Hazards also offer a greater risk to this group and water services than any other group.
- The risks aligned to the CE are all Organisational wide, and have treatments that generally take time to impact the residual rating i.e. Partnerships, Climate Change, Lake Horowhenua, Govt Reforms, Staff Wellbeing. As per the treatment graph to the left CE related risks are identified in the 6-12 + months.
- Importantly 81% of our 86 identified risks have treatments that are reviewed in the first 3 months ensuring the residual risk rating is at an acceptable level.

Risk Reporting Dashboard …



- As with the above graph a number of our 86 identified risks sit across multiple risk portfolios.
- As an agency that predominantly focuses on the wellbeing of the community, our biggest risk portfolio is Service Delivery with two thirds (66%) of the total risks having then potential to impact in this area.
- How we perform, how we behave, what we deliver and who we represent as an organisation contribute to why over half of our risks are associated with the Reputational Portfolio. Our Risk Management Framework is important in providing visibility, improved decision making and ultimately and opportunity to strengthen the trust in our ability to succeed.

Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

Risk ***Registers – Organisational and Operational***

- We have attached our top organisational and operational risks as they stand at the end of July. As indicated there has been a lot of movement in our risk and we treat and update the treatments associated with improving the outcomes. The attached Registers (have been extracted from ProMapp & formatted to PDF for ease of reading.

- As indicated we continue improve our and quantifiable data from identified risks and we will continue to work with our ***Digital Delivery team*** to upgrade our reporting. This improvement is continuing to enhance the risk information provided to key audiences, allowing a greater insight & understanding of our risks by organisation, group and portfolio

- ***Organisational Risks*** *are the* **pure risks that can impact HDC strategically** (i.e. exposures to risks that impact the whole organisation, natural hazards, and perils, pandemics, GEO Economics, Central Govt Reforms), of which collectively create uncertainty as to the financial or wellbeing outcomes.
- ***Operational Risks*** are *the risk of losses caused by flawed or failed processes, policies, systems or events that disrupt business operations. They are heavily dependent on the human factor: mistakes or failures due to actions or decisions made by a company's employees.*

https://au.promapp.com/horowhenuadc/Risk/Register

Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

HDC Top Organisational Risks Register 31 July 2023

	Title	Description	Owner	Created	Portfolios	Classifications	Inherent Score	Likelihood	Consequence	Inherent Rating	Treatment/Control Description	Control Effectiveness	Residual Score	Residual Rating	Signoffs
1	**Lake Horowhenua - Hazards associated with lake and surrounding management**	Lake Horowhenua is a shallow coastal dune lake and the largest natural lake in the Manawatū-Whanganui Region. Excessive nitrogen is a key issue for Lake Horowhenua, one of the country's most polluted waterways. The lake was given an exemption from new freshwater standards set in 2020, the exclusion was made because Horowhenua is a critical vegetable growing area, and with Pukekohe proves about 30 per cent of the nation's vegetables. Imposing the targets would have been difficult for growers to meet without cutting production and threatening national supply. The impact of the lakes pollution and high toxicity has caused friction within the community and Local Agencies in seeking solutions to rejuvenate the lake and enhance its environment and contribution to the district.	Monique Davidson	6/08/2023	Reputational; Strategic	Long Term Plan;Summated Risk Register: Environmental Risk;Community Experience & Services;Community Vision & Delivery;Organisational Risk - HDC	16	Highley Likely	Major	Significant	1. As part of the LTPP update in 2024 there is an opportunity to include a focused strategy that outlines a collaborative, workable solution and approach, enabling key entities to collectively and effectively map a way forward . Prioritising this strategy as a key community outcome will assist in raising the community awareness in understanding the benefits for the district associated with enhancing and improving the Lake Environment. 2. The Lake Horowhenua Water Quality Interventions Project received $11.2 million from the Government's Jobs for Nature programme, towards a total project cost of $12.5 million. The 142 hectare farm land was purchased for $6.7 million with Horizons Regional Council contributing $1 million and the rest coming from Jobs for Nature funding. 3. The project is a collaboration between Muaūpoko, Lake Horowhenua Trust (representing the owners of the lake), Ngāti Raukawa ki te Tonga, Horizons Regional Council, Horowhenua District Council, dairy farmers, horticulturalists and the wider Lake Horowhenua community. 4. Once completed, the wetland is expected to significantly reduce nitrogen levels in the lake. It will also improve other water quality parameters including sediment and phosphorus. Decisions are yet to be made on the final design of the wetland complex. Wetlands provide essential ecosystem services, acting as buffers for flooding, nutrient cyclers, water purifiers and carbon sinks.	Partial	12	Moderate / Significant	Rob Benefield,Brent Harvey,David McCorkindale
2	**Councils costs are increasing at a faster rate than inflation and personal incomes**	Inflation - rising interest rates, CPI, contractor costs, commodity pricing is incurring Significant pressure on budgets, increasing the likelihood of budget blowout, impacting on debt levels and rates increases. Rates increases outstripping incomes in the district. Lower revenues through declining development. Council has limited or no control over inflation, rising interest rates and contractor costs. The negative impact of high percentage rates increases during a depressed economy will increase inability of some home owners to pay rates increasing sales, mortgagee sales. Increases impact on ability to meet budget that impacts on Standard & Poor's Credit Rating	Jacinta Straker	22/12/2022	Financial	Summated Risk Register: Financial Risk;Organisational Performance;CE - ELT;Organisational Risk - HDC	16	Highley Likely	Major	Significant	Affordability is historical drive through trade offs and deferred works on infrastructure or projects. - Ensuring the Financial Strategy is accurate in providing actions in seeking resolution, the strategy needs to facilitate prudent financial management and guide financial decision making. It must inform our direction over the life of the LTP, & the consequences for poor policy or service delivery decisions - Council and ELT to quantify limits on Rate Increases and Borrowing especially against our ability to maintain and sustain existing levels of service in meeting future demands. - HDC divestment plan for HDC assets or property, decisions around selling in a deflating market or postponing sales until housing market recovers. - Ability to review capital & operating budgets at any given time - Long Term Plan Amendment includes review on rates and capital spend - Number of spending reviews underway i.e. Insurance Coverage Renewal, LTPA, capital spend etc	Partial	12	Significant	Abraham Chamberlain,Pei Shan Gan,Jacinta Straker
3	**Water Services Reform - Transition Change of Government - Opposition parties have signalled intentions to change or repeal the Water Services Reform if elected.**	If a new Govt is elected this may see the 3 water services remain with Local Government. Scrapping the four co-governed mega-entities; Restore council ownership and control; Set strict rules for water quality and investment in infrastructure; Ensure water services are financially sustainable. This will completely change the direction of the current planned reform Opposition parties are campaigning on repealing the Affordable Waters reform and replacing it. This will have an impact across the entire business, particularly financially and in legislated planning processes.	Cathryn Pollock	2/08/2023	Legal; Service Delivery Strategic; Financial	Summated Risk Register: Financial Risk;Summated Risk Register: Legal Compliance;Summated Risk Register: People & Capability;Community Infrastructure;Community Vision & Delivery;Organisational Risk - HDC	12	Possible	Major	Significant	1. There could potentially be a new Govt elected in Oct 2023. As a mandated legislative requirement it is in the best interests of the district that we maximise our involvement as an LO entity to successfully delivering any specified requirements. 2. With a 3 Waters Transition Manager Community Vision and Delivery in place since in Nov 2022, HDC is in a stronger position to manage any change in Govt, repeal or new policy. This position (Cathryn Pollock) will oversee the reforms transition to its specific entity working toward the mandated timeframe. However a change in tact will be necessary as the policy detail is released. 3. While opposition parties haven't outlined the intent of their policy, the detail of how the change in direction will roll out or impact the organisation is unknown. 4. Key to the success of the transition is the engagement of staff when undertaking the workstreams associated with the change in the Project. Equally important is updating a communication plan that supports the community and key stakeholders. 5. Ensuring staff are well engaged, updated and supported through any changes in direction will be paramount.	Partial	9	Moderate	Rob Benefield,Cathryn Pollock,Jacinta Straker,Daniel Haigh
4	**Failure to give effect to Te Tiriti and build successful Iwi/Mana Whenua partnerships.**	If Council and Officers fail to give effect to Te Tiriti and build sustainable partnerships with Iwi/Mana Whenua, including support of developing capability and capacity internally within Mana Whenua, then the organisation will fail to meet governance obligations and the ability to operate and deliver key projects will be significantly impacted. This risk is runs through all parts of our operating model and are often interlinked from a service delivery and community outcomes perspective. Setting the tone in Council and the executive is essential in ensuring that organisational approach is consistent, well thought through and effective in evolving key partnerships in a workable direction	Monique Davidson	5/01/2023	Reputational; Legal; Strategic	Summated Risk Register: Strategic Risks;Community Infrastructure;Community Experience & Services;Community Vision & Delivery;Organisational Performance;Organisational Risk - HDC	12	Possible	Major	Significant	1 Thinking has evolved and the Maori Engagement Framework has been presented to Council in April, subsequent discussions are required to ensure the Strategy is approved at a level that allows the organisation to meet our obligations under Te Tiriti/Treaty of Waitangi and build sustainable partnerships with Iwi/Tangata Whenua. s a sub-committee of the National Council of LGNZ. 2. Currently the organisation is introducing the Tūhono ki Te Ao Maori - A Maori Culture Induction Toolkit which offers a wonderful resource to staff understanding Maori Culture and applying key customs and protocols. 3. Council has signaled an appetite indicating that this is an area of high priority and key focus moving forward. 4. Signs of progress as resources and focus on improving the foundation on which our relationships are built on. I high level commitment and dedication to enhance our approach to an essential strategic outcome	Partial	9	Moderate	Rob Benefield,Monique Davidson,Brent Harvey,Jacinta Straker,Daniel Haigh,Blair Spencer,David McCorkindale

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5	**Climate Change Adaptation and Mitigation - Adaptation and mitigation actions (reducing emissions) may not be adequate to respond, absorb and/or reduce impacts of climate change (including severe weather events).**	This may result in tangible and intangible consequences, such as environmental degradation, economic inequity, social vulnerability, financial and reputation damage. Lack of or inadequate: • Planning provisions to ensure appropriate ongoing zoning for land and housing development and urban design planning with respect to climate change impacts. • Leadership to ensure alignment of council response and prioritised delivery of key actions. • Collaboration between council business units and Council Controlled Organisations. • Consistent risk perceptions (across public and private sectors) and different understandings and prioritisation of climate risks. • Quality advice to decision makers to ensure effective management and governance oversight. • Robust and accessible data and fit for purpose information systems. • Sufficient resources and/or capability of staff. • Design quality of coastal, flooding and other climate resilience projects. • Resource consenting and Land Information Memorandum (LIM) processes • Changes to extreme weather patterns (frequency, extent and intensity). • Legacy risk caused by historic decisions to permit development (including critical assets) in areas of risk (e.g. housing, roads, utilities etc). • The complex urban planning system and misalignment with finance, policy, operations, regulation, legal and risk	Monique Davidson	5/03/2023	Service Delivery; Financial	Summated Risk Register: Environmental Risk;Summated Risk Register: People & Capability;Community Infrastructure;CE - ELT;Organisational Risk - HDC	**12**	**Possible**	**Major**	**Significant**	1. LTP informs our approach to reducing our carbon footprint and incorporate provisions for climate change impact and is applied in decision making, it currently lacks clarity and direction? 2. Council's Coastal Management Framework? 3. NIWA climate projections, environmental monitoring and reporting of data 4. Sustainability initiatives across council and externally, e.g. Waste Minimization and Management Plan (As per Ministry of Environment (MoE) targets for LGA to reduce waste by 40%)? 5. Some of the team attended the Taituarā climate change webinars and will share her notes. Direction from Friday's session was very much so that no Council can shift away from Climate Change anymore and that this needs to be reflected in our LTP's, to be sought after by Audit. We will need to look into this further. 6. Strategy Team started to collate the feedback received from the climate change internal survey based on comments received. There is a lot of valuable feedback in here that we can pull from going forward. 7. The Natural Hazards Research Plan - Insurance Mapping Additional proposed controls: 2. Re-engage and adopt- the HDC Climate Action Plan 2021 3. Natural Hazards Risks Management Action Plan? 3. Review climate change controls for their design and operating effectiveness. 4. Establish a coordinated approach to climate change across the Council Group to ensure alignment of our collective actions. 5. Develop a strategic communications plan to support planning, reporting, project management and community engagement. 6. Review council's information systems, integrity and availability of data within the Council group and to the public. 7. Upskill and build staff capability with training and development to improve risk-based decision making for climate change issues.	**Partial**	**9**	**Moderate**	Rob Benefield,Monique Davidson,Brent Harvey,Carolyn Dick
6	**Government Reforms - housing and urban growth - Strategic alignment with Govt Misalignment between Council and the Govt objectives and leadership approach and priorities to housing and urban growth due to complex and multiagency responsibilities and political decision making. Change readiness and resourcing Failure for the Govt and council to be closely engaged in an effective and timely manner so council can influence the reform outcomes and be prepared and resourced for change.**	The above risks may result in failure to: - deliver on the housing and growth outcomes in the Long Term Plan & the Housing Action Plan development strategy; and - anticipate and implement changes that may be required to plan for and deliver the regulatory and service functions. • Govt Growth agenda and legislative reforms not aligned to council objectives due to lack of integrated and aligned approach between Crown and council to get housing outcomes and facilitate the delivery of housing and infrastructure. • Potential for lack of good relationships and proactive collaboration and communication between Govt and Council. • Growing demand for housing and infrastructure delivery at pace creates pressures on council from central government. • Short-term and evolving objectives and political agendas prioritised over agreed joint programme objectives. • Insufficient funding to meet delivery expectations. • Additional demand or competition for resources and/or capability of staff from new Govt agency activities and housing and growth-related reforms • High turnover of competent staff.	Monique Davidson	5/03/2023	Legal;Service Delivery; Strategic	Summated Risk Register: Strategic Risks;Summated Risk Register: Governance;CE - ELT;Organisational Risk - HDC	**12**	**Possible**	**Major**	**Significant**	1. CEO and GMs direct and effective relationship with Crown and to possibly moderate provide valuable thought process and influence in the Crown Urban Growth Agenda. 2. Joint Working programme and Council Group Governance structures in place - steering groups - political, Chief executives, Programmes, Council Group GM Working Group. 3. Joint Working (LASS) Programme Terms of Reference - includes ways of working together - collaborative and open relationship with central government agencies, and communications protocols. 4. Communications Strategy and programme communication plans. 5. Council discussions and submissions on legislative proposals to influence outcomes and join up the joint working programme workstreams and legislative reforms. 6. Ongoing discussions with the MBIE through joint working programme and other forums e.g. Building Consenting Agencies working group on Building Act and Building Code limitations, new HUDA legislation. 7. Joint Working Programme workstream delivery plans and risk management activities utilising risk registers. 8. Residual risk will remain moderate as difficult to influence central Govt reforms. Important to continuously assess the political horizon in preparing for any possible changes.	**Partial**	**9**	**Moderate**	Rob Benefield,Monique Davidson,Daniel Haigh,Blair Spencer
7	**All of Government (AoG) Contracts**	Council has signed into a number of contracts (9 currently) offered under the AoG platform, which requires Council to use the panel of suppliers attached to each individual contract. Once an agreement for services is signed with AoG, services are not be be procured by Council outside of the AoG contract, unless there is an exceptional reason to do so which must be documented and approved internally and notified to MBIE. Lack of process around engagement of the services within each contract could result in HDC breaching the requirements of the agreement, and obligations within the contract to notify and report activity. Future contracts signed into should be read and understood with regards to requirements and process and ensuring that HDC can meet its obligations before executing the agreement.	Jacinta Straker	6/26/2023 11:32:45 AM	Reputational;Legal; Financial	Organisational Risk - HDC	**12**	**Highley Likely**	**Moderate**	**Significant**	Procurement and Organisation Transformation Manager reviewed Legal Services contract, and developed Promapp process for engaging legal services within HDC to be presented to ELT and with support training rolled out to the organisation to ensure HDC is in compliance with its AoG legal services contract. Proposed further treatment: To follow same process completed with Legal Services contract, across all signed AoG contracts. Identify 9 Contracts, provide visibility and business rules to ensure contracts and processes are followed correctly	**Partial**	**9**	**Moderate**	Rob Benefield,Jacinta Straker,Nicki Brady

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8	**Standard & Poor's Credit Rating - Horowhenua District Council**	Standard & Poor's (S&P) Global Ratings provides credit ratings for more than one million government, corporate, financial sector and structured finance entities and securities around the world, including Horowhenua District Council. S&P analysts, managers and economists assess the factors and trends that affect creditworthiness. They can analyse anything from the state of an enterprise and its position in its industry, to the economic health of regions around the world. The company rates borrowers on a scale from AAA to D. Intermediate ratings are offered at each level between AA and CCC (e.g., BBB+, BBB and BBB–). There is a threat to our credit rating as LGA feel the crunch of rising interest rates, increasing debt and ongoing pressures on inflation and overall budgetary performance. The impact of any downgrade in our rating is additional increase costs.	Jacinta Straker	6/02/2023	Legal;Strategic; Financial	Summated Risk Register: Financial Risk;Organisational Performance;Organisational Risk - HDC	**9**	**Possible**	**Moderate**	**Moderate**	Standard and Poor's have confirmed our credit rating for 2023 as AA- with a stable outlook. They did however reduce our score for budgetary performance for the fact that our capital programme is increasing and also because of not meeting our operational budgets over the last few years. With the LTPP review being worked on over the next 12 months scrutiny and discipline around accuracy of setting and meeting defined budgets and expectations is essential. More detail required on structured approach to improving performance and rating	**Partial**	**7**	**LOW**	Rob Benefield,Jacinta Straker
9	**Bureaucratic lens creating roadblocks. Driven by a combination of low to no tolerance of risk and an ever changing regulatory environment.**	Continuous changes to Building Act, Resource Management Act and associated regulatory positions impacting on the time and costs needed to meet the requirements. This impacts on costs associated with consenting and time taken to process consents resulting in additional workload pressure. These changes combined with current process can negatively effect staff wellbeing, turnover, available skillsets and ability to recruit.	Blair Spencer	16/02/2023	Service Delivery	Summated Risk Register: Legal Compliance;Summated Risk Register: People & Capability;Housing Business Development;Community Vision & Delivery;Organisational Risk - HDC	**9**	**Possible**	**Moderate**	**Moderate**	Significant opportunity to improve in this area by employing a data driven risk based approach to consenting, by being clear on 'what matters' there is an opportunity to streamline and simplify process and decision making to focus on improved time and value outcomes for our community in the development space. By challenging the boundaries and researching alternative ways of undertaking activities i.e. Streamlined Housing Process. Need to focus on ensuring those aspects requiring to be met by law are, whilst ensuring the focus is on what good looks like from an outcome perspective. Review of bylaws, policies or processes that offer little value to the community should be considered to reduce the impact on workloads, cost to serve whilst improving the delivery of value to our community.	**Partial**	**7**	**LOW**	David McCorkindale,Blair Spencer
10	**Water Services Reform - Water Services Reform - Water Services Amendment Bill. Transition Recruitment and Retention of Water Services technical/operations staff.**	Recruitment may be a challenge given the small window of employment with HDC before assets are transferred to the Entity. Also staff resigning from employment at HDC prior to 1 July 26. Both recruitment and failure to retain staff will have an impact on planning, operations and project delivery across the business. Also risk of skill stripping with Entity opting for more competent, experienced and qualified staff, impacting on capability, skill levels left within HDC organisation Reset to Affordable Waters provides extension to 1 July 2026 of the transition period. While this extension provides breathing space, the impending election and instability of the reform may add additional anxiety and uncertainty to staff.	Daniel Haigh	3/06/2023	Reputational;Legal; Service Delivery	Summated Risk Register: People & Capability;Community Infrastructure;CE - ELT;Organisational Risk - HDC	**12**	**Possible**	**Major**	**Significant**	1. Recruitment continues to be a challenge given for HDC before assets are transferred to the known entity. Also staff resigning from employment at HDC prior to the transition will be difficult to replace. Both recruitment and failure to retain staff will have an impact on planning, operations and project delivery across the business. 2. Communication Plan that outlines NTU communication strategy and our own approach to ensuring our staff are well informed. Cathryn continues to work with Lauren and the P&C team. 3. Impacts on key stakeholders including staff, contractors and community by the reform and its transition. Managed accurately and thoroughly to mitigate any potential negative impacts on Council, funding, staffing and ability to deliver existing services and future initiatives. Navigating and meeting the legislative requirements as per the Water Services Entities Act 2022. 4. 13 April 2023 - Reset released by the Government - announced changes to New Zealand's Affordable Water Reform, previously known as the Three Waters Reform, with a re-focus on the impetus for the reforms being to improve the affordability of water services in Aotearoa New Zealand. 5. The key change is that the number of publicly owned water services entities (WSEs) will be increased from four to ten entities. These entities will take over the management of the majority of New Zealand's drinking water, wastewater, and urban stormwater assets from 67 territorial authorities. The boundaries of the ten entities are closely based around existing regions (see the diagram below). This change responds to public feedback that the four-entity model would have resulted in a loss of local influence and voice. In the Government's view, the new ten-entity model would allow for more local authority and community involvement in the entities, while still delivering cost savings to New Zealanders via increased economies of scale. 6. April 2023 - Specific GM and P&C have met with their staff whose roles are deemed as 50% and above three waters. This was to discuss the journey ahead and that they will soon be engaged with by the National Transition Unit. 7.May 2023 - The NTU undertook their position pathway consultation with affected staff. Staff were supported by comms from P&C and a hui with ELT. 8. July 2023- Staff Hui to update staff on Councils submission 5/7/23 and key changes and benefits. The amended bill will: • provide a longer period for the establishment of water services entities, between 1 July 2024 and 1 July 2026 • provide for every territorial authority to be represented on the regional representative group of their entity, alongside an equal number of mana whenua representatives • give community groups with an interest in a water body an opportunity to make statements to their entity about their priorities for that body	**Moderate**	**6**	**LOW**	Rob Benefield,Cathryn Pollock,Lauren Overend,David McCorkindale,Daniel Haigh
	Water Services Reform - Water Services Amendment Bill. Transition **2 - Demands on Staffing - Meeting Information deadlines - Staffing capacity**	The bill would mainly amend the Water Services Entities Act 2022, which provides for the creation of new water services entities. Disestablishing the four water services entities and replace them with 10 water services entities which are more closely modelled on existing regions. The bill will also: • will extend the period for the establishment of water services entities, from 1 July 2024 to 1 July 2026 • provide for every territorial authority to be represented on the regional representative group of their entity, alongside an equal number of mana-whenua representatives • give community groups with an interest in a water body an opportunity to make statements to their entity about their priorities for that body • make changes to other Acts including the LG Act 2002 and the LG (Rating) Act 2002. The amendment has prolonged existing delays and requests for Information from the National Transition Unity (NTU). Requests require input from staff across the business. This will have an impact on the business if staff are unable to uphold tasks pertaining to requests as well as 'Business as Usual' (BAU).	David McCorkindale	2/16/2023 8:19:15 AM	Service Delivery	Summated Risk Register: People & Capability;Community Vision & Delivery;CE - ELT;Organisational Risk - HDC	**12**	**Highley Likely**	**Moderate**	**Significant**	1. Waters Transition Manager established in Nov 2022. This position (Cathryn Pollock) will oversee the reforms and transition Councils Water Services in its entirety to a new entity, the mandated timeframe is now set for 1 July 2026. 2. Carrying out requests from the National Transition Unit (NTU) to a high standard, including the completion of mini projects to address issues, will result in a greater understanding of Water Services assets and management to enable us to be agile in any future requests. By adhering to a robust transition plan and accurately capturing data we will be in a position to respond to a change in government. This remains difficult as the recent reset by Govt continues to blur transition dates and what the new entity might look like? 3. aising awareness through GMs and all employees of specific projects i.e. Water Services and expectations from key stakeholders such as NTU. Supporting Project Managers with providing specific attention to information requests, managers supporting staff in meeting timeframes and prioritising the collation of information. HDC continues to workshop with impacted staff and parties, looking to support staff through these uncertain times. 4. When requests from the NTU are received ELT and relevant staff are made aware of deadlines and input requirements as soon as possible. The Transition Manager will follow up with requests and check in with staff frequently, they will be able to identify any risk of not meeting deadlines or an impact on BAU if this is evident. This will give enough time to for the business to prioritise. 5. With a revised timeframe for the entity now established, this this will allow a smoother transition and reduce the bottleneck affect on the business when requests for information are submitted. 6. 2 full days of professional development secured for Water Services staff and internal leaders to support the change process. This is being run by the NTU and is free, they have encouraged attendance by wider staff. Workshop invites will be sent early next week once the venue has been confirmed. 7. On going updates for staff through staff hui and newsletters. There was a condensed timeframe for consultation, submissions closed on Wednesday 5 July 2023 and Cr Piri-Hira Tukapua presented our oral submission to the Select Committee on Friday 7 July 2023.	**Moderate**	**6**	**LOW**	Rob Benefield,David McCorkindale,Cathryn Pollock,Daniel Haigh,Lauren Overend

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11	**Workforce Sustainability - Ability to secure and retain resources to undertake and complete workload**	High turnover of staff, significant impact of ability to attract required skill level, turnover currently at 26.8%, improving work environment recognised as treatment for this risk. However holistic overview of key deliverables indicates that competing priorities and pressures impacting from the broad unorganised approach to managing the deliverables is creating workplace overload & anxiety. 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. Ongoing pandemic impacts on workforce and contractor availability. Use of critical role premiums for critical roles are being reintroduced in some key areas. This is currently applying pressure to maintaining community services, especially where we have a transient workforce such as swimming pools, meeting statutory requirements, accreditations or auditable standards.	Lauren Overend	19/12/2022	Service Delivery	Summated Risk Register: People & Capability;Community Infrastructure;Community Experience & Services;Housing Business Development;Community Vision & Delivery;Organisational Performance;CE - ELT;Organisational Risk - HDC	**12**	**Highley Likely**	**Moderate**	**Significant**	1. Review retention and development strategy and or workplans, assess key work that is currently underway. 2. 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 3. Our turnover is now sitting at 26.8 compared to 34.2 12 months ago. We currently have 32 roles that we are recruiting for with another 13 in the planning stage and not yet approved. We have hired 96 people in the last 12 months with 36 of those being internal moves. 4. We are seeing a better calibre of candidate than we have over the last 12 months. We are also receiving a larger number of applications for the majority of our roles, except for Engineering and Planning where we are still struggling to get the expertise we require. 5. Even though we are seeing great candidates applying for our roles, many of these are coming from other councils, there is concern that we are competing with each other & forcing higher remuneration packages across local government. 6. In order to attract these high calibre candidates and keep up with the demands of the market, remuneration packages are generally needing to be higher with many offers being renegotiated and often candidates requesting additional benefits such as 5 weeks leave. Many of the successful candidates are requesting flexible working arrangements, specifically working from home and condensed working week. 7.The changes to the immigration policies have had a significant impact on our ability to recruit specifically in the infrastructure and IT roles. 8. Adequate budgets; Remuneration policy to retain and attract staff; Focus on being an employer of choice Promapp system to document processes used by staff Job descriptions reviewed and kept up to date Training with departments to provide cross functionality to cover illness/leave Building internal capability through coaching, mentoring and external course Recruitment procedures and policies (ensuring the right people with the right qualifications/capabilities) Shared services; Alliance arrangements; Short-term contactors who also assist in the development of capability of internal staff evidence of lack of difficulty in recruitment. Planner and EHO recruited from the UK. 110 applications for Customer Experience roles. GM Infrastructure recruited. P & C Manager recruited and in place. Customer & Regulatory group undertaking workforce planning exercise to match competences available to competencies	**Moderate**	**6**	**LOW**	Rob Benefield,Brent Harvey,Daniel Haigh,David McCorkindale,Blair Spencer,Jacinta Straker,Lauren Overend
12	**Health, Safety and Wellbeing - External or internal events may have a material impact on the health and safety or wellbeing of staff, contractors and the public (including volunteers and vulnerable children), which may result in physical and/or emotional harm, low staff morale, prosecutions leading to financial loss and reputation damage**	Lack of or inadequate: • Health and Safety Framework. • Annual Leave Management • Consistent application of policies, frameworks and demonstrating expected behaviours. • Consistent and/or effective performance monitoring. • Effective Health and Safety training and awareness (competence). • Sharing of lessons learned across council. • Sufficient resources and/or capability of staff. • Supportive work environment (workloads, bullying). Preparedness for security and physical threats to people including violence, shooting etc. In addition: • Disease Outbreak (e.g. Covid, Flu and other contagious diseases). • Organisational changes. • Staff unknowingly acting as designers. • Safety in design is not implemented consistently by third parties. • Risk Manager software not fit for purpose or has performance issues.	Monique Davidson	5/03/2023	Service Delivery	Summated Risk Register: Environmental Risk;Summated Risk Register: People & Capability;Organisational Risk - HDC	**12**	**Possible**	**Major**	**Significant**	1. Health, Safety and Wellbeing (HS&W) management system will allow us to meet requirements Possible Major High of Health and Safety at Work Act (2015). The health and safety management system comprises of health and safety standards, processes, procedures, guidance (including key safety requirements) and tools. This has been approved by AC. 2. Development & implementation of a Corporate Health and Safety (H&S) Strategy has been approved by ELT. This is due for review in 202?. 3. Implementation of Safety Management Framework that will drive H&S behaviours throughout council. 4. Risk Manager on the Hub is the system used for recording and managing all health and safety issues/incidents. 5. An approved Governance Arrangements framework is in place that describes the accountabilities and responsibilities of all departments. 6. ELT receive a monthly H&S snapshot on performance. 7. Komiti Oranga comprising of ELT rotates its members perform deep dives of critical H&S areas. The results are communicated to business and improvement plan is developed and implemented as required. 8. Council (OPR 6 weekly) and RAC receive quarterly snapshot reports of H&S performance. 9. Corporate H&S Standards in place for: a. Policy & Procedure control; b. Risk Assessment Framework; c. Incident, Near Miss Reporting & Investigation; d. Contractor Management Procedures; e. Managing asbestos; f. Managing volunteer health and safety risks. 10. Key Safety Requirements (KSR) to support the business are in place. There is now a process in place for development of key safety requirements in consultation with the departments and embedded H&S practitioners. Key risks mapped out. 11. H&S Team monitor Risk Manager performance and taking appropriate action to address gaps. 12. Mandatory HS&W training as part of staff induction. Managing safety training is provided as part of the people leader HS&W training. 14. ELT set the tone from the top and demonstrate leadership commitment and meet their due diligence requirements.	**Moderate**	**6**	**LOW**	Rob Benefield,Tanya Glavas,Tanya Glavas,Monique Davidson,Jacinta Straker,Daniel Haigh,Blair Spencer,David McCorkindale

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	Title	Description	Owner	Created	Portfolios	Classifications	Likelihood	Consequence	Inherent Score	Inherent Rating	Treatment/Control Description	Control Effectiveness	Residual Score	Residual Rating	Signoffs
1	**Landfill "Old Dump"- Ongoing Management of existing operation including long term management and compliance issues.**	Risk of not meeting requirements as outlined in the Resource Consent. Risk of backlash from community and key stakeholders in not meeting expected sustainable outcomes i.e. cultural impacts and impacts of leachate Increased risk rating due to delays in capping remedy as well as non-compliance of recent LEVIN LANDFILL COMPLIANCE AUDIT 3 May 2023	Daniel Haigh	2/08/23	Reputational; Legal; Financial	Summated Risk Register: Financial Risk;Summated Risk Register: Environmental Risk;Summated Risk Register: Legal Compliance;CE - ELT;Operational Risk - HDC	Highley Likely	Moderate	12	Significant	1.6.23 Non-compliance result of recent LEVIN LANDFILL COMPLIANCE AUDIT 3 - May 2023 - Meeting with GM Infrastructure & Solid Waste Manager Infrastructure to discuss approach and action plan for compliance. Council have supported a number of remedies to for the 'Old Dump" portion of the landfill. The supported remedial works will ensure Resource Consent compliance requirements are met. On going risks associated with cultural sensitivities and impacts and long-term management of leachate. Procure a maintenance contractor to monitor the landfill cap and repair as needed (including repairing seeps as needed) at an estimated cost of $130,000 per annum as part of opex expenditure. 1. Fund the importation of clay soil, shaping the top of the Old Dump to stop water ponding, cease ingress and control surface stormwater flows. Re-establish vegetation, at an estimated cost of $320,000 to be completed by June 2023. Capping of Old Dump 10 March 2023 - Delays in securing suitable clay. Note: Council is confident that adequate clay can be sourced, delays in starting work before wet season arrives. Capping moved to warmer period in 2023/24 year 2. Procure specialist assistance to confirm contamination in the gulley area at borehole C2, scope the required remediation of contaminated land, and undertake remediation at an estimated cost of $300,000. Initial actions to be completed by June 2023. 3. Approve a programme of work to firstly assess targeted restoration areas of the Tatana Drain and Hokio Stream by working alongside Iwi and willing landowners, develop a restoration programme, secure additional funding and then proceed with appropriate restoration projects. The initial cost of this action is $300,000. 4. Authorise Council Officers to undertake scoping activities to determine the cost of adding additional capping to the top and sides of the Old Dump as suitable soil becomes available and ensure that suitable drainage is constructed as capping is applied. Remediation at area C2 and flanks may run beyond the full compliance date set by Horizons- June 2023, The investigations into the cause and extent of the high ammoniacal nitrogen levels have only recently commenced by Earthtech engineers. Options for treatment if any have yet to be finalised. We expect options to be tabled within 2 weeks. The options may require implementation of remediation that take longer than	Deficient	12	Significant	Daniel Haigh, David McMillan
2	**Flooding caused to private property through poor maintenance of Council (HD or HR) waterways**	Poor maintenance and monitoring of waterways that reside on Council land and are in close proximity to private property has the potential to negatively impact and damage property, buildings and contents. i.e. blocked drains and culverts that have become overgrown with weeds, choking up waterways and trapping materials in forming blockages in streams. This in turn potentially floods surrounding properties and damages houses, contents and private owners assets. There are liability concerns that are could potentially end up in the existing property being not suitable for rebuilding. Or potentially the need to red zone property(s) susceptible to future flooding.	Daniel Haigh	31/05/23	Service Delivery; Financial	Summated Risk Register: Environmental Risk;Community Infrastructure;Housing Business Development;Operational Risk - HDC	Possible	Major	12	Significant	1. Ensure waterways maintenance plans are in place that include and provide clear responsibilities for ongoing monitoring and upkeep. HDC to work with Horizons regional council to ensure plans are current and in effect. 2. Ensure Public Liability Insurance is current and that potential claims against liability are notified to Insurance Brokers and first possible moment. 3. Work with Community to ensure that are educated about potential hazards that can cause blockages and taking opportunities to contact HDC in reporting any concerns or incidents. 4. Work with impacted members of the community to ensure they use their personal Insurance as the vehicle for any claims. Insurance contacts provided to Claimant, HDC & Horizons also investigating root cause 5. Investigation and engineers report due to be released, a need to sit down with Insurance companies in identifying a solution that works for all parties.	Deficient	12	Significant	Daniel Haigh, Blair Spencer, Brent Tucker, James Wallace
3	**HDC Alliance Partnership with Downers - meeting service delivery expectations and continually improving partnership**	HDC adopted its current contract (to Downers) for operations and maintenance of all three water services in 2017. The contract covers regular maintenance, repairs and renewals on the three water networks, as well as managing water supplies, water treatment and wastewater treatment plants. The Alliance focuses more on the Council and the contractor working closely together than in a traditional contract. Overseeing critical infrastructure offers complex problems that requires effective and open dialogue. For this contract to succeed the alliance needs to continuously look at better ways to improve the relationship and enhance service delivery. Failure to do so will impact on the overall moral, productivity, staff satisfaction and service delivery in meeting an exceeding contract deliverables.	Daniel Haigh	7/03/23	Strategic	Community Infrastructure;Operational Risk - HDC	Highley Likely	Major	16	Significant	To improve the service delivery offering regular maintenance, repairs and renewals on the three water networks, as well as managing water supplies, water treatment and wastewater treatment plants, the Alliance (Council & Downers) need to initiate and adopt well thought through, highly monitored operating principles. 1. Key Alliance positions have been provided space within Civic building to assist in shared and open dialogue that improves the Alliance partnership and provides and opportunity to flourish. 2. Comprehensive risk analysis of key operating deficiencies and systems. 3. Workshop collectively in laying all the Alliance operating concerns and and opportunity to discuss business improvement initiatives. 4. Full Review of TOC, greater visibility around schedule of performance, including the establishment of an annual process review 5. Mature and open dialogue that shares key processes and operating boundaries that allows full disclosure and offers a solution focused ethos i.e. recruitment of key positions, joint risk analysis, system and process improvements. 6. Ongoing regular schedules meetings with set agendas that identify and solve key operating issues, future risks and proactive outcomes.	Partial	12	Significant	Rob Benefield, Daniel Haigh, Craig Hiddleston, Barrie Wallington

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4	**Reviewing the Waste Management Minimisation Plan in leading comprehensive strategic approach to waste reduction and disposal.**	Recently Council approved the permanent closure of the Levin landfill and subsequently approved the WDSA with Midwest in providing the opportunity to review the WMMP with the intent to providing a comprehensive and well planned approach to waste reduction and disposal. The WMMP is seen as a vehicle to ensuring the future of our waste management is methodical, thorough and widely understood and agreed. The WMMP is an integral part of our Climate Change Strategy and our approach to reducing our carbon footprint. Failure to review and update the WMMP will adversely impact on our community and environment. Equally this failure will adversely impact on our opportunity as an organisation to reduce the costs associated with waste disposal	Daniel Haigh	20/07/23	Strategic; Financial	Summated Risk Register: Environmental Risk;Community Infrastructure;Operational Risk - HDC	Possible	Major	12	Significant	The Horowhenua Waste Minimisation & Management Plan (WMMP), adopted by Council on 18 July 2018, sets out how Council will progress efficient and effective waste management and minimisation in the Horowhenua District. The plan is out of date and no longer reflects recent waste disposal decisions i.e. Landfill Closure, new WDSA Establish a workstream that undertakes a full review of the WMMP in establishing clear strategic objectives. Key objectives identified in the plan include working in partnership with specialised organisations to improve waste minimisation and management across our district. Focus areas include initiatives that: work closely with other councils within the region; avoids creating waste; reduces our carbon footprint; promotes meaningful recycling that effective and safe; ensures businesses and households have access to appropriate waste disposal; creates opportunities for partnerships, jobs, new products and greater efficiency; is proactive in providing clean and green image for the Horowhenua District in attracting new families to our region.	Deficient	12	Significant	Rob Benefield, Daniel Haigh, David McMillan, Taitiana Taukiri
5	**Refuse Collection Related Services**	Current Refuse Collection Related Services agreement come into effect 1 Oct 2018. This agreement includes councils Roadside Collection Valid (Oct 2025), Kerbside Recycling (July 2026), running Council owned Transfer stations in Shannon and Foxton. The existing agreement offers complexities that at times provides confusion around expectations i.e. rebates, tonnage, passing on rates. Waste Disposal is complex in the district as we export all our waste outside the district. Agreements that offer room for differing interpretation have the potential to break down relationships and threat of legal action.	Daniel Haigh	31/07/23	Legal; Strategic	Community Infrastructure;Operational Risk - HDC	Possible	Major	12	Significant	Risk analysis of current operating model and agreements, seek legal opinion on contractors interpretation of current contract, continue with open dialogue with contractor, upgrade agreement to provide a workable solution and removes any misinterpretation	Partial	9	Moderate	Rob Benefield, Daniel Haigh, David McMillan
6	**Iwi/Hapu & Horowhenua District Council Relationships and ongoing partnerships impacts on day to day operations**	The strength of our relationships/partnerships with local iwi/hapu is paramount to the the community and council working towards the enhancement and growth of district. At times the relationship can be tested for a number of reasons impacting on iwi, HDC and the communities ability to move forward collaboratively and proactively.	Monique Davidson	6/06/23	Service Delivery; Strategic	CE - ELT;Operational Risk - HDC;Tangata Whenua - Partnerships	Highley Likely	Moderate	12	Significant	1. Council, The Executive and Iwi are very aware on the importance of working together and looking at ways that improve our ability to engage openly and honestly to ensure all parties have the awareness and are responsive to the sensitivities of each group. At times relationships are tested as the rules surrounding partnerships expectations on boundaries or sensitivities are not clear or visible to each group or some individuals. 2. A Maori Engagement Framework has been endorsed and is currently being worked through with key stakeholders. It is envisaged that this document will provide a strong foundation and greater visibility for all parties to work from. 3. Patience and maturity is key to nurturing any relationship, the Executive have committed to keeping an open mind as well as providing leadership towards setting the tone as our organisation that recognises the role Mana Whenua as Kaitiaki of their rohe.	Partial	9	Moderate	Monique Davidson, Jacinta Straker, Daniel Haigh, Blair Spencer, Brent Harvey, David McCorkindale
7	**Existing Contracts or Agreements that require work or actions in meeting the expectations and terms and conditions set within the agreement.**	HDC activities/groups working with local community organisations or groups set up agreements, contracts, or partnerships (outside of procurement) to establish a way forward in achieving operational outcomes and deliverables i.e. waste disposal through irrigation, iwi support for delivering 3W projects. Such agreements include key deliverables for both parties that represent consultancy, workstreams that involve financial commitments in delivering expected outcomes. Lack of oversight and monitoring of the Contracts may mean expectations aren't delivered, expenses aren't appropriately budgeted and relationships are frustrated.	Monique Davidson	6/12/23	Reputational;Legal; Financial	Summated Risk Register: Governance;Summated Risk Register: Legal Compliance;CE - ELT;Operational Risk - HDC	Possible	Major	12	Significant	1. Manager Procurement & Transition has developed a spreadsheet that identifies every clause of the agreement, what we have committed too as an action point and financially. The financial value to the commitments, including maximin contribution to any such agreement. These are excellent documents for providing visibility to any risks associated with the agreements. 2. Plan is underway to work with GM Infrastructure in providing an action plan for meeting any legally binding requirements of the contracts whilst monitoring and managing any financial exposure created by the contracts.	Partial	9	Moderate	Daniel Haigh,Nicki Brady,Jacinta Straker
8	**Significant Increase of Energy supply costs**	Our Power supply agreements are up for renewal in January 2024 and Smartpower have indicated that Peak rates could potentially rise 70% and off peak rates by 25%. The impact on our operating costs and overall forecasted financial performance will be significant. Potentially this could increase annual costs by up to $300k in the last 5 months of the- 23/24 Financial year and $1.164Mi for 24/25 year	Jacinta Straker	27/04/23	Service Delivery; Financial	Long Term Plan;Summated Risk Register: Financial Risk;Operational Risk - HDC	Highley Likely	Moderate	12	Significant	The procurement team are starting work with Smartpower is looking at options available including how we can broker improved pricing structures, how we can achieve greater energy efficiencies etc. As the review progresses and treatments become apparent this statement will be updated. Procurement Plan presented to Procurement Review Group - Markets remain volatile, very difficult to predict market influences including state of national supply. PRG group agreed that this needs to be approached with: 1. A level of importance in going to the Market in an open tender process, testing the interest in new contracts, talking to our existing suppliers, whilst tapping into the large number of new supply companies. Investigating several supply options. HDC currently has 154 electricity ICPs and 15 Gas ICPs. Supply out for tender in Oct 2023 2. Equally important is looking at Energy Management Efficiencies including research ways of reducing our level of energy usage and alternative and sustainable energy generation. This is had an immediate impact on reducing usage in the weekends. This work is ongoing as we continue to review high use ICPs. 3. It is also timely to look at splitting out the Affordable (three) waters infrastructure and energy usage (ICPs) from other Council operations.	Partial	9	Moderate	Rob Benefield, Jacinta Straker, Nicki Brady, Ben Blyton

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9	**BCP Training, Planning and Practice - Significant disruptions in the operations of HDC and/or a civil emergency due to major natural catastrophes, technology and/or communication failure, power outage, asset failure and cyber attacks, which may result in financial loss or reputation damage, loss of life and loss of trust and confidence in Horowhenua District Council.**	Lack of or inadequate: • Business continuity and/or disaster recovery framework. • Civil emergency management framework. • Effective and/or consistent BCPs across council due to lack of BCP testing for each business unit. • Clarity of BCP accountability across council. • Commitment to crisis management team process. • Insurance protection and cover. • Deployment of system upgrades and changes. • Patch Management. • Performance monitoring. • Problem and incident management processes. • Alternative / backup facilities for key operations (including systems and buildings). • Sufficient resources and/or capability of staff. • Infectious human and animal disease pandemics. • Break in the supply chain inter-dependencies. • Withdrawal of regulatory approval or service licence (Including downgrade of credit rating). • Technology failure (including Lifeline). • Human error. • System and power outages. • Loss of communication and building. • Increased cyber attacks (e.g. Ransomware).	Jacinta Straker	5/03/23	Reputational;Service Delivery; Financial	Summated Risk Register: Environmental Risk;Summated Risk Register: Built Assets;Summated Risk Register: People & Capability;Community Experience & Services;CE - ELT;Operational Risk - HDC;Communities - Strong	Possible	Major	12	Significant	Business Continuity Management 1. The Organisational Performance Group holds the lead for business continuity planning at Horowhenua District Council. 2. As per cyber risk mitigation - Council's backup mechanisms are in place to ensure data is recoverable to acceptable levels. The BCPs include recovery time objectives. 3. A range of partners contribute to emergency and business continuity planning at council. This is coordinated via a Crisis Management Plan, with a nominated Crisis Manager, from a range of Group Managers in the business. Core partners, including welfare and lifelines partners, are coordinated via EMT interfaces to ensure that they are aware of BCP good practice and hazard information to enable the development of suitable plans. 4 Second data Centre has been set up, and services are now being migrated to the new data center. A large amount of data now stored in the cloud. **Proposed treatments** - Resources needs to be assigned to prioritize and complete proposed mitigation 1. Mandate for departments to have business continuity plans through the Business Continuity Policy and the Self-Audit Checklist. 2. Department heads across the organisation are given guidance on best practice continuity planning and on how to plan for disruptive or extreme events. 3. EMT coordinates the update of business continuity plans across the council on a six-monthly basis, with the call tree included in BCPs expected to be updated quarterly. 4. Each business is required to use standard Business Continuity Plan templates. The template includes information on multiple vendors to provide key services (data, power, communications) in case of a business continuity incident. 5. EMT coordinates the testing of the crisis management team and BCP based on different scenarios (annually). 6. EMT coordinates the testing of the integration of the various business continuity plans.	Partial	6	Moderate	Rob Benefield, Brent Harvey, Jacinta Straker
10	**The asset data in the GIS is out of date, our asset registers are not current leading to the unreliability in the asset management system.**	New information is not accurately entered onto the Asset Management system/register in a timely manner. Currently a number of procurement projects completed or started over the last 2 years have not been updated. Asset management resources that have managed this data in the past have moved on or reassigned to new positions. There are governing documents that provide guidance and oversee the required process for Asset Management however they are out of date and no longer in effect. The impacts of incomplete or inaccurate register are far reaching including insurance coverage, renewals and premiums; Valuations for depreciation and financial reporting purposes, maintenance and warranty contract management	Daniel Haigh	13/05/19	Legal; Service Delivery; Financial	Summated Risk Register: Built Assets;Community Infrastructure;Operational Risk - HDC	Possible	Major	12	Significant	30 May 2023 Workstream need to be completed to investigate Asset Management Framework that includes: 1. A review of operational processes linking to both HDC and Alliance needs to be initiated. Currently 11 Asset management processes identified on Promapp Process Mapping. 2. Resources requirements needed to bring Asset Register to acceptable standard. 3. High valued Assets Mapped as part Insurance renewal process and loss mapping work. Started April 23 4. Business rules for Asset Management through procurement process need to be established. 5. Works HDC & Downers on 2 July. Asset data management is being addressed as the intent is to decouple the GIS from an AMS. 6. Liz Leighfield - Updating GIS to consolidate disposals, core data is present however still needs work. 7. Full review of Asset Register as part of the insurance review. This needs to be coordinated by an individual that understand the Asset Management System	Partial	6	Moderate	Rob Benefield, Daniel Haigh
11	**Infrastructure assets failing to meet LTP, growth demands, or regulatory requirements.**	Population is set to double in the next 20 years. Infrastructure assets such as roading, water and sewer lines, storm drains fail to stay abreast of population growth, aging or impacts from climate change. Subsequently resulting on system failure, inadequate water supply or waste disposal. Pressure on Rate increases. Assets at capacity and we are witnessing an increase in weather events. Rising operating costs and interest rates are putting pressure on our infrastructure as we use the option of deferring works to meet budgets and managed the impact on rising property rates. The approach of replacing infrastructure 'Just in Time' provides a risk to service delivery that needs to monitored closely with options available to counter any time inaccuraies.	Daniel Haigh	22/12/22	Service Delivery	Community Infrastructure;Operational Risk - HDC	Possible	Major	12	Significant	1. CRM's and reported Customer related issues are being processed in accordance with our Customer Service Excellence Strategy, SSP KPIs and Regulatory requirements. 2. Infrastructure Strategy to highlight high risk assets and principle options for managing them. Includes Water Supply, Wastewater, Storm water, Roads and footpaths. 3. Essential and other Services are meeting their agreed levels of service targets under Covid constraints. 4. Resident satisfaction survey results indicate >90% rating with customer services. 5. Plans and resources are in place to remediate non-forecasted events e.g. land slips, and longer term remediation plans are in place for consistently impacted sites e.g. Gladstone 6. Agreed levels of service for non-essential services are largely being met with known non-compliance being reported as required. 7. Plans are in place and risks are being managed with respect to consents and key projects. 8. Review service levels & operating efficiencies including affordability or improvement opportunities 9. Ensure investments fits with key stakeholders expectations and key deliverables. Proactively plan for future assets to ensure they are fit for purpose and replace them when they are needed	Partial	6	Moderate	Daniel Haigh

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12	**Foxton (Matakarapa) Waste Water Treatment Plant - Existing Agreements with surrounding property owners relating to access, disposal through irrigation and disposal of sludge all provide a number of risks to its operation and to HDC.**	The Foxton Waste Water Treatment Plant (Matakarapa Island) is surrounded by farmland owned by two separate farmers. One boundary also backs onto the waterway known as the Foxton Loop. Access is through both farms with no formal easement or agreement in place. Our access relies on the property owners allowing HDC and Alliance Staff to travel through their properties. One land owner has threatened to stop access in the past. Another property owner is wanting to cease Waste Water Irrigation on his farmland and doesn't irrigate when it is raining from the Treatment Plant. The impacts of 3 interlinked however separate risks intensify the overall risk associated with this treatment plant	Daniel Haigh	23/02/23	Reputational;Legal;Service Delivery	Community Infrastructure;Operational Risk - HDC	Possible	Major	12	Significant	Access - GM Infrastructure & Operations to research & confirm no historic agreement in place. Ascertain options over initiating easement and or access agreements on current properties and with 2 owners. Agreement needs to be put in writing for this site with clear operational instruction for all parties. Resolution may include tradeoff or financial outlay and may take time to work through. Irrigation - Three Waters Manager will work with Lowe Environment Impact (LEI) going forward to get to an agreed position with Knights and our Alliance team for site management. Inflow and outflow not aligned so if not going through irrigation it may need to go into river. High rainfall puts pressure on farm, with irrigation this is two much for the soil to handle. Project starting to get on top of inflow as this will reduce risk significantly. If we can restrict the stormwater Ingress and Inflow I&I. This includes engaging downers to undertake camera inspection. Inconsistency of contracts between arrangements with farmers at different sites. Shannon and Foxton a good example. Need for HDC to manage irrigation as well. Sludge Disposal - Written Agreement in place however need longer term plan in place. 7 June 2023 - Work with GM Infrastructure to establish action plan to mitigate risks and reduce residual risk. 8 June 2023 - Meeting with LEI Friday 16th June look at all operation and maintenance plans, post meeting the Knights to discuss away forward. 3 July 2023 - Significant work taking place with LEI, Hapu and Knights to resolve risks associated with WWTP. Already experiencing improvement in relationship, monitoring and compliance related concerns. Formalized agreement's still need to be drafted 19 July 2023 - Links to WMMP review in providing long term strategy for sludge disposal	Partial	9	Moderate	Rob Benefield,Daniel Haigh,Craig Hiddleston,David McMillan
13	**Foxton Water Reservoir holding tanks - untreated backup water supply**	Foxton Water Supply holding tanks (Reserves) at the reservoir have been in place for 5 years. The water in the tanks have been n place for during this time, it isn't treated. If the water is needed during an emergency or as a backup it couldn't be used in its current state without risking the health of the community that uses it	Daniel Haigh	5/09/23	Reputational; Service Delivery	Summated Risk Register: Environmental Risk;Community Infrastructure;Operational Risk - HDC	Unlikely	Major	8	Moderate	Craig & Barrie to investigate treatment options	Deficient	8	Moderate	Rob Benefield, Daniel Haigh, Craig Hiddleston, Barrie Wallington
14	**District Water Supply Plants - risk of unauthorised access or contamination as well as risk of theft of specific equipment.**	Horowhenua District Water Supply Plants and Reservoirs don't currently have adequate measures in place to avert any attempts to contaminate town water supply reservoirs. This is a risk of possible contamination both intentionally and unintentionally through different access points. Inadequate security provides the opportunity for easy access resulting in theft of expensive and critical equipment. Any contamination of water supply could result in large scale illness throughout the community. Risk of supply interruption cutting of water supply to community	Daniel Haigh	5/09/23	Service Delivery	Summated Risk Register: Built Assets;Community Infrastructure;Operational Risk - HDC	Unlikely	Major	8	Moderate	Meeting planned for 8 June with Infrastructure & Alliance to assess risk and look at possible controls to improve security in preventing unauthorised access. Investigation into improved surveillance and securing of key assets. Do we have an alarm system that detects water contamination? Associated with emergency shutdown process that starts at the intake. Work with Lutra around monitoring systems. Research through other Councils	Deficient	8	Moderate	Rob Benefield, Daniel Haigh, Craig Hiddleston, Barrie Wallington

Insurance Strategy & Workplan

Year 2023 - 25

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1. Introduction

1.1. Risk Management Overview

Horowhenua District Council (HDC) 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 HDC 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.
- Over prescribing in insurance coverage without undertaking a risk assessment can be an unnecessary waste of resources.
- The consequences of taking up insurance arrangements that do not provide HDC 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 Objective

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

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2. Drivers

DRIVERS - Critical elements of internal and external context that influence the optimal insurance strategy

2.2 Overview

This section outlines the “Drivers” component of the Insurance Strategy, 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	HDC’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.	HDC’s size, financial position, assets, activities, LTP 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.

2.3 Local Government Legal 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)

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- 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).

2.4 HDC Assets, Activities, Strategies and Policies

Snapshot

HDC 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-water 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).

HDC's activities, asset portfolio and asset prioritisation change from time to time, with the needs of the community.

Long Term Plan

On 30 June 2023 Council adopted its LTP Amendment and in 2024 the plan will be reviewed in developing the 2024-2044 Long Term Plan.

The HDC''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)

2.5 Internal Strategies & Policies

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

▪ HDC's Vision ▪ Community Outcomes ▪ Top 10 Priorities as per 'Council Plan on a Page' ▪ Long Term Plan ▪ Risk Strategy & Workplan ▪ Risk Management Framework	▪ Activity/Asset Plans ▪ Business Plans ▪ Procurement Policy ▪ Infrastructure Strategy ▪ Financial Strategy ▪ Asset Selection Policy

2.6 Water Services – Reforms

The government has proposed the creation of 10 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 water services assets from local government to the new entities.

There is significant uncertainty around the reform, and a transition that offers a number of complexities and risks. For this reason HDC has a dedicated resource to manage the transition and represent our organisation in overseeing proposed changes and developments which includes the transfer of existing Insurance Policies.

2.7 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 the insurance market causing an increase in rates to recoup past losses and a shortage in capacity.

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 partner's environmental,

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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 sublimit 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 Dynamics [1]

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.

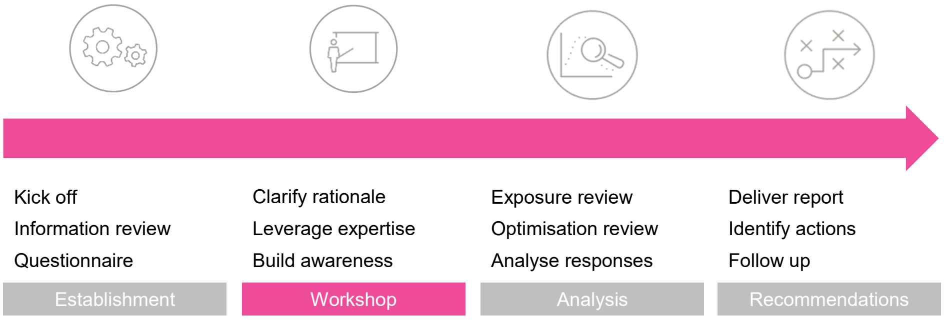
[1] Information provided by AON

3. Risk Profile Optimisation

RISK PROFILE OPTIMISASTION - Methods to improve the effectiveness, transparency and cost efficiency of internal decisions around risk and insurance

This section outlines the "Risk Profile Optimisation" component of the Insurance Strategy framework outlined in Section **Error! Reference source not found.**.

In 2021 Aon facilitated an Insurable Risk Profiling exercise which supports 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.



[2]The exercise included a workshop with the Executive and key managers i.e. Parks & Property Manager and Three Waters Manager and key 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 i.e. HDC Natural Hazard Risk Assessment.
- **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

[2] Sourced from AON

in the event of a loss i.e. Asset Selection Policy.

- **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.

The table below contrasts a transactional approach to insurance with the key principles of this Insurance Strategy and provides a comment on what HDC 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 activities.	Enterprise Risk Management is the overarching basis of Council's approach to insurance.	✓ 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.	✓ 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.	✓ 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 attrition 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	☐ Opportunity to refine risk appetite statements and undertake analysis to inform risk retentions. Currently workshopping
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.	☐Opportunity to ensure asset valuations are suitable for insurance purposes.

4. Strategic Purchasing

STRATEGIC PURCHASING - Methods of engaging with the **insurance** markets to extract maximum value from **risk transfer**

1. Overview

This section outlines the "Strategic Purchasing"' component of the Draft Insurance Strategy framework outlined in Section **Error! Reference source not found.**. 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.

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Transactional Approach	Strategic Approach	The Journey so Far
HDC is heavily reliant on external insurance market with limited control on outcomes	• HDC continues to with its broker and insurers focussing on a shared journey and value for money.	✓ Continue to meet regularly and work with broker and insurers, honest approach to continuously reviewing partnership and strategy outcomes
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.	❖Integrate Insurance Strategy with Procurement Strategy and ensure schedule broker reviews are undertaken, testing performance and the market
Limited or no leverage on group purchase	• HDC 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. ❖MWLASS need to create principles that ensures participating Councils understand Insurance Renewal Process when making decisions on Policies.
Insurance is regarded as a risk management solution with limited consideration of other options	• HDC continue to raise risk management maturity to respond to future potential for limited insurance availability in some markets or for certain exposures.	✓ Continue to raise risk maturity at HDC 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 HDC's risk profile to insurers.	✓ Greater emphasis on broker selection and work closely with broker to improve and communicate risk profile to insurers.

2. Broker Partnership

Evidence indicates that Aon has been HDC's broker for a number of years now, there is no evidence to suggest that this contract has ever been tested. Aon is a large multinational organisation with long-standing relationships with every approved insurer locally and overseas. As indicated our partnership with our broker is important in securing the best value outcomes when transferring our risk to insurance. However with any partnership or contract it is equally important that we apply the principles of our Procurement Strategy when selecting that partnership and monitoring the expected outcomes from that partnership.

HDC has a strong relationship with our broker, however a number of service delivery expectations and outcomes are also managed through the MWLASS.

This leverage of Broker through MWLASS is used to the benefit of HDC 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.

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

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as the aggregate dependency on any one insurer. In accordance with the Insurance (Prudential Supervision) Act 2010, our broker 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

Our broker needs to work with the most appropriate markets to produce the best results for HDC. 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 HDC 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 HDC's programme. This means more available capacity and the generation of competitive tensions, which alleviates the pressure to increase premium.

4. Shared Procurement

As mentioned HDC is a member of Manawatu-Wanganui Local Authority Shared Services (MWLASS). Shared procurement of insurance through MWLASS allows premium, and coverage benefits and should promote best practice through membership. MWLASS must provide the following benefits of economies of scale including:

- The 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.

HDC 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 HDC's infrastructure exposure. Additionally, with proposed water services reforms changes, it would be beneficial for HDC to remain with LAPP.

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 HDC. 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 HDC risk profiles, by tailoring the policies accordingly.

Developing risk management maturity across HDC 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.

6. Proactive Marketing and Risk Communication

In a challenging marketplace, it is vital to differentiate HDC'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 HDC'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 HDC's risk when they meet staff in person.

5. Conclusion

Our Insurance Renewal Process and Risk Profile & Transfer is in a good space as we focus on continual system and data improvement. While we still have a lot of work to do the visibility and understanding of these action has evolved over the last 7 Months.

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 has 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. That approach is captured on the Insurance Workplan below that highlights key actions over the next 3 years.

The Journey so far 2023	2023/24	2024/25
✓ Insurance renewal Brokered through MWLASS and LAPP ✓ HDC Risk Management Framework Adopted ✓ HDC Risk Strategy & Workplan Adopted ✓ HDC Risk Maturity Assessment completed in February ✓ HDC Asset Valuation Methodology and Asset Section Policy drafted ✓ HDC Insurance Strategy and Workplan drafted ✓ Risk Appetite Framework Workshops Developed and started ✓ Insurance Renewal Process review started ✓ 2023/24 Insurance Renewal Submission provided to broker. ✓ HDC Natural Hazard Risk Assessment Drafted ✓ HDC Risk Governance Model enhanced to include Risk Champion Group, ELT, RAC and Council ✓ Comprehensive Risk Reporting Model created including Risk Statement Education Workshop developed ✓ HDC Risk management Register adopted and continuously evolved ✓ HDC Risk Portal that includes HDCs Insurance Renewal Centre created. ✓ Management of Water Services Reform transition that includes Water Services Insurance Policies. ✓ Ongoing Asset Management Update, basic Loss Mapping	➢ HDC Risk Maturity Assessment completed in September 2023 & March 2024 ➢ HDC Asset Valuation Methodology and Asset Section Policy adopted ➢ HDC Insurance Strategy and Workplan adopted ➢ HDC Risk Appetite Workshops & Statements Completed ➢ Insurance Renewal Process for 2024/25 started in February 2024 ➢ 2023/24 Insurance Renewal Submission provided to broker. ➢ HDC Natural Hazard Risk Assessment enhanced & updated ➢ HDC Risk management Register monitored and continuously evolved ➢ HDC Risk Portal that includes HDCs Insurance Renewal Centre updated and rolled out to the business ➢ Management of Water Services Reform transition that includes Water Services Insurance Policies. ➢ Ongoing Asset Management Update, enhanced Loss Mapping project that provided comprehensive Asset location and Risk assessment. ➢ Annual review of asset selection for Insurance renewal ➢ Start BCP Review, test plans through scenario exercises ➢ Start Cyber Security Audit and research opportunities to improve risk visibility	➢ HDC Risk Maturity Assessment completed in September 2024 & March 2025 ➢ Insurance Renewal Process for 2025/26 started in February 2025 ➢ Review HDC Risk Management Framework March 2025 ➢ Review Risk Appetite Framework & Statement February 2025 ➢ 2025/26 Insurance Renewal Submission provided to broker July 2025 ➢ Annual Review HDC Natural Hazard Risk Assessment ➢ HDC Risk management Register monitored and continuously evolved ➢ Management of Water Services Reform transition that includes Water Services Insurance Policies. ➢ Annual Review of asset selection for renewal ➢ Ongoing Asset Management Update, enhanced Loss Mapping project that provided comprehensive Asset location and Risk assessment. ➢ BCP Review, test plans through scenario exercises ➢ Apply Procurement Process in reviewing Insurance Brokerage

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Insurance Renewal - Valuation Methodology Guide & Asset Selection Policy

Year 2023 - 2025

Valuation Methodology Guide

1. Introduction

The purpose of this Asset Selection and Valuation Methodology Guide is to provide Horowhenua District Council (HDC) with a structured process to guide the identification, assessment and financial quantification of assets in order to optimise asset management and risk management.

Asset Selection as part of the Insurance Renewal Process, is an opportunity to assess each asset, looking at its age, value, building compliance, construction material, business & service criticality; while assessing any risks associated to its ability to function operationally in deciding if to transfer any financial risk through Insurance coverage.

This is the cornerstone of an asset management process and creates a reliable data set which forms the basis of risk strategy and risk governance decision making and helps ensure Stakeholder expectations are met. It also guides insurance strategy, facilitating optimal coverage and pricing.

Equally important is understanding our approach and formation of a schedule to ensure we meet our Insurance Renewals deadlines. Each renewal process will be assessed on the information available each year that will include the Asset Register, Loss Mapping, risk analysis and valuations. Our approach to Insurance Renewals will be driven by the HDC Insurance Strategy which outlines the workplan associated with improving the accuracy and quality of the risk assessment through comprehensive Loss Mapping that is integrated into our LTP.

This document provides useful information on:

- Local Government legal context
- Risk financing
- Asset selection process
- Asset category self-assessment checklist which HDC can integrate into its asset management policy.
- Insurance Renewal Work Plan

2. Legal Requirements

The Local Government Act 2002 Amendment Bill (No 3) requires Local Government Authorities disclose the following in their Annual Report:

- the total value of all assets that are covered by insurance contracts, and the maximum amount to which they are insured; and
- the total value of all assets that are covered by financial risk sharing arrangements, and the maximum amount available to the Local Government Authority under those arrangements; and
- the total value of all assets that are self-insured, and the value of any fund maintained by the Local Government Authority for that purpose.

This suggests Local Government Authorities are required to have a robust methodology in place to identify and quantify their assets and exposures.

3. Risk Financing

Local Government can be adversely affected by a variety of risks including financial, operational, fixed asset and infrastructure risk. Parts of New Zealand can be a high natural hazard environment with its exposure to earthquakes, landslides, tsunami and volcanic activity, as well as coastal erosion, flooding, and storms. The challenge is to lower the risk and cost of disaster and prepare adequately to recover more quickly, both socially and economically.

There are many measures that are used to treat and minimise the risks faced by the Local Government Authority's infrastructure services. Typically, this will include eliminating and reducing the risks, applying "best practice" design standards and providing for alternative methods of delivery. Ultimately, insurance is seen as an effective mechanism to mitigate financial losses **when an unacceptable level of risk remains**.

Local Government Authorities have recognised the importance of adequate insurance cover to limit the financial risks carried by the community following adverse situations, whether they are a result of localised events or natural disasters. A risk assessment for the District is ultimately important to understand the likelihood of disaster occurring.

Risk mitigation examples include:

- Local Government Authority may record risk mitigation to an asset group level and will periodically review risk assessment to determine appropriate ongoing mitigation measures. This typically excludes treatment plants (water and wastewater) where the risk of fire necessitates risk mitigation at facility level.
- Local Government Authority may elect to insure infrastructural water supply, wastewater and stormwater assets, as well as operational buildings. This will typically be managed by the Local Government Authority's Insurance Broker.
- **No insurance mitigation** may be adopted for asset groups where the highest risk assessment has been rated as a low or insignificant risk (e.g. asset groups with an insignificant consequence of failure, and / or where the likelihood of the event is rare), or where the Council would not replace the asset if it was damaged by an event

Usual Insurance Placement

Type of Insurance	Description	Detail	Amount of Risk Transfer	Typical Assets
All perils **(fire and all risk)**	'All Risks' covering physical loss or damage to the asset usually on a full replacement basis. Additional coverage includes demolition, debris removal and professional fees.	Covers most events apart from a few exclusions such as war, terrorism, wear and tear, mold & mildew. This is appropriate for assets which are vulnerable to many perils and	100% based on full reinstatement above a policy deductible.	Buildings, Contents, Artwork, Plant, Machinery

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	Coverage can include 'Business Interruption'.	includes contents, stock and works of art.		
Limited perils **(only natural disaster)**	Limited Perils covering physical loss or damage to the assets due to natural catastrophe events only including earthquake, volcanic, storm and flood. Extends to cover mitigation/prevention costs, increased costs of working and enablement costs.	Only covered against natural catastrophe events. Does not include fire. Not appropriate for electrically driven pumps or buildings as these are vulnerable to fire and impact by aircraft/vehicle.	60/40 split with Central Government. The 40% is based on reinstatement up to the declared value which, in turn, is subject to an individual council loss limit and an overall LASS limit. The 60% is administered by MCDEM based on their damage criteria and is generally an indemnity settlement arising from a lack of functionality of the asset.	Infrastructure

4. Asset Selection Process

To ensure that all assets have been captured appropriately for insurance purposes, it is important HDC develops a formal asset selection policy. The purpose is to ensure the correct knowledge is transferred from within HDC and the Risk & Assurance Committee.

An example of good practice would be:
- ✓ Executives/Finance/Risk set the framework
- ✓ Asset managers implement framework and recommendations provided
- ✓ Considered at ELT & Risk & Assurance Committee level
- ✓ Agree review point

The following check list will assist in defining/refining the asset section policy.

Managerial Responsibility/System

Most systems allow the creation of custom fields and in its simplest form, it may involve additional columns in an excel spreadsheet. In developing its asset management system HDC needs to consider the following:

1. Is there an asset manager responsible for each category of assets?
2. What is the process to record what is owned or the responsibility of the council to insure or maintain?
3. What is the current asset designation between asset types - do you have a list of all assets and where they sit within the Council? (For example, at what point is drainage in a roading asset transferred to three waters? This is important to have as a live document as many councils insure three waters assets but not roading.)
4. How are assets added to the register and either deleted or replaced e.g. Once the contractor hands assets over, are these automatically added to the asset register? Does the same process work for adopted assets from developers?
5. What is our current asset management system? And is this system used by all asset managers in the Council? Is it a living document or only updated when resources allow?
6. We have multiple systems, do they have common data fields which can be combined into a single report?

7. Are there any assets which are not included in the system e.g. artwork?
8. Within our asset management system, what is the asset coding / asset type clarification?
9. Are there any plans to upgrade/change the system?

Valuations

Valuations for accounting purposes are not necessarily the same as those for insurance purposes. The questions below will assist in determining if the current methodology is adequate to quantify what sum insured is required to reinstate an asset in the event of a loss. Refer to section 6 Guide for Asset Valuations for a more detailed understanding of what to do during an internal valuation and a best practice guidance for working with a professional valuer.

10. Is the prime reason for the valuation to provide a financial (book value) of the asset?
11. Is there a process to determine the current total insurance reinstatement cost (replacement cost, plus removal of debris, plus inflationary allowance)? **If valuations reviewed annually, no need to assess for impacts of inflation**
12. Is the valuation process verified or carried out by an independent third party? How often is this carried out? **Every 2 years**
13. Are the total reinstatement values captured and do these values reflect the likely reinstatement of the asset, i.e. in the event of loss or damage, would you replace like-for-like, or require a materially different replacement, or not replace at all?

Risk Transfer

The questions below refer to Section 3 “Risk Financing”, as it is important for asset managers and management to understand the difference between policies and their limitations in cover, as they provide different cover and attract different rates of premium.

14. Do you determine what risk each asset types are exposed to and how this is insured (e.g. limited perils or all perils)? **Location to loss mapping exercise and risk assessment**. How frequently is this carried out? **Annually**

5. Guide for Asset Valuations

Once an Asset Selection Policy (Draft below) has been determined, the next step is to quantify the assets. This can be through either internal resources or by a professional valuer. This section discusses what we need to consider during a valuation. These are generally the most acceptable standards for completing both financial reporting and insurance valuations, and focuses on local government.

Assets considered include:
- Operational land and buildings;
- Park assets;
- Infrastructure assets; and
- Investment property (forests, land).

The quality of the valuation depends heavily on the council’s Asset Selection Policy. If a valuer is to provide the best assistance in this process, they need to know prior to commencing valuations whether there are additional actions required, such as:

- Investigation of missing assets - this could be through a search of all land parcels with council name and matching to the register or searching when on site;
- Condition survey work;
- Split of assets between different insurance policies; and

- Additional assets valued e.g. during a building valuation you may also require the plant and contents valued.
- Assets that the Council owns but does not wish to insure because the assets will not be replaced in the future.

Council representatives

It is recommended that at least two Council Officers are available to liaise with the valuer throughout the valuation process.

Officers will advise the valuer on:

- asset inspections, what and where, what council plans are available, which assets to value, contact details for council staff to give access;
- discussing and clarifying information on the assets;
- monitoring of progress reports;
- reviewing and confirming valuations and key assumptions. It is advised that HDC auditor (for financial reporting) and broker (for insurance) are involved when making assumptions around whether a site needs to be visited and/or the split of asset types and how they are reported. From an insurance perspective each asset class will have a different rate of premium and so guidance on asset splits and reporting is critical; and
- ensuring that the report has been prepared in accordance with the Council's instructions and the relevant accounting standards and insurance policies.

Standard Valuation Exclusions

Valuer's will limit the assets valued to those required by HDC and will list specific exclusions. HDC need to be aware of these exclusions. Typical exclusions when completing a building insurance valuation include:

- Plant, Equipment and Contents (separate policies if necessary i.e. vehicles, drones);
- Assets agreed with your Executive as redundant (To be advised and determined);
- Library Collections;
- All leased assets;
- Stock, Consumables in trade and work in progress;
- Cash and other items of monetary nature;
- Goodwill, business books, computer records and documentation;
- Director and employee's personal effects;
- Patents, Trademarks and registered designs;
- Assets acquired after physical site inspections;
- Reference data, Microfilm; and
- Contractor's equipment on site.

Losses Following Catastrophic Events

Following a catastrophic loss situation, history has indicated that reconstruction costs often increase significantly over the likely costs to replace assets in non-catastrophic situations. This cost increase, or post loss amplification, can be attributed to four main factors, namely:

1. Demand Surge – inflation on prices as a result of the increase in demand for resources relative to supply;

2. Repair Cost Delay Inflation – price escalation caused by delays in making repairs;

3. Claims Inflation – increased claims activity causes difficulty for insurers to police claim against exaggeration and fraud; and

4. Coverage Expansion – expansion of insurance cover beyond the original policy terms and conditions, often as a result of political pressure.

A valuer is typically unaware of any detailed research into loss amplification modelling. Due to the lack of detailed analysis on this matter a valuer is unable to provide a set allowance for such an event, however, we do need to improve in this area to ensure our mitigation decisions are applied accurately.

Best Practice - Valuation Process

6. Guide for Asset Valuations

To assist a valuation the Asset Register compiled by HDC is to itemise all assets subject to valuation and provide general data, such as:

- Asset Class;
- Asset Type, and any sub types;
- Location, either address or if available, GPS coordinates (Loss mapping);
- If not owned, is the asset required to be insured;
- Construction date;
- Date of major refurbishment (if known);
- Asset details, i.e. buildings, construction and fit out details;
- Age/remaining lives;
- Quantities, size and/or capacity;
- Condition and performance information;
- Costing information (original cost and major refurbishment details and costings, where available);
- Component information (where applicable); and
- The valuer will need to be satisfied as to the accuracy of the data to be used in the valuation.

Develop Standard Replacement Costs

It is recommended once an asset register has been developed/completed that HDC consider what assets, if any, can be based on a standard replacement cost matrix. Potential assets include park and underground infrastructure assets as these assets are typically repetitive in nature and/or difficult to physically inspect.

Replacement/construction costs are to be based on market rates or evidence, which would typically be estimated from:

- Recent construction cost contracts for new buildings or extensions completed by the reporting entity;
- The Valuer's knowledge of construction costs of other buildings considered similar;
- Costing databases/information; and
- Specialist costing advice from professionals.
- In addition to construction costs there should be allowances for other site works, professional fees, and resource consent costs.

Asset Selection Policy

Objective

The objectives of this policy are:

- To enable HDC to continue to function and provide services per its statutory requirements during and after a risk event;
- To achieve best value insurance outcomes for our customers and rate payers;
- To manage risks to our assets associated with major unexpected events;
- To mitigate those risks to an acceptable and cost-effective level;
- To identify for each asset group how risk will be mitigated; and
- To ensure that HDC can confidently provide public services in the future as risks have been properly assessed and adequate insurance is available in case of an event or natural disaster.

The Need for Insurance

There are many measures that we use to minimise the risks to HDC's infrastructure services. Typically, this will include eliminating the risks, applying "best practice" design standards and providing for alternative methods of delivery. Ultimately, insurance is seen as a mechanism to mitigate financial losses when an unacceptable level of risk remains.

Council recognises that the provision of adequate insurance cover contributes to HDC's outcomes by limiting the financial risks carried by the community to protect its assets. This is particularly so during the recovery phase following a disaster. Insurance ensures that adequate financial arrangements are in place after adverse events, whether they are a result of general events or disasters.

Policy Statement

- It is important to distinguish between public entities that properly analyse their risks and choose to self-insure and public entities that choose to do nothing because they consider insurance too expensive. We have not assessed the risk analyses of public entities that do not insure assets, to work out whether any have not analysed risks properly
- Council will record risk mitigation to an asset group level and will periodically review risk assessment to determine appropriate ongoing mitigation measures. It is suggested that treatment plants (water and wastewater) where the risk of fire necessitates risk mitigation at facility level
- For each asset Council will decide whether to **insure / not insure / self-insure** infrastructural water supply, wastewater and stormwater assets, as well as operational buildings, park assets as per the schedule attached. This will be supplied to the Council's Insurance Broker. Refer to timeframes for Renewal Action Plan schedule below.
- For underground assets, or for assets with a substantial consequence of failure, automatic selection will apply as the risk mitigation as assessment.
- No insurance mitigation will be adopted for asset groups where the highest risk assessment has been rated as a low or insignificant risk.

Asset Revaluations

Assets are revalued 2 yearly and all assets' base useful lives, remaining useful lives, written down values, annual depreciation and replacement values are re-set. Commercial insurance premiums are set against total sum insured cost, the total sum insured cost per asset type after each revaluation may differ slightly or possibly in some cases more significantly. This will have a direct effect on each asset group's risk assessment in terms of consequence of financial / economic loss as well as operational capability. For this reason, risk assessments will be renewed in line with each asset revaluation and insurance mitigation revised accordingly. Refer to revalue guideline for methodology of assets.

Policy Review

This policy shall be reviewed on a 2 year cycle by the Risk Manager to ensure the policy is effective and efficient at achieving the objectives.

1. Assessment of Assets to be insured

Risk Mitigation Selection

The next step is to select what risk mitigation Council want per asset type. Options for risk mitigation include:

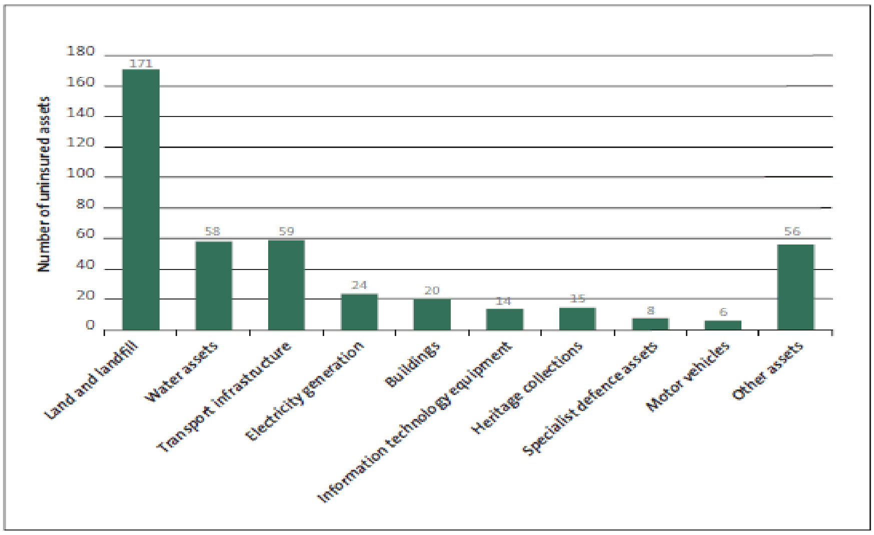
- ✓ **No insurance cover,**
- ✓ **Self-insurance or**
- ✓ **Insurance.**

These options are further discussed below:

1. No Insurance Cover

In general, the most common type of asset without insurance cover is land. This is not surprising because insurance is generally not offered for land. Figure 1 shows the types of public assets that are not insured. Land and landfills, water assets (for water supply, stormwater, and wastewater), transport infrastructure, and other assets (such as tunnels; plant, and equipment; furniture and fittings; and parts of electricity generation and distribution systems) are the most common assets without insurance cover.

The prevalence of different types of assets without insurance cover across local government sector (fig 1)



[1]

[1] Sourced from AOG

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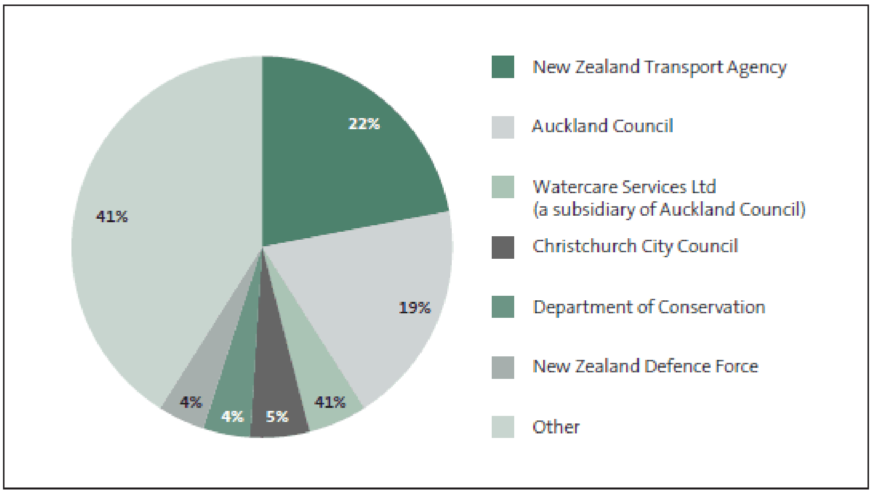
Having public assets without insurance cover might seem like cause for concern. It could suggest that a proportion of public assets might not be able to be replaced after a catastrophe and therefore that public services may not be able to be provided in the future.

However, having uninsured assets is not necessarily cause for concern. This is because public entities Local Government can mitigate the risk of damage to, or loss of, assets in other ways. After assessing risks, public entities can choose to self-insure, such as relying on either their capacity to borrow funds or their cash reserves. A number of State-owned enterprises (SOEs), local authorities and related entities, and electricity lines businesses have chosen to self-insure some or all of their assets.

Figure 2[2] shows that six public entities have nearly 60% of the assets (by value) without insurance cover. These public entities have concluded that the cost of insurance is too high for the risks being mitigated. In the last couple of years, several global disasters, including the Canterbury earthquakes, have changed the nature and cost of insurance cover in New Zealand, particularly in the short term.

Analysis of uninsured assets by entity (fig 2)



When selecting assets will have no insurance the following criteria need to be considered.

The option of no insurance cover may be considered where:

a) Where assets are nearing the end of their useful lives and the asset is likely to be disposed with no or very little remaining book value and won't be replaced
b) The cost of maintaining insurance is higher than the assessed risk and associated remedy
c) Insurance cover is not available
d) There is the option and capacity to borrow to fund any loss or damage at a lesser cost (than insurance)
e) There is full or partial Central Government replacement or repair coverage i.e. Waka Kotahi and Roads. There is the possibility that the Government will fund any major loss
f) Assets are of a certain age or type that may collectively be high value, however individually unlikely to be damaged simultaneously as there is a reduced concentration of assets i.e. public toilets, Parks and Playgrounds.

[2] Sourced from AOG

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g) In some instances, the increase in insurance premiums may have made the cost of obtaining insurance prohibitive.
h) After assessing risks, HDC like a number of public entities may choose to self-insure, such as relying on either their capacity to borrow funds or their cash reserves.

2. Self-Insurance

Self-insurance is a Risk Management method in which an amount of money is set aside to compensate for a potential future loss. This is usually based on expected claims assumptions so that the amount set aside over time should be enough to cover the future uncertain loss. Local Authorities who self-insure generally establish and build the fund through rates charges.

By retaining, determining the risks, and paying the claims from the financial provisions, the overall process can be cheaper than buying commercial insurance and there is no excess. This is more likely the case for pooled assets or lower valued items where the total loss of the entire pool of assets is unlikely.

As a result, there becomes a point where the economics of insurance for some risks is not appropriate given the likelihood of some events. Loss modelling can assist with predictability and efficient insurance purchasing, but that leaves some events uninsured.

3. Insurance

Insurance providers can cover Local Authorities against material damage. This relates to physical loss or damage to buildings, plant and stock. The purpose of insurance is to reinstate the asset lost or damaged, to the condition immediately prior to when an event had occurred.

The benefits of insurance for Local Authorities include:

- Cover up to the maximum sum insured is expected
- Customised or additional coverage can be included
- **Deductible level** can be set based on level of risk asset is exposed too
- Degree / level of solvency of insurers is known

Insurance is of value to a Local Authority as it provides a transfer of risk from the insured (Council) to the insurer.

Insurance is one way to manage the risk of assets not being available in the future to provide services. Local Authorities manage that risk by transferring some of it to an insurer (an insurance company). The insurance company then typically transfers some of that risk by getting reinsurance, often overseas (currently London & Australia).

The Insurance Policy will typically include the following information:

- **Excess (or deductible)** - the amount deducted from each claim (in effect, paid by the insured party)
- **Premium** - the cost for the specified amount of insurance coverage
- **Policy Exclusions** - the limits on causes of damage or loss (for example, no cover for war or terrorism), or limitations in the nature of cover

Sum Insured – the full replacement cost (replacement plus inflationary provisions plus removal of debris) or set dollar amount

Natural Disaster Risk Assessment 2023

Introduction

Insurers look favourably on organisations when evaluating a submission who have under taken comprehensive **Loss Modelling Programme**. Such modelling would include an increased focus on improved underwriting information i.e. Construction, Occupancy, Protection and Exposure (COPE - risk characteristics an underwriter reviews when evaluating a submission for property insurance). As part of Horowhenua District Councils Insurance Renewal Framework in providing accuracy to the data we provide when submitting our renewal applications, it is necessary as an organisation to undertake a qualitative or quantitative approach to determine the nature and extent of disaster risk by analysing potential hazards and evaluating existing conditions of exposure and vulnerability that together could harm people, property, services, livelihoods and the environment on which they depend.

Natural Hazards are defined in section 2(1) of the RMA as: "any atmospheric or earth or water related occurrence (including earthquake, tsunami, erosion, volcanic and geothermal activity, landslip, subsidence, sedimentation, wind, drought, fire or flooding) the action of which adversely affects or may affect human life, property, or other aspects of the environment."

Annotation: Disaster risk assessments include: the identification of hazards; a review of the technical characteristics of hazards such as their **location, intensity, frequency and probability**; the analysis of exposure and vulnerability, including the physical, social, health, environmental and economic dimensions; and the evaluation of the effectiveness of prevailing and alternative coping capacities with respect to likely risk scenarios.

This will allow us an organisation to improve the accuracy when choosing to transfer or retain a level of risk when determining the appropriate policy coverage and details for Material Damage & Business Interruption (MD&BI).

Background

As part of the Insurance Renewal Strategy we will be looking to enhance our mapping data and information as it is important for HDC when establishing other strategic decisions such as future growth and developments, locating and upgrading infrastructure, consenting and managing risk.

This would give us the best possible chance to provide a Renewal Submission that was informed and vastly improved on previous years. In the past our submissions have not been adequately assessed with an accurate **Asset Register, Asset location, mapping with identified natural hazards against associated risks and disaster recovery priorities.**

Risk profiling our assets looking at their location against the hazards associated with that area is important. For that reason the Insurance renewal team are loading the location of our assets onto our Geographic Information System (GIS) and overlapping and integrating the information with our existing Hazard Mapping i.e. Liquefaction, Flood Areas, Fault Lines, Coastal movement etc. Whilst this information is limited it does give us a significantly improved overview of the risks associated with each asset.

To support our mapping, the risk profiling also needs to include research of the risks associated with natural hazard for the Horowhenua District against other councils in New Zealand and the region, this research includes:

1. Historical local natural hazard events, the damage caused and the cost of recovery?
2. The geographical layout of our terrain – most of our district is fortunate to be made of a natural flood plain that sees water recede quickly or flow naturally to the coast line.
3. Where faultline(s) sit and the activity experienced in the past and more recently.
4. Coastal erosion, the rate it is eroding, the impacts on our assets and infrastructure over the year associated with the year of renewal and for outlying years. – A big part of the coast in the Horowhenua district is moving in the opposite direction and has an accreting shoreline.
5. Understanding how good our resilience is in recovering from an event/disaster i.e. Emergency response and planning and or access to resources during and post an event or disaster?

Natural Disaster Risk Assessemnt 2023

6. Understanding our risk appetite to extent the risk we take when transferring risk to insurers, this balanced with the impacts of inflation and the cost of living crisis much of the country is experiencing at the moment. Whilst we can provide the greatest risk assessment possible there will be an increase in the risk we take in reducing coverage in certain ways.

Natural Disaster Risk Assessment

Horowhenua District Natural Environment

Weather Patterns

Climate change is believed to be increasing the frequency and severity of bad weather that can lead to flooding. This increased threat from climate change further underlines how preventing development in hazard risk prone areas is the best way of protecting people and property from natural hazards in our region. Our land use planning in the region needs to take a very proactive approach to minimising natural hazard risk

In the Horowhenua District, the summers are comfortable, the winters are cold and wet, and it is windy and partly cloudy year round. Over the course of the year, the temperature typically varies from 7°C to 21°C and is rarely below 3°C or above 24°C. The region is exposed to prevailing west winds from the Tasman Sea

The drier season lasts 4.7 months, from 16 December to 8 May. The month with the fewest wet days in Horowhenua is February, with an average of 5.5 days with at least 1 millimetre of precipitation.

Among wet days, we distinguish between those that experience rain alone, snow alone, or a mixture of the two. The month with the most days of rain alone in Horowhenua is June, with an average of 10.4 days. Based on this categorisation, the most common form of precipitation throughout the year is rain alone, with a peak probability of 37% on 24 June.

Given the average amount of rainfall Horowhenua experiences the only threat of flooding can derive from a weather event either from a southern polar blast or storm that has generated from the Antarctic; and or tornado as experienced in June 2022; and or a Cyclone that travels down from the tropics as seen in recent years at the top and east coast of the North Island.

Tornadoes

While we have seen an increase in tornados on the West Coast of the north island they are indiscriminate in nature appearing of the coast and at times travelling in land. On average there are 7-10 moderate size tornadoes in NZ per annum, the strength of Tornadoes experienced in NZ is measured as moderate with general damage more likely towards residential property rather than infrastructure. In NZ most tornadoes are associated with pre-frontal squall lines, bands of thunderstorms embedded in strong, unstable pre-frontal nor-westerly flow. The Thunderstorms have strong updrafts and occur in an environment where the wind spins anti-clockwise as the air rises. On average they travel 2-5 kilometers losing their power as they move inland. Density of damage is generally limited to the Tornadoes path.

The tornado experienced in Levin in June 2022 caused $52k in damage with the majority of the council claims relating to sports grounds. Given the rarity of tornados in NZ and along the west coast of the North Island; and the limited size and distance they travel; the risk of damage to Council Owned property or infrastructure (above ground only) reduces significantly. If damage is a consequence then this will be limited in total cost due to the smaller size we experience in NZ.

Natural Disaster Risk Assessemnt 2023

Cyclones

Cyclones occur rarely in New Zealand. On average, they happen about once per year. The hardest hit region is Northland and they generally travel down from the tropics or pacific islands from above NZ. The East Coast of the North Island such as the Coromandel, the East Cape and Hawkes Bay has experienced significant damage in the past (Cyclone Bola, Dovi & Gabrielle). In the last 18 months there has been two cyclones causing severe damage Cyclone Dovi and Cyclone Gabrielle.

Cyclones will continue to hit NZ in the future with the severity often as unpredictable as the event. Severe Tropical **Cyclone Bola** was one of the costliest cyclones in the history of New Zealand, causing severe damage as an extratropical cyclone when it passed near the NZ in March 1988. Bola caused severe damage to the North Island of New Zealand, where heavy rainfall peaked at 917 mm (36.1 in) in the Gisborne Region. Damage totalled over $132m, and seven people were killed due to flooding, and hundreds were evacuated when a swollen river threatened Wairoa.

Cyclone Dovi was a powerful tropical cyclone across the Southern Pacific in February 2022. The system became the third named tropical cyclone of the 2021–22 South Pacific cyclone season. This cyclone hit NZ between Taranaki and the Waikato tracking west across to the Hawkes Bay. Estimates from the insurance Council have damages costs at approximately $54m.

Natural Disaster Risk Assessemnt 2023

The most severe cyclone to make landfall in New Zealand was in February 2023 was **Cyclone Gabrielle.** It reached a wind speed of up to 83 km/h on February 12, 2023 at 1:00 pm local time near Taipa and was 167 kilometres in diameter at the time. According to the internationally accepted Saffir-Simpson classification, this corresponded to a tropical storm cyclone. On the open sea, speeds of up to 165 km/h were measured (category 2). The impact of Cyclone Gabrielle on the Horowhenua District was minimal, while NIWA forecast intense rainfall in most cases this was isolated to the Tararua Ranges with little or no damage caused through flooding. As per the map below Cyclone Gabrielle hit NZ in Northland and tracked east over the Coromandel and East Cape. Total estimated damage has been assessed at $13b, however it is estimated damage to the four Hawkes Bay Councils is approximately $110m.

The greatest threat to the Horowhenua District from a cyclone is the intense rainfall experienced with such an event. This is covered in the next section of the report under Waterways and Floodplains.

Waterways & Floodplains

There are many parts of the region where property and life are successfully protected by the Horowhenua District Council's and Horizons flood management systems. Our main waterways include Lake Horowhenua, Lake Papaitonga, Ohau River, Manawatu River, and the Tokomaru River (feeds into the Manawatu River).

The majority of the Horowhenua district landscape is a natural floodplain, this is formed by the natural sloping land between the Tararua Ranges and our coastline. Whilst we do experience flooding during intense prolonged rainfall, the effects quickly diminish as water naturally runs out to the coastline. Any threats associated with the flooding is more towards rural property.

The floods in 2004 were some of the largest in the Manawatu/Whanganui region in recent times. Post-flood analysis identified gaps in knowledge concerning flood risk. To address this, a flood mapping project to identify and quantify the extent of flood hazard was initiated by Horizons Regional Council. This five year project saw significant investment in data acquisition for flood modelling to better provide information to the public and protect people and property.

A series of flood models were developed where key risks were identified, with various annual return intervals (ARIs). Those presented here have a probability of 0.5, meaning that in any given year there is a 1 in 200 chance that it may occur. These models represent a snapshot in time. Subsequent changes to land forms on the flood plains (drains, berms, etc) will affect the utility of these models.

Horizons has completed flood modelling for some of the region's catchments where key risks were identified. Please note that not all catchments were modelled due to cost restraints. In the areas that have had 1 in 200 year flood modelling completed, the flood extents have been added to the flood plain map.

Natural Disaster Risk Assessemnt 2023

The link below provides an overview of the flood modelling for the region with the biggest flood risk comes from the Manawatu River which is located in proximity to parts of Tokomaru, our Waste Water Treatment Plant in Foxton and parts of the landscape running from the Tararua's to the coastline between Manakau and Waikawa.
https://experience.arcgis.com/experience/fa57e94bcc8249c8968785b427a99e7c/?org=HorizonsRC

1. The threat relating to the landscape running from the Tararua's to the coastline between Manakau and Waikawa is mainly to rural land used for agricultural and horticulture activities, parts of State Highway 1 and coastline south of Waikawa. Any threats from the Ohau River are again closer to the coastline which is mainly farmland and private property.
2. The modelling undertaken around the Manawatu River included Opiki, Foxton and Foxton Beach showed very little risk of major flooding this is due to the flood management systems including stop banks and flood control systems i.e. the Moutoa Dam system and Foxton Flood in Plains. Horizons currently manages 34 River and Drainage Schemes across our region, maintains over 500km of stop banks, 1,100 km of drains, 22 pumping stations and 53 dams. Horizons Regional Council invests heavily, on behalf of ratepayers, in flood protection for the Lower Manawatu area. Since the 2004 floods, work has included raising/rebuilding stop banks, replacing the Kopane Bridge ($4.5m) and construction of the Burkes Pump Station. Funding constraints have hindered additional work, however thanks to central government funding that's been made available there is the opportunity to get more work underway.

Horizons Regional Council conjointly with the Horowhenua District Council are continuously improving our districts resilience to severe weather events, which is evidenced in reports Te Awahou Foxton Climate Resilience Project & the Lower Manawatu Scheme (LMS) Climate Resilience Project Reports.

Coastline

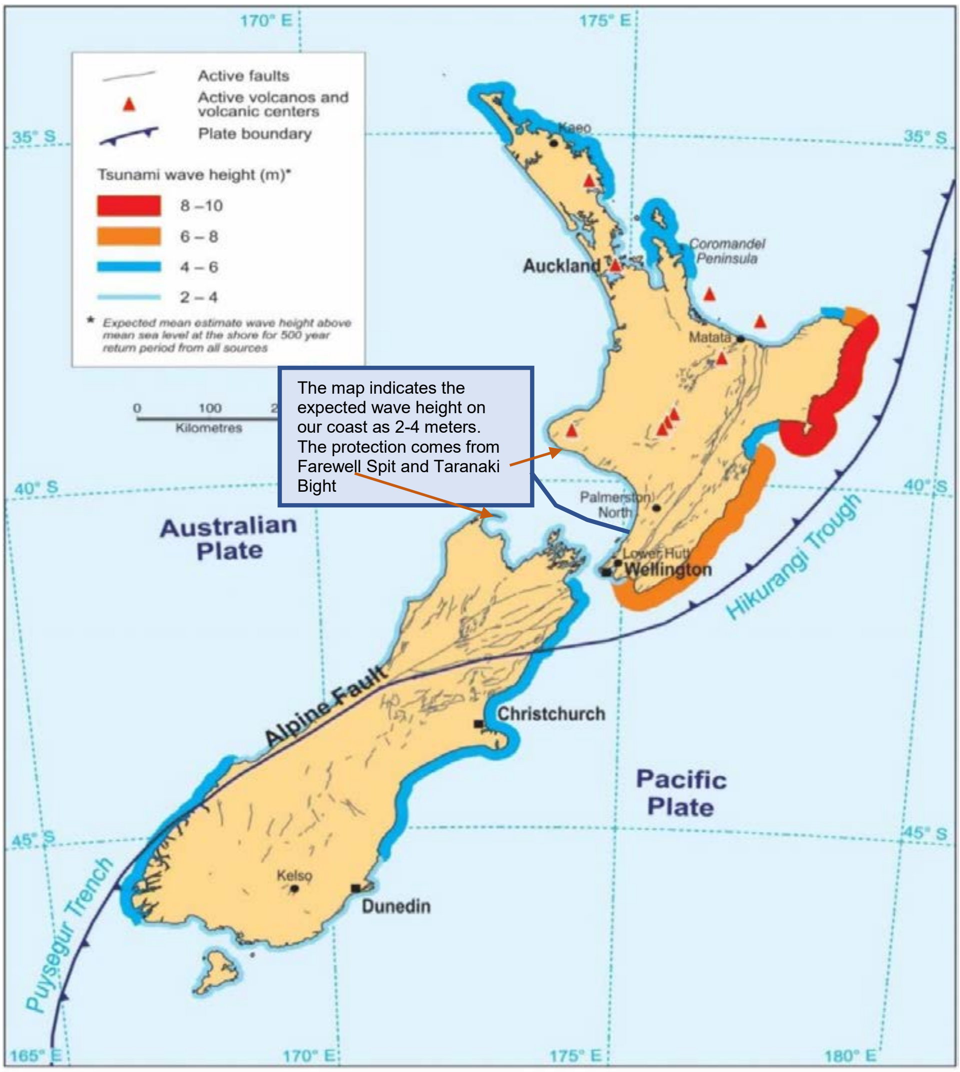
The Horowhenua coast is a relatively short (approximately 35km) stretch of the Lower North Island west coast dune system that extends from Paekakariki to Hawera (120km). The Horowhenua coastline extends from Waikawa Beach at the southern end of the District to just south of Himatangi Beach at the District's northern end.

The soils closest to the coastline are vulnerable to wind and water erosion particularly where they are exposed by the removal of surface vegetation. The natural coastal processes together with hazard events are a constant threat to this dynamic but fragile sand country environment. Due to the generally **accreting** nature of the Horowhenua coastline, properties along this stretch of coast are most likely to be at risk from inundation (this will pose a risk if sea water does get past the tunes and can't back out), or build-up of sand. Erosion is isolated to Waikawa entrances and the Foxton seawall, this could potentially get to Council playgrounds and roads, however poses little threat to Council property and infrastructure at present and can be reassessed over time to ascertain its impact on an annual insurance renewal outcome.

Given the accretion of the coastline in our district erosion isn't a major threat to Council Property or infrastructure. As per the map identified below the risk of a Tsunami comes if there is a major seismic event associated with the Australian Plate in the Tasman Sea. As per the map the 35km of coastline associated with the Horowhenua district has a high level of natural protection from a possible Tsunami through the geographical positioning of the South Taranaki Bight and the Top of the South Island including Golden and Tasman Bays. As per the **NZ Coastline Tsunami Risk Map (Figure 1)** if we were to feel the effects of a Tsunami the wave heights would be at the lower end of the scale at 2 – 4 metres. The impacts on Council infrastructure and property, would be on assets such as surf Clubs, public toilets, parks, limited roading and underground piping. The risk likelihood is rare and the damage Low – Moderate.

Natural Disaster Risk Assessemnt 2023

Figure 1 - NZ Coastline Tsunami Risk Map



Natural Disaster Risk Assessemnt 2023

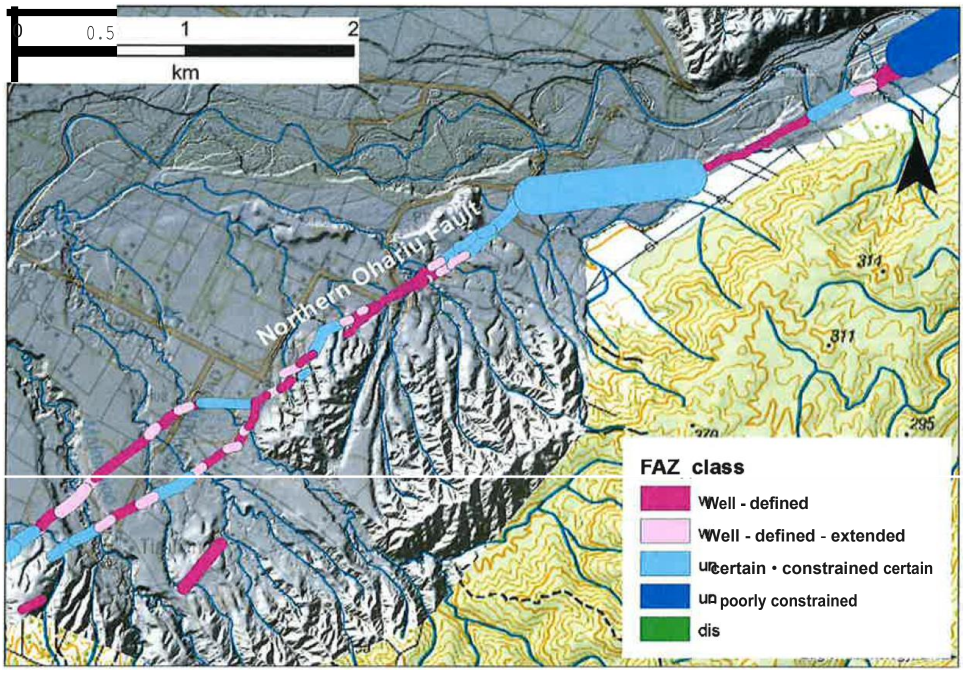
Fault-lines & Liquefaction

Aotearoa New Zealand is a unique place on the Earth's surface. It is positioned along the collision zone of two of the Earth's major tectonic plates – the Pacific plate and the Australian plate. The forces that have created our dramatic and beautiful landscapes also make New Zealand extremely prone to natural hazards, such as volcanoes, earthquakes, tsunami and landslides.

Dozens of slow-slip events (also known as "silent" earthquakes) have been detected in New Zealand since 2002. They occur up to 60 km below the earth's surface where the Pacific Plate meets the Australian Plate, along the Hikurangi Subduction Zone. Slow slips in the south (Kapiti and Manawatu) happen deeper than those in the north Hawke's Bay and Gisborne hence the severity of quakes felt on the East Coast.

The Northern Ohariu fault is a newly (100 years ago) discovered active fault that extends for some 60 km from between about Otaki along the Tararua ranges to near Palmerston North. It appears to be the northern extension of the better known active Ohariu fault (Figure 2), and collectively these two faults define a major earthquake generating strike-slip fault that has a total length in excess of 130 km. The Northern Ohariu fault is capable of generating large earthquakes (magnitude Mw 7.2-7.5) **once every few thousand years.** Even larger, more damaging, earthquakes (Mw 7.7) could result if the Northern Ohariu fault were to rupture simultaneously with the Ohariu fault. The most recent large earthquake on the Northern Ohariu fault occurred between several hundred and about one thousand years ago, and resulted in 3-4 metres of surface rupture displacement of the ground surface. Fault rupture of the ground surface, strong ground shaking, liquefaction, and land-sliding will be the principle earthquake hazards associated with a large, surface-rupture earthquake on the Northern Ohariu fault. Houses, transmission lines, pipe lines, and roads cross the fault, and 3-4 metres of surface rupture displacement will adversely affect these structures.

Figure 2 - Fault Avoidance Zone map for part of the strike-slip Northern Ohariu Fault on the south side of the Ohau River.



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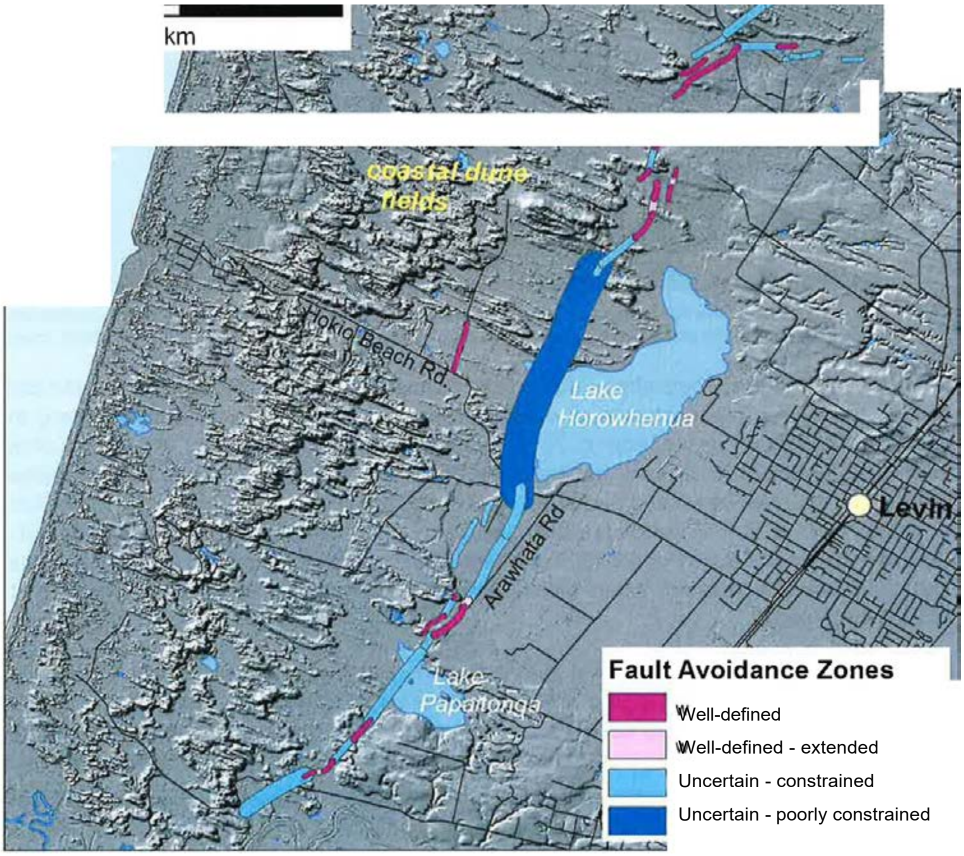
Natural Disaster Risk Assessemnt 2023

The Poroutawhao Fault (Figure 3) is a newly-identified active fault in the western part of Horowhenua District, on the seaward side of Lake Horowhenua below.

Figure 3 Map of Fault Avoidance Zones along the newly-identified Poroutawhao Fault near Levin



Parts of the Horowhenua and Manawatu are known to be susceptible to liquefaction. As such, we anticipate that liquefaction will feature of a Northern Ohariu fault earthquake, and will affect most severely the young, low-lying, coastal sand country, river terraces, and flood plains of the Kapiti, Horowhenua, Manawatu, and Wairarapa lowlands from Paraparaumu in the south, Palmerston North in the north, and Foxton Beach, and Eketahuna in the west, and east, respectively. Earthquake-induced landslides will also be generated, and these will be most extensive along the western flank of the Tararua Range between the Otaki River in the south, and Kahuterawa Stream (10km NE of Tokomaru) in the north. Consequent with earthquake-induced land-sliding is river aggradation, and the possible impacts this may have on flood control measures, and potential flooding resulting from failure of landslide dams.

Recent quakes have occurred 20 – 40kms below the surface of the Kapiti Coast, near the interface of the Australian Plate and sub-ducting Pacific Plate – at the point where the Pacific Plate starts to dip more sharply. The flexed Pacific Plate builds up stress, which is largely released as ‘normal faulting’ earthquakes, Further interpretation and modelling of the earthquake sequence shows that the quakes are likely occurring at depth in the overlying Australian Plate, rather than the sub-ducting Pacific Plate.

Seismic energy generated at the interface between the two tectonic plates travels very effectively along the plate boundary, which helps explain why these earthquakes have been so widely felt.

Natural Disaster Risk Assessemnt 2023

The earthquakes have also occurred in the Horowhenua-Manawatu region where the Hikurangi subduction zone slips approximately every five years in slow-motion earthquakes, or "slow-slip events". Horowhenua slow-slip events typically last about a year, and the last one occurred in 2014-2015. The Hikurangi Subduction Zone is located in the Hikurangi Trough off the East Coast of the North Island. As the subduction zone is to the east of the North Island, where the Pacific plate plunges down under the Australian plate, it is more likely Horowhenua will play a major role in supporting communities on the east coast, Wellington or the top of the South Island during the response and recovery phase, should NZ experience a Mega Subduction Zone Earthquake in the future.

The characteristics of two of the larger faults within the Study Area are summarised in Table 4 (noting that other large faults outside the study area could also cause strong shaking within it).

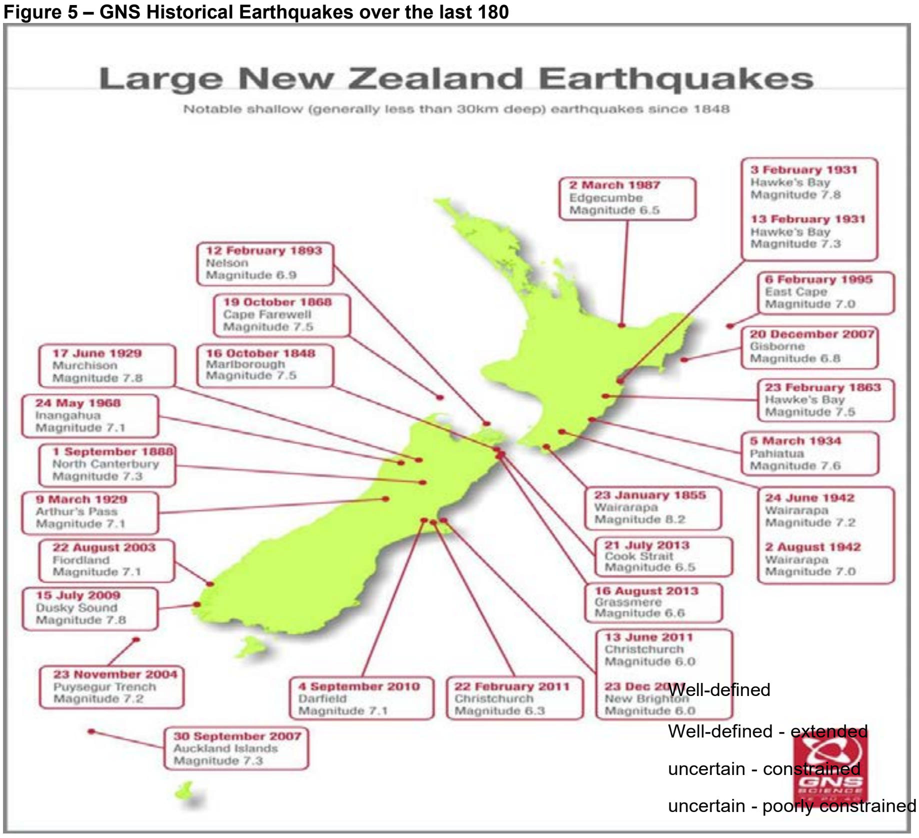
Figure 4 Examples of the larger known active faults in the Horowhenua District

Fault name	**Mw**	**Fault type**	**Recurrence interval***
Northern Ohariu Fault	7+	Active Shallow Crust	2000-3500 years (Class II)
Poroutawhao Fault	6.8	Reverse Fault - Active Shallow Crust	5000-10,000 years (Class IV)

Understanding our exposure to the risks associated with earthquakes in our district is difficult and so we are often informed by historical information. The map below identifies earthquakes greater that 6 on the Richter scale experienced in NZ since the 1840s. As per the Historical NZ Earthquake Map (Figure 5) below, over the last 180 years the majority of major earthquakes have hit on the east coast of both islands. There have been ten major (>6) earthquakes centered along the East Coast of the North Island since 1855, with no major earthquakes recorded on the western side if the North Island over the same period. The biggest Earthquake experienced in since European colonisation was in 1855 in the southwest Wairarapa (25 km from Wellington) and was 8.2 on the Richter scale.

Natural Disaster Risk Assessemnt 2023

Figure 5 – GNS Historical Earthquakes over the last 180



Liquefaction

Soil liquefaction is a phenomenon in which the strength and stiffness of a soil is reduced by earthquake shaking or other rapid loading. Liquefaction and related phenomena have been responsible for tremendous amounts of damage in historical earthquakes around the world.

A policy approach[1] to liquefaction assessments for the Horowhenua District was adopted at a meeting of Council on 10 August 2022. This policy defines Councils approach to planning and consenting future and existing developments.

Directly linked to a significant seismic event, liquefaction would be more problematic from a disaster recovery perspective, especially its impact on our districts underground infrastructure. These assets which are currently included in the Affordable Waters Reforms are currently covered by our inclusion in the Local Authority Protection Programme (LAPP Fund). The LAPP Fund was established in 1993, to help its New Zealand local authority members pay their share of infrastructure replacement costs for water, sewage and other essential services damaged by natural disaster.

Since 1991, central and local government has shared responsibility for these costs. Beyond a threshold, central government will pay 60% of the restoration costs, leaving local authorities 40%.

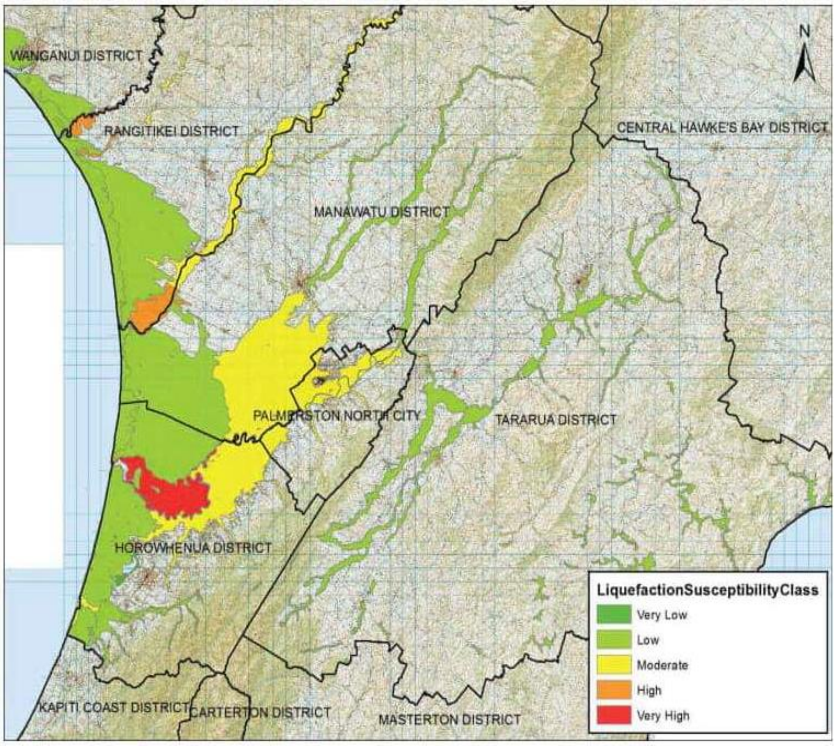
Of the 78 local authorities in New Zealand, 22 are currently Fund members. Our current excess on all claims is $1m however as a Council we only pay 40% ($400k) on that as Govt covers 60%.

[1] Liquefaction Assessments Policy

Natural Disaster Risk Assessemnt 2023

In February 2023 Tonkin & Taylor completed a Horowhenua District Liquefaction Vulnerability Assessment[2] providing enhanced mapping of the liquefaction risks within the district. The biggest influence on associating the level of risk and insurance coverage needs is understanding the likelihood of a major earthquake.

Figure 6 - The liquefaction susceptibility map produced by GNS in 2016



As shown in Figure 7, there have been multiple historic earthquakes in New Zealand that resulted in MMI in Horowhenua that could have caused liquefaction. Although there have not been accounts of liquefaction for all events associated with a MMI7 or greater, three earthquakes have reports of liquefaction damage in areas of Horowhenua

Figure 7 - Historic earthquakes and their MMI felt in Horowhenua

Historic Earthquake	MMI felt in Horowhenua	Liquefaction Observations
1848 Wairau	7	Soil cracking and ground water ejection near Ohau
1855 Wairarapa	7 - 9	Sand boils and ground fissures in Ohau
1863 Hawkes Bay	7 – 8	No reports
1904 Cape Turnagain	5 - 7	No reports
1917 Tinui	5 - 7	No reports
1931 Hawkes Bay	6 - 7	No reports
1942 Masterton	8 – 9	Sand boils and ground fissures noted in Opiki
2014 Eketahuna	7	No reports

[2] Horowhenua District Liquefaction Vulnerability Assessment (attached)

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Natural Disaster Risk Assessemnt 2023

Horowhenua District Asset & Settlement Location

Overview

As a district council, Horowhenua currently insures approximately $350 million in above ground assets. A large proportion of these assets are geographically located among eight settlements or communities as identified below. The largest amount can be contributed to Water Treatment and Waste Water Treatment Plants that also includes reservoirs, ponds, pump stations, and aquifers etc. Levin with the largest population is also home to the Horowhenua District Council which leads and represents our communities. This provides high valued asset base that supports the council in its ability to function. The map below indicates such natural hazards as our flood plains, fault lines, liquefaction and Coastline or Tsunami risks is indicated our settlements and the assets associated with those communities.

Tokomaru

Tokomaru is a small town in in the north eastern part of or district. It is located 18 kilometers southwest of Palmerston North, and a similar distance northeast of Shannon. A small population of approx. 954 residents, the rural township sits beneath the foothills of the Tararua ranges and has approx. $4.6m in council assets that consist of the Tokomaru Underpass on SH57, a Waste Water Pump Station & Ponds, Water Treatment Plant and Tokomaru Domain Amenities. While Tokomaru is in close proximity to the Tokomaru River, any threats from flooding is limited by its size and location below the township and the natural flow path away from Council assets and towards the Manawatu River. Equally the Manawatu River offers little threat with the comprehensive Lower Manawatu Flood Scheme and high level of control provided by the Moutoa Sluice Gates and Floodway.

Foxton & Foxton Beach (Te Awahou)

Foxton is a town on the lower west coast of the North Island, in the Horowhenua district, just north of Levin (20km). The town is located close to the banks of the Manawatu, the slightly smaller coastal settlement of Foxton Beach is considered part of Foxton, and is located 6 km to the west, on the Tasman Sea coastline. Home to approximately 5000 residents, Foxton includes Council assets worth approx. $67m, again the main value being in the Waste Water Treatment and Water Treatment Plants. Te Awahou Nieuwe Stroom, Museum and Community Center valued at $14.6m are relatively new and built to a standard to survive most perceived hazards. The Foxton Pool is currently being upgraded in a number of areas which will improve the overall value as well as its structural soundness of the Asset, currently valued at $4.2m. Equally The Asset most exposed to a natural hazard risk would be the Foxton Waste Water Treatment Plant & Ponds valued at approx. $13.2m located at Matakarapa Island surrounded by the River-loop that runs from the Manawatu River. The risks associated with the flooding of the Manawatu River are heavily mitigated by the Lower Manawatu Flood Scheme and high level of control provided by the Moutoa Sluice Gates and Floodway. However the Plant’s location right next to the loop, and low lying landscape do increase the risk exposure during extreme wet weather events. Through our recent external Liquefaction Analysis and Reports, Foxton Beach area is exposed to a high level of potential liquefaction damage, should that area of the district experience a significant seismic event.

Shannon

Shannon is a small town in the Horowhenua District of New Zealand's North Island, located 28 kilometres southwest of Palmerston North and 15kms northeast of Levin.

The main activities in the district are dairy, sheep, and mixed farming. Mangaore (5 kilometres east) is the residential township for the nearby Mangahao hydro-electric power station, which was the second power station to be built in New Zealand and the first to be built by the government.

With a population of approximately 1560 residents it is also home to approximately $30m in council owned assets. The largest of its assets is the Waste Water Treatment Plant and Ponds at approximately $21M. Other assets not so critical in relation to life’s necessities include the railway

Natural Disaster Risk Assessemnt 2023

station, library, sportsground grandstand and the War Memorial Hall, all important to groups within the community.

Levin

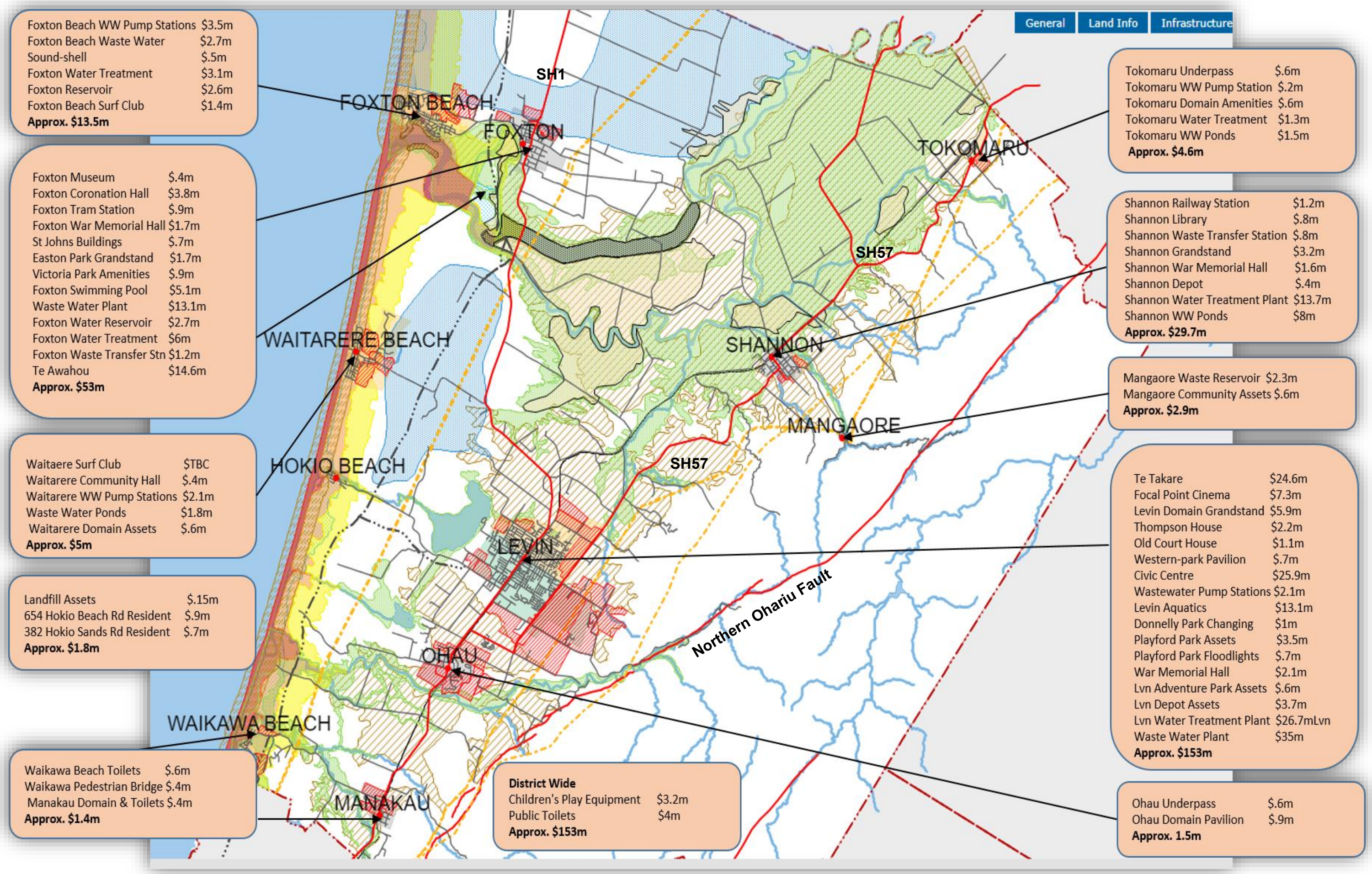
Levin is the largest town and seat of the Horowhenua District, It is located east of Lake Horowhenua, around 95 km north of Wellington and 50 km southwest of Palmerston North.

The town has a population of 20,090 (June 2022) and is a service centre for the surrounding rural area, and a centre for light manufacturing. With the largest population Levin is also home the Horowhenua District council and approximately $170m in council assets, these include high value assets like *Te Takeretanga* o Kura-hau-pō and the Civic Centre valued at $25m and $26m respectively. Other high value assets include the Cinema at $7m, Levin Aquatics $13.5m and Levin Domain at $6m, this said and as with other towns in the district our biggest value assets no less than $65m.

Compared to all the towns within our district Levin has the least exposure to natural hazards and events due to its location inland from the coastal hazards, being away from any significant waterways or rivers, located on a natural floodplain west of any major faultline located in the Tararua ranges.

Again from our recent external Liquefaction Analysis Reports, the Southern part of the Levin Township is exposed to a moderate level of potential liquefaction damage, should that area of the district experience a significant seismic event.

Natural Disaster Risk Assessment 2023



Natural Disaster Risk Assessment 2023

Horowhenua District Asset Risk Summary

We would be foolish to assume or ignore any planning in preparing for a significant event occurring in New Zealand at any given time. Equally for the Horowhenua district we need to continue to enhance our preparedness and resilience as we continually strengthen our business response and recovery planning for an emergency. This includes educating and training our staff and community, developing and testing our planning, continually assessing our risks, improving our capacity to proactively enhance our environment i.e. stop banks, informed urban growth planning, and improving our financial stability.

Understanding the risks we face in our district is important to understanding how much financial risk we can take or transfer (insurance) when preparing for a major disaster that provides regional damage. As established within this paper and the map above, our high valued assets are well distributed throughout the region with the majority of them being attributed to critical infrastructure above and beneath ground.

We are blessed in the Horowhenua in being located in an area that for the last 180 years has evaded any catastrophic or severely damaging event including the recent cyclones, the floods of 2004, and catastrophic earthquakes experienced in Hawkes Bay, Christchurch and Kaikoura. We are also fortunate enough to have a landscape and position geographically, that at times shelters us from the severity of events i.e. The Tararua Ranges, South Taranaki Bight, Farewell Spit, natural flood plains as a landscape. Apart from the tornado in 2022, in the past we have been in a position to provide support to other regions or neighboring districts rather than recovery during times of adversity.

As a Local Govt organisation we are not financially viable or independent where we can afford manage any perceived risks in isolation. Equally important is the need to be accurate in transferring any risk to a third party/insurer, balancing our level of risk, against one off events that cause limited damage and an event that causes widespread damage.

As with the above assessment, our single biggest threat of major damage in the Horowhenua is that of a Mega Seductive Zone Earthquake caused by movement in the Australian and Pacific Plates that centers itself in the upper South Island, Wellington, and Eastern Region of the North Island. Points to consider when assessing the level of coverage needed for HDC includes understanding that:

- An earthquake of this type centering at a low depth and a location closer to our borders such as Wellington or Wairarapa will provide areas of isolated damage to our community and assets.
- The likelihood of this happening precisely at these points of impact is unlikely.
- While the consequences to our assets could be major, centered widespread damage is also unlikely.
- Looking at the damage experienced across the four Hawkes Bay Councils during Cyclone Gabriel which was widespread and devastating was approximately $110m to council owned assets.
- Our coverage for our critical infrastructure underground assets through LAPP remains unchanged.
- A large number of our aboveground, high valued assets in our two biggest communities Levin & Foxton i.e. Civic Centre, Te Takeretanga o Kura-hau-pō, Te Awahou Nieuwe Stroom, Swimming Pools, Cinema have been built in the last two decades and designed to withstand large quakes.
- Equally assets associated with our critical water services are older and more inclined to sustain damage.
- We often repair any damage caused by small events i.e. vandalism, theft, minor flooding and operational damage by absorbing costs within our operating budgets. Balancing this with the risk we are exposed to from a significant natural hazard, we can adjust our coverage that allows us to absorb risk through self-insurance at the front end with higher deductibles i.e. $100k-$300K.
- Coverage should extend to high value and critical assets, for moderate to significant damage

Natural Disaster Risk Assessemnt 2023

- Balancing the total type of total coverage we need as part of the MWLASS Insurance approach against the risk we are exposed to, can be limited to an amount that meets the limited risks we are exposed to i.e. $50m per event

Table 1.1 - Potential disruption arising from natural hazards

Potential Disruption Arising from Natural Hazards		
Risk	**Consequence**	**Mitigation**
Rainstorm and flooding (including groundwater surge)	Roads closed due to flooding. Reopen after event. Bridges washed out, resulting in road closures for several months. Houses & Businesses flooded. Critical Infrastructure capacity overwhelmed impacting on ability to cope with water volume, limiting fresh water supply and waste overflow	The landscape that makes up the Horowhenua mainly consists of natural flood plains which is supported by Flood Control Schemes managed by Horizons Regional Council. Essentially the majority of HDC assets are protected by stop banks, flood gates and design. **Residual Risk Low**
Windstorm	Loss of power due to falling trees, affects street lighting. Blockage of roads and access ways due to falling trees and debris. Results in road closure until repairs are carried out. Quickly cleared by local contractors. Damage to council buildings	The 2008 windstorm uprooted trees leading to additional maintenance costs in the vicinity of $200,000. A regime of monitoring the maintenance contract to ensure that overhanging vegetation is maintained in accordance with the contract requirements is sufficient to manage this risk. **Residual Risk Low**
Fire	Nil	Council's roading assets are not particularly vulnerable to fire, especially underground infrastructure like piping. Any fire related event is likely to be highly localised and short term. Alternative routes are available for the majority of the network in the Horowhenua district. This is deemed to be adequate management for fire risk. **Residual Risk Low**
Earthquake	Critical infrastructure such as water supply and Waste Water, Roads damaged and blocked by debris. Older, brittle culvert pipes are vulnerable to earthquake. A large scale earthquake has the potential to completely disrupt the transportation network. Bridges and other structures damaged will result in road closures for several months. Ongoing disruption due to service replacement /restoration is likely. The biggest threat of damage comes from a Mega Seductive Zone Earthquake triggered by megathrust earthquake. Historically these earthquakes have their epicentres located on the East Coast of the North Island or neighbouring councils.	Council's bridge structures are built in accordance with building regulations and none are deemed to be an earthquake risk. Provisions of emergency bridge structures (bailey bridge) or fords can be erected quickly in a significant event. Restoration of the road pavement can be achieved by ripping of the road surface, temporarily reverting to unsealed. Roads blocked by debris can be cleared under the maintenance contract. A generalised response procedure plan for responding to an emergency event needs to be developed and communicated within the roading team and included within the maintenance contract. The likelihood of an Earthquake causing widespread damage with its epicentre in our district is rare**. Residual Risk Moderate,** based on location and depth of Earthquake**.**
Landslide	Roads blocked by slip debris. Causing long-term blockages of critical transport routes. . Roads and structures damaged by under slips, resulting in road closures for several months. Larger events could lead to loss of closure for months/years.	A regular regime of clearing drainage systems and ensuring they are adequate, under the maintenance contract, is the best low cost/low risk methodology for the majority of the network. Existing contracts with local contractors as part of BCP response and recovery. Larger scale potential disruptions will be identified against critical assets and susceptible landscape prone to slippage. As previously identified the majority of council assets are located on low rolling landscape. **Residual Risk Low**
Tsunami	Roads blocked by debris. Temporary loss of service. Potential damage to	Horowhenua Coastline (35k) is generally protected from a significant damage causing Tsunami through the geographical positioning of the South Taranaki Bight and the Top of the South Island including Golden and Tasman Bays that protects the bay. As per the **NZ Coastline Tsunami Risk Map** (HDC Hazard

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Natural Disaster Risk Assessemnt 2023

		Risk Assessment 2023) if we were exposed the effects of a Tsunami the wave heights would be at the lower end of the scale at 2 – 4 metres. The impacts on Council infrastructure and property, would be on assets such as surf Clubs, public toilets, parks, limited roading and underground piping. Roads blocked by debris. Temporary loss of service. Clearance and clean-up as per the BCP Response and Recovery planning. **Residual Risk - Low**
Volcanic event	The biggest risk is wind direction and volcanic ash related risks i.e. damage to mechanical & electrical equipment, Roads blocked by ash. Temporary loss of service.	As an event of this nature would be occurring at some distance, it is likely that any ash fall would be small in nature. Ongoing clearance of the road by the maintenance contractor is sufficient to manage this temporary and intermittent loss of service. R**esidual Risk Low**
Ice on Road	Severe polar blasts from south, extreme frosts in high risk shaded areas increase risk of accidents	Signage in high risk areas. Severe weather warnings observed. Winter preparations. Communications plan. CIMS training undertaken. Registers of sub- contractor equipment and local volunteers. Winter Operation Plan in place.

6.3 Treasury Report for the June 2023 Quarter

File No.: 23/511

1. Purpose

1.1 To present to the Risk and Assurance Committee the Bancorp Treasury Reporting Dashboard for the June 2023 quarter.

2. Recommendation

2.1 That Report 23/511 Treasury Report for the June 2023 Quarter be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

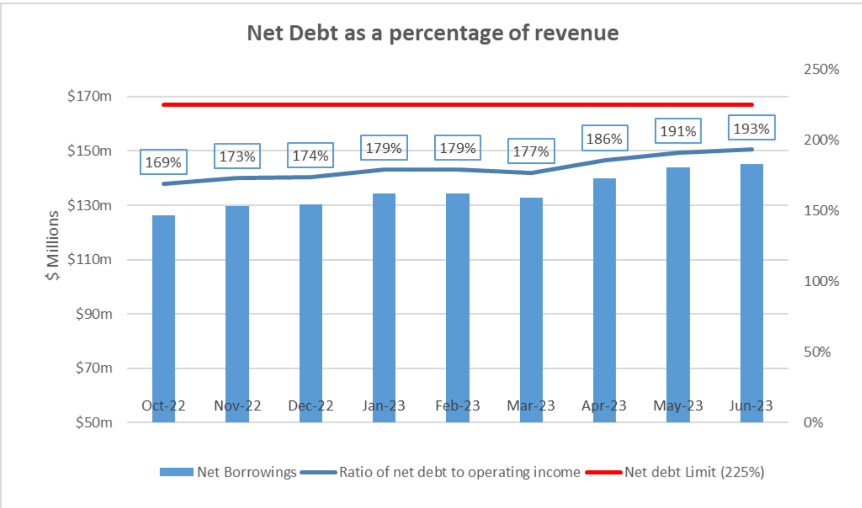
3.1 This quarterly Treasury Reporting Dashboard is produced by Council's treasury advisors, Bancorp Treasury Services Limited, for the benefit of Executive Leadership Team, Council and the Risk and Assurance Committee.

4. Issues for Consideration

4.1 Council had $165m of current external debt as at 30 June 2023, comprised of Commercial Paper (CP), Fixed Rates Bonds (FRBs) and Floating Rates Notes (FRNs), all sourced from the Local Government Funding Agency (LGFA). Current % of debt fixed is 57% ($94m) and current % of debt floating is 43% ($71m).

4.2 In addition, Council has a $7m BNZ credit facility with a maturity date of 20 December 2024. As at 30 June 2023, $3m was drawn upon with the intention to be repaid in August 2023. The interest rate at the time of writing this report for the BNZ facility is 6.86%.

4.3 Council's net debt to total operating revenue as at 30 June 2023 is 193%. This is depicted in the following graph:



4.4 Cost of funds as at 30 June 2023 was 4.49%. Stubbornly high core inflation, tight labour markets, and wage inflation continue to impact the developed economies, which has seen several central banks continue to hike interest rates.

4.5 Since the last meeting, Council has entered into two new interest rate agreements with Westpac in June for 1) $7m starting 20 March 2026 and finishing on 20 April 2029 at 4.05%, and 2) $8m starting 19 May 2025 and finishing on 15 April 2030 at 4.125%. This has been done to ensure an increased level of fixed rate debt based on Council's policy bands set out in the Liability Management Policy.

Attachments

No.	Title	Page
A⇩	Horowhenua Treasury Dashboard as at 30 June 23	91

Confirmation of statutory compliance

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

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

Signatories

Author(s)	Pei Shan Gan **Financial Controller**	

Approved by	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

Horowhenua
DISTRICT COUNCIL

Treasury Reporting Dashboard

30 June 2023

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Economic Commentary

2

Global (for the June 2023 quarter)

Stubbornly high core inflation, tight labour markets, and wage inflation continue to impact the developed economies, which has seen several central banks continue to hike. Some, like the Reserve Bank of Australia ("RBA") and the Bank of Canada ("BoC"), return to hiking after having earlier paused during the quarter.

At its June meeting, the US Federal Reserve ("Fed") paused its hiking cycle for the first time since March 2022, with the Fed Funds range at 5.00%-5.25%. However, this stalling will likely be consigned to the history books as the 'pointless pause' given that Fed Chair, Jerome Powell emphasised in his semi-annual testimony to Congress that "*the process of getting inflation down to 2% has a long way to go (as) the labour market remains very tight*". He also reminded markets that "*we don't see rate cuts any time soon. The FOMC broadly feels it will be appropriate to raise rates again this year, and perhaps two more times,*" to support the FOMC's dot plot forecasts.

The benchmark US 10-year bond yield touched a quarterly low of 3.26% in early April but climbed in the second half of May up to 3.83% as the debt ceiling fiasco played out. There was a brief respite from the selling until yields began another up-move in response to concerns that inflation would remain high for a longer than expected period and that this would have to be met with further increase in the Fed Funds rate. By the end of June, the yield had reached 3.88%.

While the European Central Bank ("ECB") met expectations, raising the deposit rate by 25bps to 3.50% at its June meeting, the risks remain firmly skewed towards higher rates for longer after ECB President Christine Lagarde announced "*inflation is expected to remain too high for too long. The ECB has more ground to cover. Barring a material change to our baseline, it is very likely that we will continue to increase rates at our next policy meeting in July.*" Interestingly, there is increasing evidence of splits within the ECB after Germany's Isabel Schnabel, a member of the bank's Executive Board and noted hawk announced, "*it is better to overdo it [with rate hikes] than to fall short,*" while French Governor François Villeroy, a dove, called for calm emphasising "*we are guided by data, not forecasts.*"

The June RBA Board meeting minutes confirmed that the risks have shifted to the upside when it comes to achieving the inflation target. The arguments favouring the two policy options of a pause or a 25bps rate increase were largely familiar: the slowing in activity and uncertain duration of policy lags versus the current strength of domestic inflation indicators, particularly the stickiness of services inflation.

Inflation in Australia came out better than expected after the May monthly release saw headline inflation fall to 0.0% from 0.3% in April. On an annual basis, inflation came in at 5.6%, a 13-month low, lower than last month's 6.8% and forecasts of 6.1%. Unfortunately, the 'core' print wasn't so encouraging, coming in at 6.4% on the year, while the trimmed mean eased to 6.1% from April's 6.7%.

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Economic Commentary

3

New Zealand (for the June 2023 quarter)

	OCR	90 day	2 years	3 years	5 years	7 years	10 years
31 March 2023	4.75%	5.24%	5.03%	4.72%	4.40%	4.31%	4.27%
30 June 2023	5.50%	5.70%	5.47%	5.09%	4.69%	4.55%	4.50%
Change	+1.25%	+0.46%	+0.44%	+0.37%	+0.29%	+0.24%	+0.23%

New Zealand entered a recession after March quarter GDP contracted -0.1%. This, combined with the December quarter's -0.7% (revised lower from -0.6%), means the domestic economy contracted -0.8% over the six months to 31 March. In annual terms, the economy grew 2.2%, although it was lower than the 2.6% forecast. While many will 'blame' Cyclone Gabrielle for the poor March quarter result, the main areas of weakness in the data were services, transport, manufacturing, and education, suggesting the wider economy is in a more precarious state than previously forecast.

Since the Reserve Bank of New Zealand's ("RBNZ") 25bps rate hike to 5.50% in May, domestic interest rate moves have been subject to the inputs and influences of international movements. This has seen the swap curve firm 23bps-46bps higher, with the larger increases occurring at the short end of the yield curve. Looking ahead, the RBNZ could now be on-hold until its November meeting, given that Governor Orr's comments at the May *Monetary Policy Statement* ("MPS") suggest that the RBNZ is unlikely to change its economic outlook by the 12 July meeting. While the General Election (on 14 October) will likely result in the RBNZ maintaining the status quo as, generally speaking, central bankers don't want to be seen to be placing undue influence on political events. The major upcoming data releases will be June quarter CPI (19 July), unemployment (2 August), retail sales (23 August), the Treasury's Economic and Fiscal Update 2023 (12 September), and June quarter GDP (21 September). Beyond the RBNZ meeting and data releases, the focus from financial markets will be on the depth and duration of the domestic recession and corporate performance and forecasts.

By the end of June, the markets were assigning a 28% chance that the OCR would climb to 5.75% by the end of the year and that the first cut would be in the middle of 2024, with the OCR at 4.50%-4.75% by October 2024. This is in contrast to the RBNZ which sees the OCR remaining at its current level until late 2024.

Even though the RBNZ has signalled an end to its hiking cycle, movements in New Zealand swap rates have been driven by movements in international yield curves until the cutting cycle begins. As an example, the recent rally in local swap rates has seen the 5-year swap rate break out of its prior 4.25%-4.50% range and rally to close the quarter at 4.69%, driven by the recent rally in US treasury yields, which saw the 10-year Treasury bond break out of its recent 3.30%-3.60% range to finish the quarter at 3.88%.

Internationally, investors will be monitoring the ratings agencies for any hints of a possible NZ sovereign rating downgrade, while the performance of the NZD and NZ interest rates will be largely dependent upon international inputs, especially international equity volatility, as liquidity drains ahead of the northern hemisphere summer.

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Liquidity and Funding

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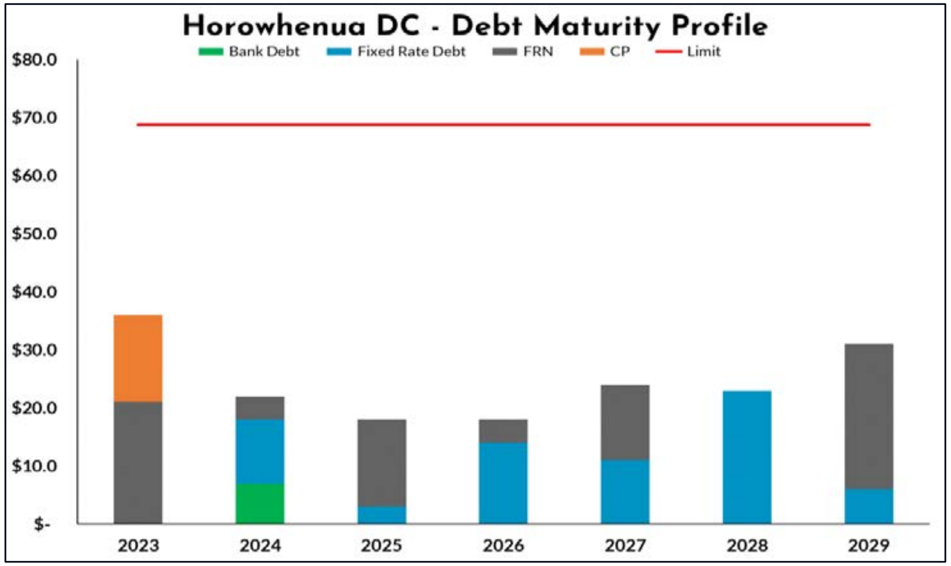

Policy Compliance	Compliant
Have all transactions been transacted in compliance with policy?	Yes
Is fixed interest rate cover within policy control limits?	Yes
Is the funding maturity profile within policy control limits?	Yes
Is liquidity within policy control limits?	Yes
Are counterparty exposures within policy control limits?	Yes

Current Debt
$165m
External Council Drawn Debt

Current LGFA Debt
$165m
Funds Drawn from LGFA

Headroom = undrawn bank facility and cash in bank
$26.189m

Liquidity Ratio
115.87%
Definition: (Cash Reserves + Lines of Credit + Drawn Debt)/Drawn Debt

Cost of Funds as at 30 June
4.49%

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Debt & Cover Profile

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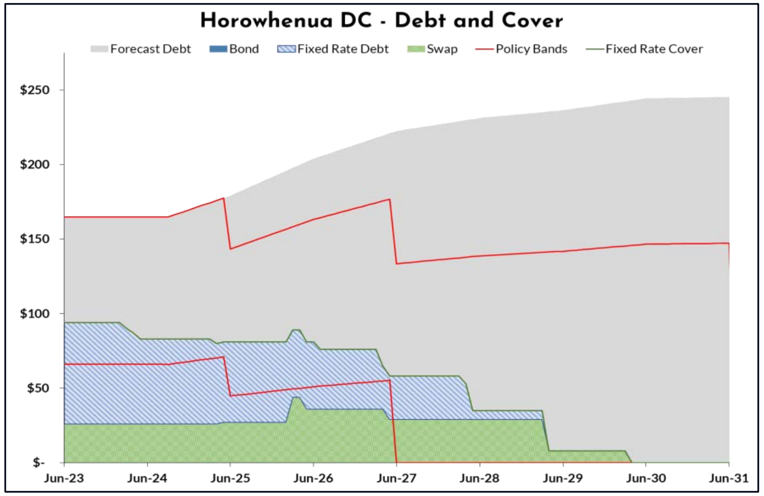

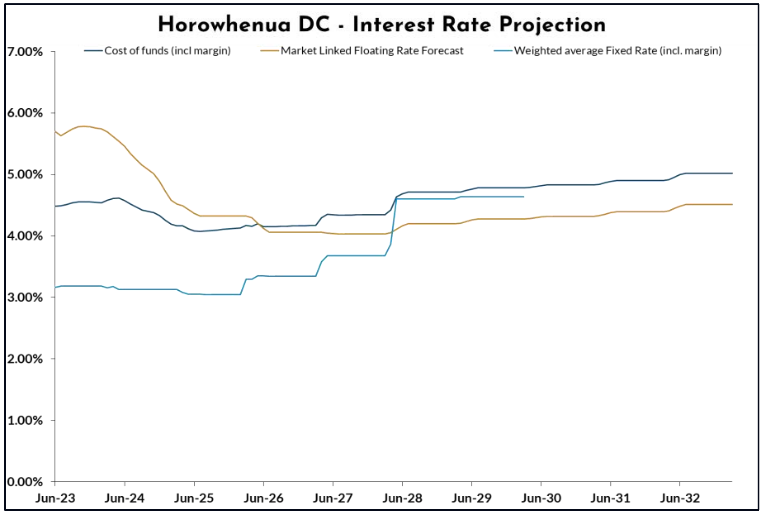

Current % of Debt Fixed	57.0%
Current % of Debt Floating	43.0%
Value of Fixed Rate (m)	$94.0
Weighted Average Cost of Fixed Rate Instruments	3.02%
Weighted Average Cost of Fixed Rate Instruments (incl margin)	3.17%
Value of Forward Starting Cover	$29.0
Weighted Average Cost of Forward Starting Cover	3.95%
Value of Floating Rate (m)	$71.0
Current Floating Rate	5.70%
Current Floating Rate (incl margin)	6.24%
All Up Weighted Average Cost of Funds Including Margin	4.49%
Total Facilities In Place	$172.0

Policy Bands			
	Minimum	*Maximum*	*Policy*
0 - 2 years	40%	100%	Compliant
2 - 4 years	25%	80%	Compliant
4 - 8 years	0%	60%	Compliant

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Horowhenua DC - Funding

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As at 30 June

As at 30 June 2023, HDC had $165.0 million of core debt, all of which is sourced from the LGFA using Commercial Paper ("CP"), Floating Rate Notes ("FRN's") and Fixed Rate Bonds ("FRB's"). In addition, HDC has a $7m BNZ facility, with a maturity date of 20 December 2024. Details of the drawn LGFA debt is as follows.

Instrument	Maturity	Yield	Margin	Amount
LGFA CP	27-Jul-23	5.69%	N/A	$15,000,000
LGFA FRB	15-Mar-24	3.72%	N/A	$4,000,000
LGFA FRB	15-Apr-24	2.52%	N/A	$3,000,000
LGFA FRN	15-Apr-24	6.04%	0.49%	$4,000,000
LGFA FRB	15-May-24	3.76%	N/A	$4,000,000
LGFA FRB	15-Apr-25	4.20%	N/A	$3,000,000
LGFA FRN	15-Apr-25	6.36%	0.81%	$5,000,000
LGFA FRN	15-Apr-25	5.99%	0.44%	$3,000,000
LGFA FRN	15-Apr-25	6.06%	0.51%	$4,000,000
LGFA FRN	18-May-25	6.19%	0.49%	$7,000,000
LGFA FRB	20-Mar-26	3.38%	N/A	$9,000,000
LGFA FRN	15-Apr-26	6.11%	0.56%	$4,000,000
LGFA FRN	15-Apr-26	6.03%	0.50%	$4,000,000
LGFA FRN	15-Apr-26	6.05%	0.50%	$6,000,000
LGFA FRB	15-Jul-26	3.37%	N/A	$5,000,000
LGFA FRN	15-Apr-27	6.31%	0.76%	$5,000,000
LGFA FRB	15-Apr-27	1.66%	N/A	$5,000,000
LGFA FRB	15-Apr-27	2.12%	N/A	$6,000,000
LGFA FRN	15-Apr-27	6.12%	0.57%	$8,000,000
LGFA FRN	15-Apr-27	6.14%	0.61%	$4,000,000
LGFA FRB	15-May-28	1.68%	N/A	$5,000,000
LGFA FRB	15-May-28	2.11%	N/A	$6,000,000
LGFA FRB	20-Apr-29	2.58%	N/A	$12,000,000
LGFA FRN	20-Apr-29	6.29%	0.63%	$3,000,000
LGFA FRN	15-Apr-30	6.20%	0.54%	$5,000,000
LGFA FRN	15-Apr-30	6.35%	0.67%	$6,000,000
LGFA FRN	10-Oct-23	6.35%	0.53%	$4,000,000
LGFA FRN	15-Apr-24	6.26%	0.47%	$10,000,000
LGFA FRB	15-Apr-24	5.17%	N/A	$6,000,000

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LGFA Borrowing Rates

As at 30 June

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Listed below are the credit spreads and applicable interest rates as at the end of June for Commercial Paper ("CP"), Floating Rate Notes ("FRN") and Fixed Rate Bonds ("FRB"), at the Horowhenua District Council could source debt from the Local Government Funding Agency ("LGFA").

Maturity	Margin	FRN (or CP Rate)	FRB
3 month CP	0.15%	5.84%	N/A
6 month CP	0.20%	5.99%	N/A
April 2024	0.31%	6.00%	6.13%
April 2025	0.34%	6.03%	5.83%
April 2026	0.40%	6.09%	5.52%
April 2027	0.55%	6.24%	5.42%
May 2028	0.67%	6.36%	5.37%
April 2029	0.76%	6.45%	5.39%
May 2030	0.81%	6.50%	5.37%
May 2031	0.87%	6.56%	5.41%
April 2033	0.95%	6.64%	5.46%
May 2035	1.03%	6.72%	5.60%
April 2037	1.05%	6.74%	5.66%

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6.4 Health, Safety and Wellbeing Quarterly Report - August 2023

File No.: 23/505

1. Purpose

1.1 To provide the Committee with health, safety and wellbeing information and insight from 1 May to 28 July 2023 and to update the Committee on key health and safety critical risks and initiatives.

2. Recommendation

2.1 That Report 23/505 Health, Safety and Wellbeing Quarterly Report - August 2023 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

3.1 The Health, Safety and Wellbeing (HSW) Dashboard report gives a broad overview of lead and lag reporting across all of Council. It is designed to give Elected Members assurance that HSW is being managed for all staff through worker engagement, risk management and leadership. The variety of reporting captures multiple aspects of data available to Council and allows the story of HSW across the three month reporting period to be told. Any issues highlighted in the dashboard will be discussed as part of the presentation of the report.

3.2 Alongside the HSW Dashboard report this month is a deep dive into Footpaths. This report was requested at the last Risk and Assurance Committee meeting and was completed with the collaboration of the Land Transport team and health and safety. The report focuses on the Council health and safety responsibilities of footpaths, including contractor management, overlapping duties, due diligence and support of officers and contractors when incidents occur involving footpaths.

Attachments

No.	Title	Page
A⇩	HDC Risk and Assurance Committee HS&W Dashboard - August 2023 Final	101
B⇩	Deep Dive - Footpaths - August 2023	107

Confirmation of statutory compliance

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

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

Signatories

Author(s)	Tanya Glavas **Health & Safety Lead**	
Approved by	Ashley Huria **Business Performance Manager**	
	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

Health, Safety & Wellbeing - Quarterly Report May – July 2023
Risk and Assurance Committee Meeting 16 August 2023

Horowhenua DISTRICT COUNCIL SAFE+ MAKING HEALTH AND SAFETY WORK

Category	Measure	Developing	Performing	Leading
Leadership	HDC		3.33	
	Benchmark		2.33	
Risk Management	HDC		2.70	
	Benchmark		2.45	
Worker Engagement	HDC		3.33	
	Benchmark		2.18	

Horowhenua
District Council
May-July 2023

98%
-1.00

Internal Lead & Lag reports: HDC SAFETY INDEX

HDC SAFETY INDEX

*Note: Due to the absence of two Health and Safety Representatives, there has been a decline in Worker Engagement. However, please be informed that we are actively working to address this issue by undertaking a process to fill these essential roles throughout the organisation.

63%
+0.00

External SafePlus Assessment: SAFEPLUS INDEX

137%
+0.00

Central & Local Government: SAFEPLUS BENCHMARK INDEX

SAFE+
MAKING HEALTH AND SAFETY WORK

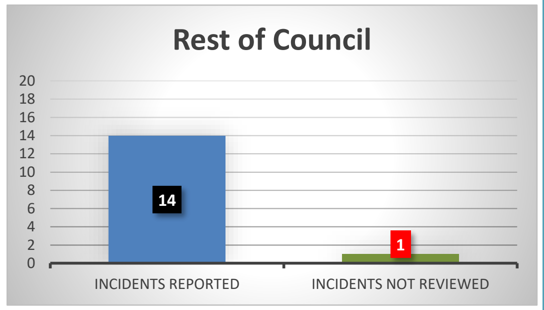
Leadership

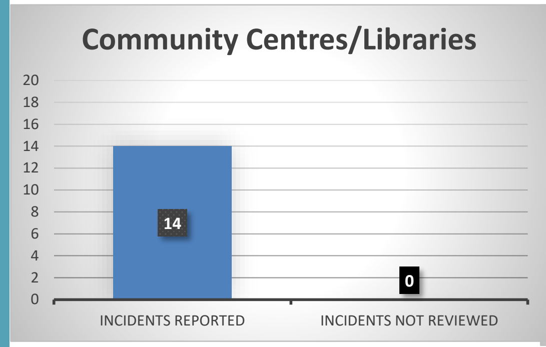
	Developing	Performing	Leading
HDC		3.33	
Benchmark		2.33	

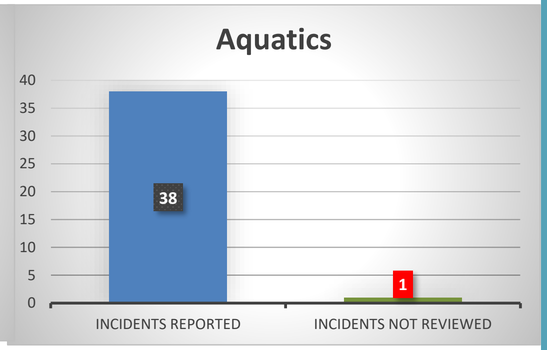
Leadership
May - July 2023

Executive Leadership Engages With Health, Safety and Wellbeing
(Due Diligence Obligations – Engagement May-July data)

We Review All Incidents
(All Incident are Reviewed
Within 2 Weeks May-July data)

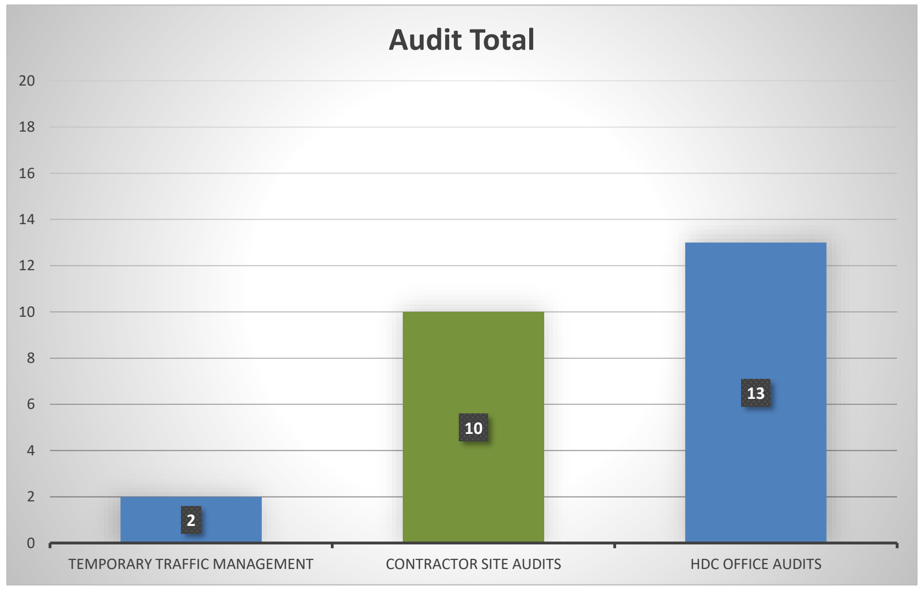






Leadership Walk – Foxton Pool Upgrade June 2023. ELT, RAC and Te Awahou Foxton Community Board attended a leadership walk through the worksite. The attendees had the opportunity to apply a health and safety lens to the worksite and get a greater understanding of contractor management.

We Check that Our Sites Have Essential Health and Safety Controls in Place
(Audits completed May-July data)



100%
+0.00

HDC SAFETY INDEX

67%
+0.00

SAFEPLUS INDEX

118%
+0.00

SAFEPLUS BENCHMARK INDEX

SAFE+ MAKING HEALTH AND SAFETY WORK

Risk Management

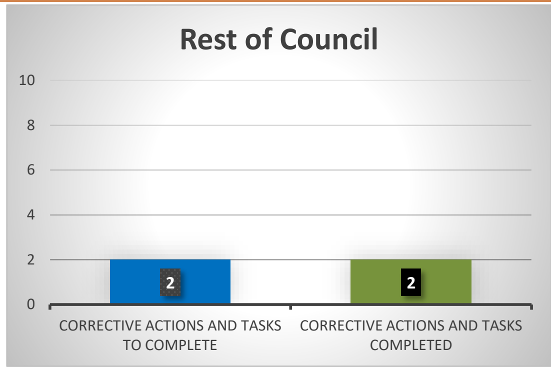
	Developing	Performing	Leading
HDC		2.70	
Benchmark		2.45	

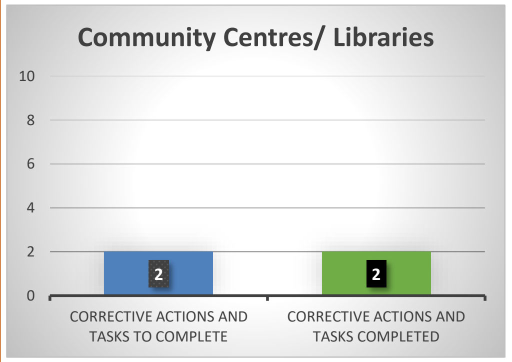
Risk Management
May - July 2023

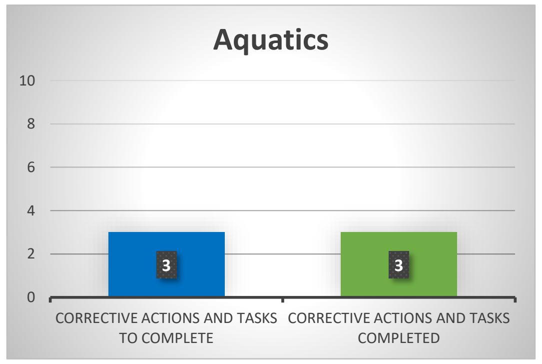
Worksafe visited Levin Waste Water Treatment Plant in July to conduct a random audit to check and review all our operational procedures including hazardous substances, operator training/certification. Two minor recommendations were advised by Worksafe.

We Ensure Corrective Actions and Tasks are Completed

(PeopleSafe Task Completion May–July data)







99%
+1.00

HDC SAFETY INDEX

54%
+0.00

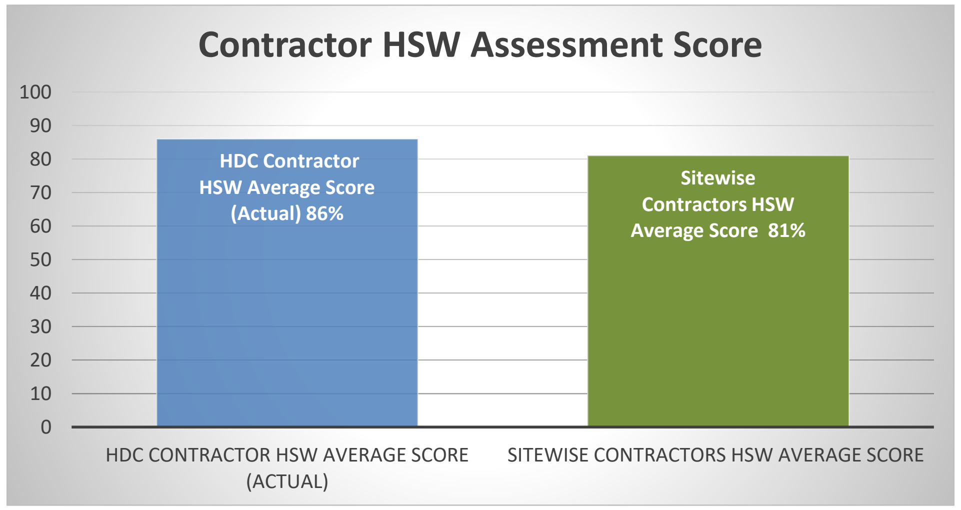
SAFEPLUS INDEX

110%
+0.00

SAFEPLUS BENCHMARK INDEX

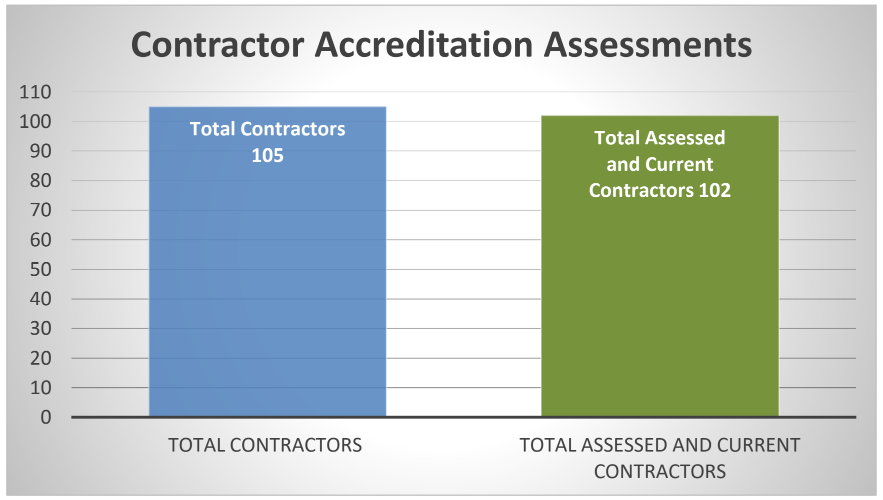
We Ensure All Contractors Maintain a High Standard of Health, Safety and Wellbeing

(Our Contractors HSW Assessment Scores are Above Average in Sitewise)



We Ensure All Contractor Accreditation Assessments are Up to Date

(Sitewise Assessments and Insurances are all up to date for all contractors)



SAFE+ MAKING HEALTH AND SAFETY WORK

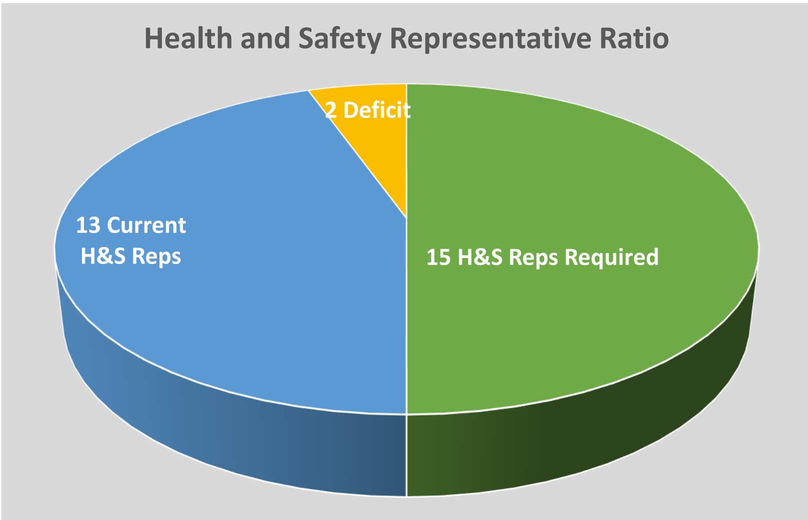
Worker Engagement	Developing	Performing	Leading
HDC		3.33	
Benchmark		2.18	

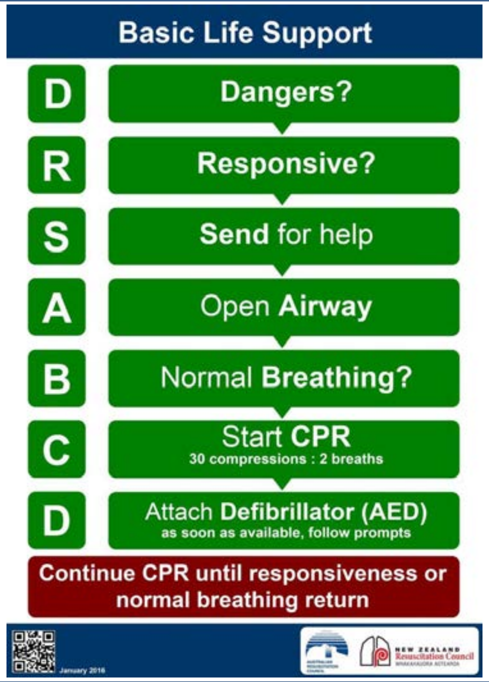
Worker Engagement

May - July 2023

We Ensure We Have Enough Health and Safety Representatives

(1:19 Health and Safety Representative ratio maintained)





Training Defibrillator Sessions. During July staff had the opportunity to learn how a defibrillator works. This training was completed with the aid of a resuscitation dummy and a training defibrillator from the Aquatics team. This allowed staff to hear how a defibrillator instructs a user to use it and to correctly set up the defibrillator for use and to also practice CPR on the dummy. Great confidence building exercise.

97%
- 2.00

HDC SAFETY INDEX

67%
- 0.00

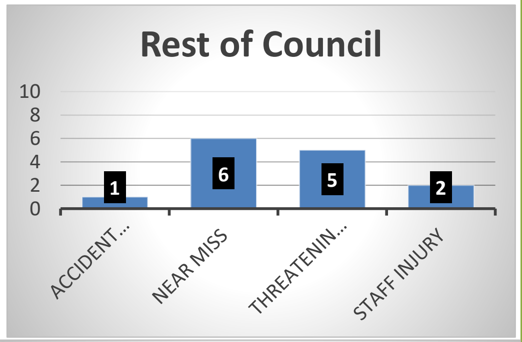
SAFEPLUS INDEX

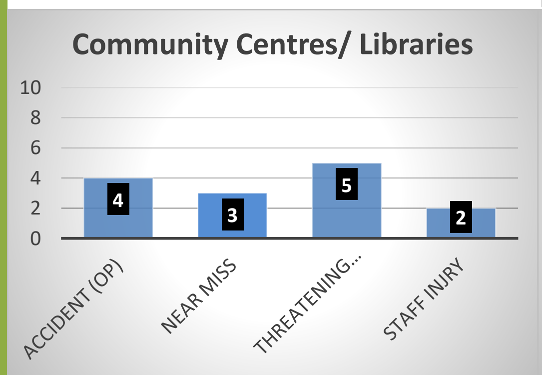
153%
- 0.00

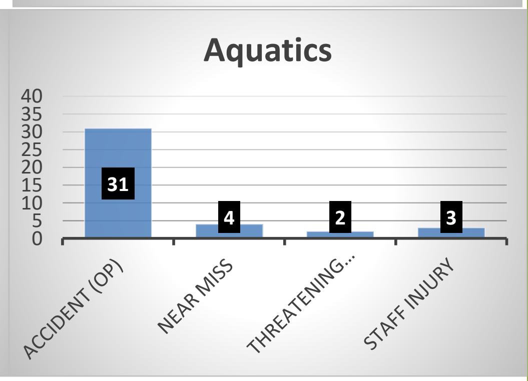
SAFEPLUS BENCHMARK INDEX

We Ensure All Incidents Are Reported

(All Incidents are Reported in PeopleSafe – July data)



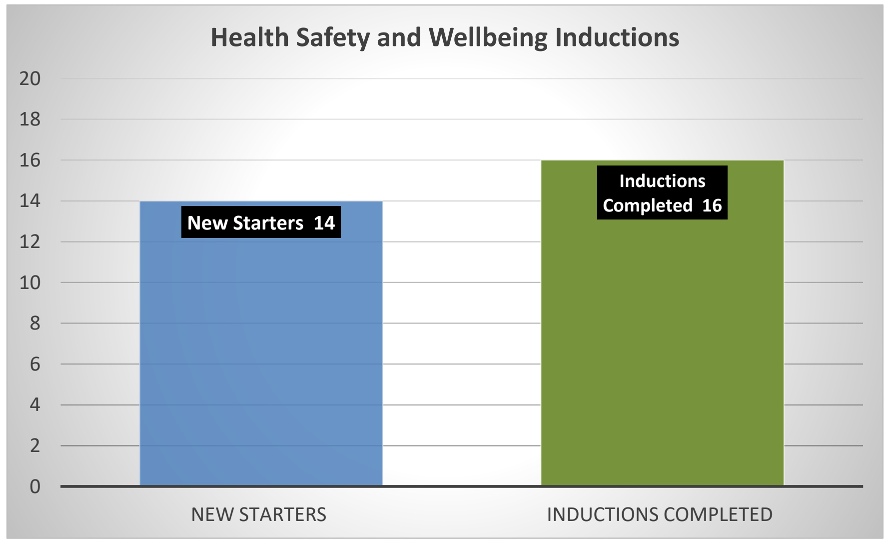




We Ensure All new Starters Receive Essential Health, Safety and Wellbeing Information

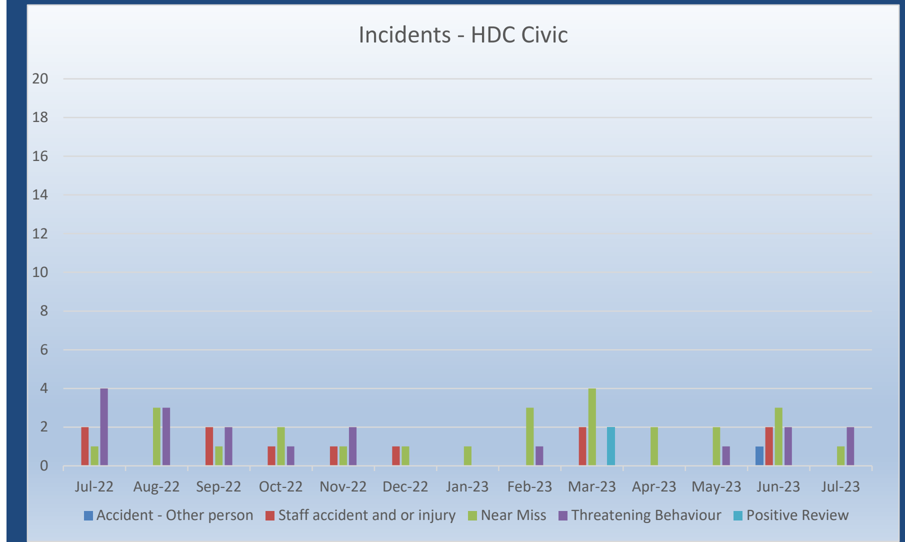
(HSW Inductions completed for new staff May-July data)

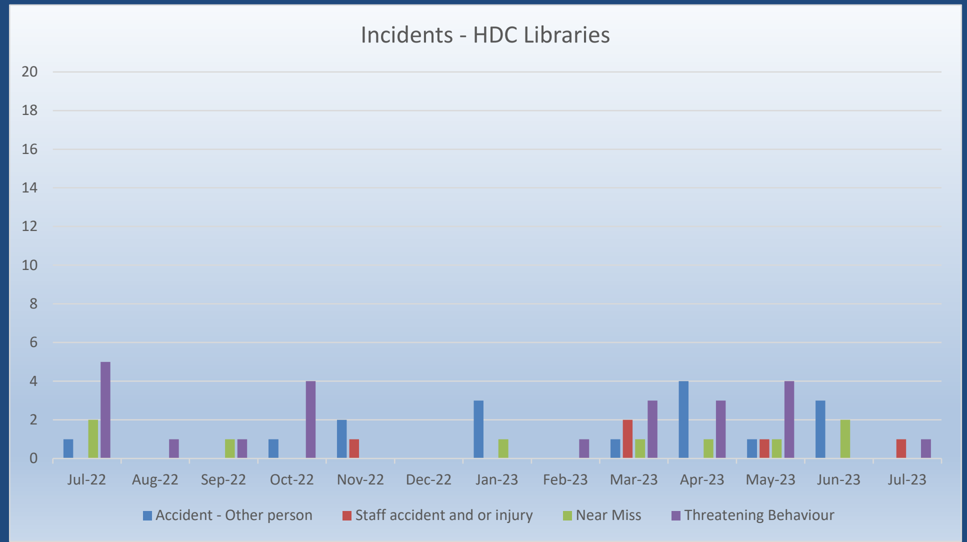
(Two extra inductions completed for staff transferring facilities)

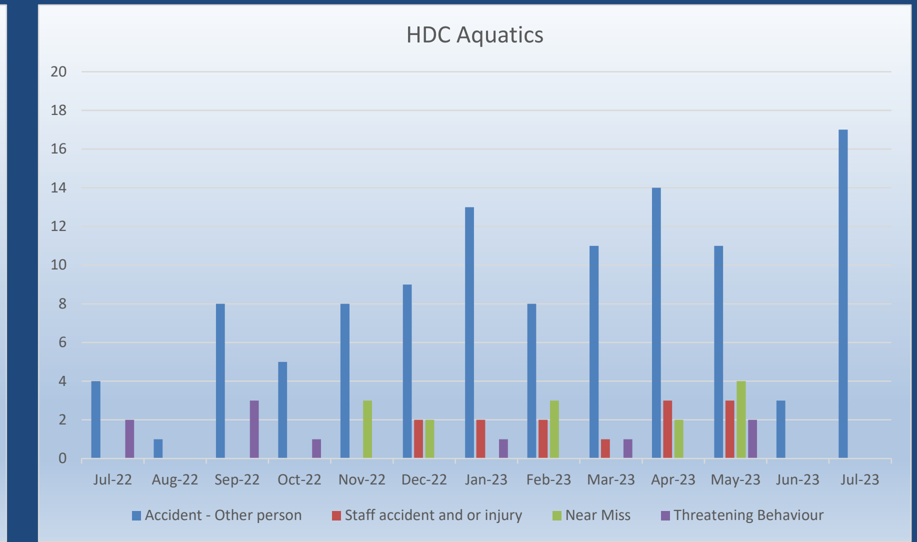


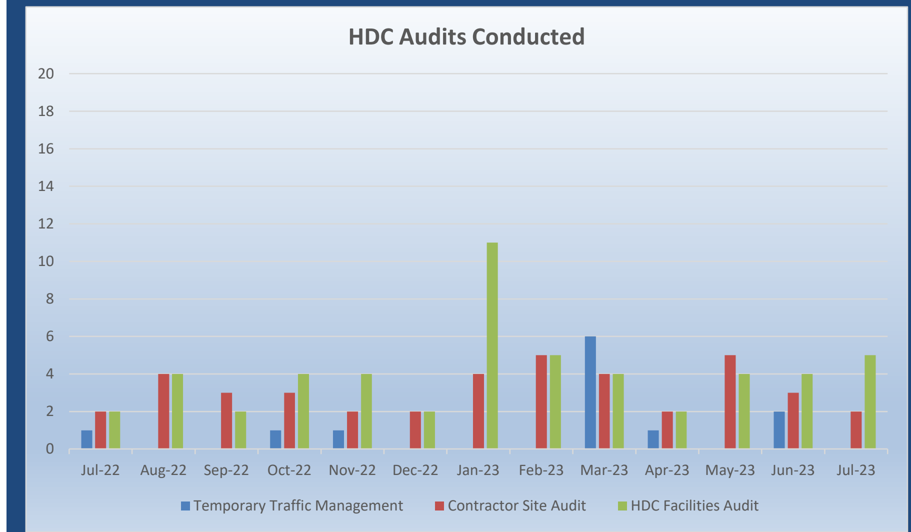
HEALTH, SAFETY AND WELLBEING – 13 MONTH TRENDS as at 31 July 2023

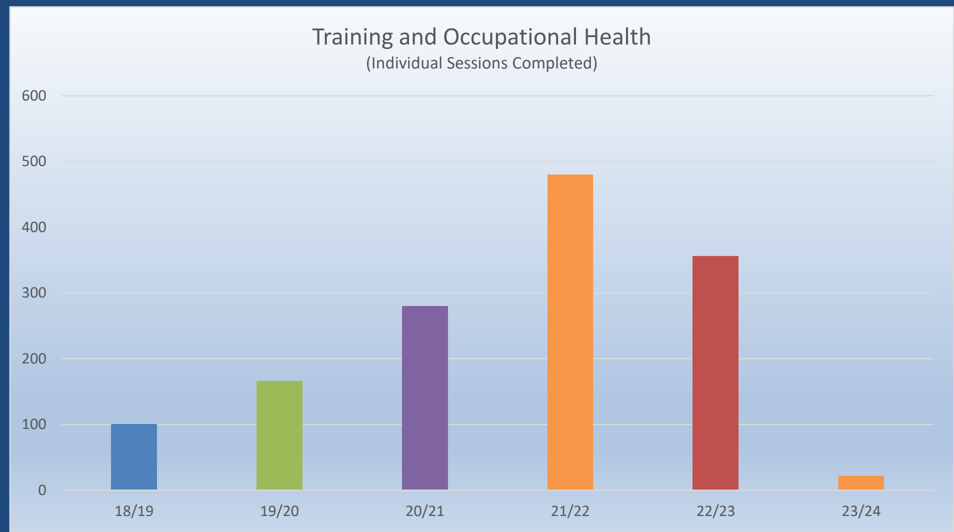
Horowhenua District Council
2023/2024 Year

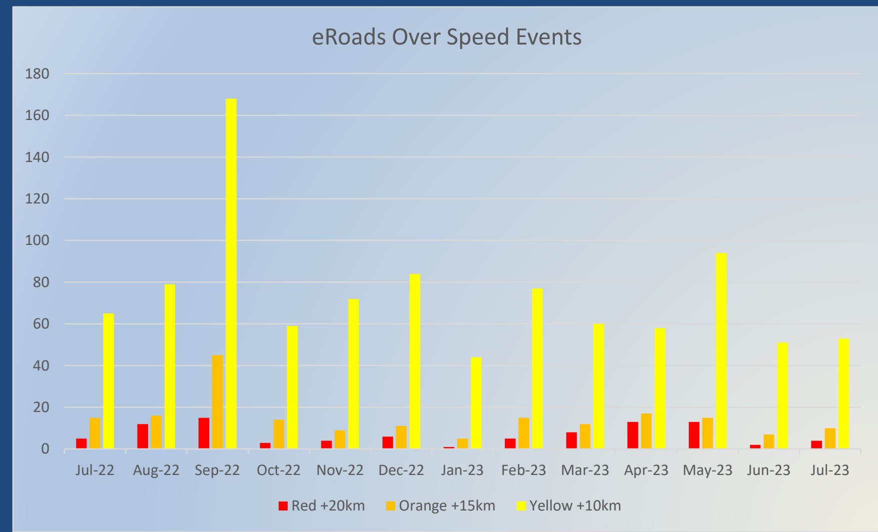


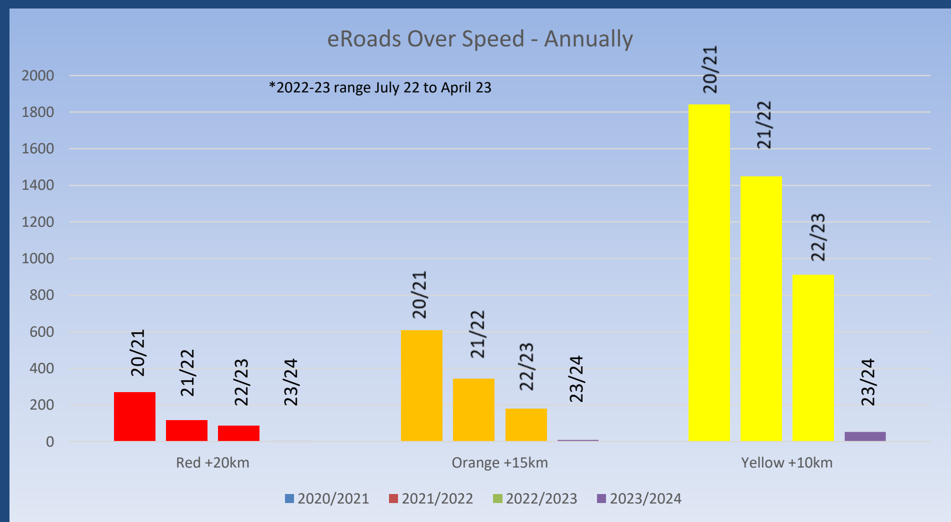






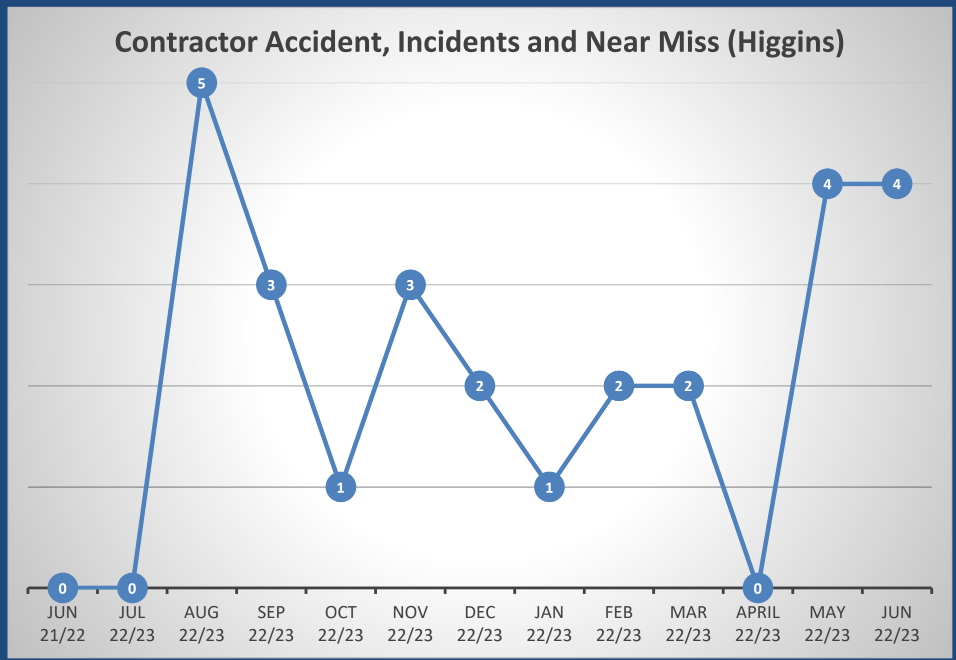


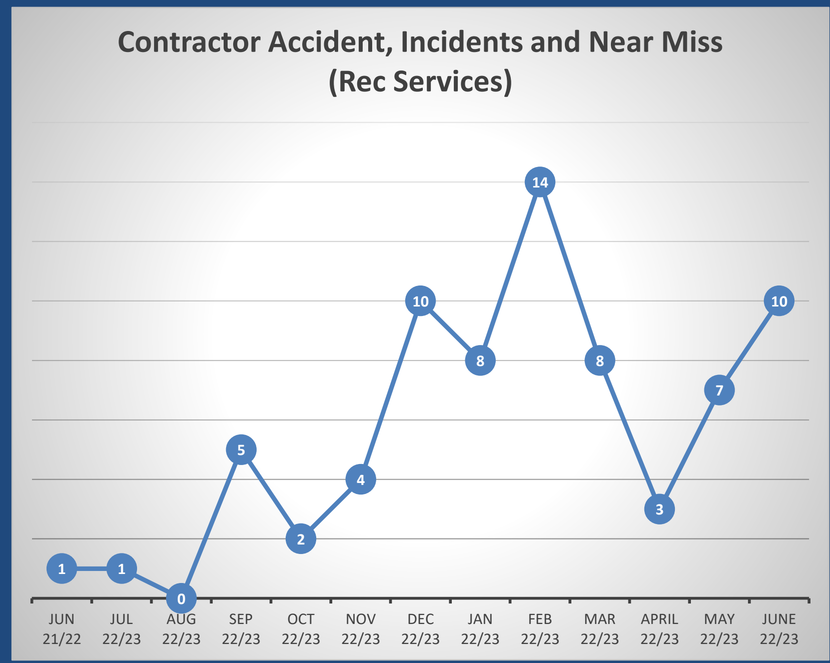


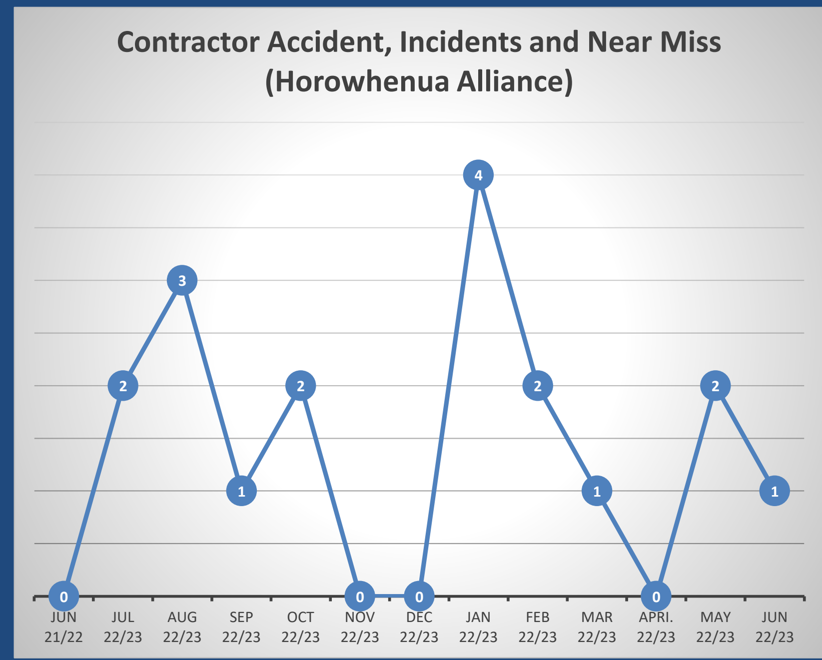


eRoads Driver Leaderboard

Star Rating	May 2023	June 2023	July 2023
★★★★★	56	61	55
★★★★	9	8	5
★★★	7	7	10
★★	4	1	3







July data for contractor reporting not available before close off for RAC report.

Contractor Health & Safety Engagement:

Horowhenua Alliance and HDC have representatives at both H&S Committee monthly meetings
Higgins H&S Officer and HDC H&S Lead meeting regularly and complete site visits
Recreational Services and HDC Lead engage regularly in health and safety matters

Downers New Zealand	**Sitewise Rating**	**All New Zealand**	**Civil Construction**	**Last Assessment 16/01/2023**	**Valid to 16/01/2024**	**Sitewise Score 100**
Recreational Services Limited	**Sitewise Rating**	**All New Zealand**	**Civil Construction**	**Last Assessment 09/01/2023**	**Valid to 09/01/2024**	**Sitewise Score 100**
Higgins Group Holdings Limited	**Sitewise Rating**	**All New Zealand**	**Civil Construction**	**Last Assessment 21/07/2023**	**Valid to 21/7/2024**	**Sitewise Score 100**

Footpaths

Risk & Assurance Committee

Health & Safety Deep Dive

16 August 2023

Executive Summary

This report will show how health and safety is integrated into Council responsibilities to the community via our footpaths.

Footpaths are an asset used everyday, by everyone in some way in the rohe (district). Ensuring this asset is fit for purpose is a combination of assessment, maintenance (reactive and scheduled) and contractor management.

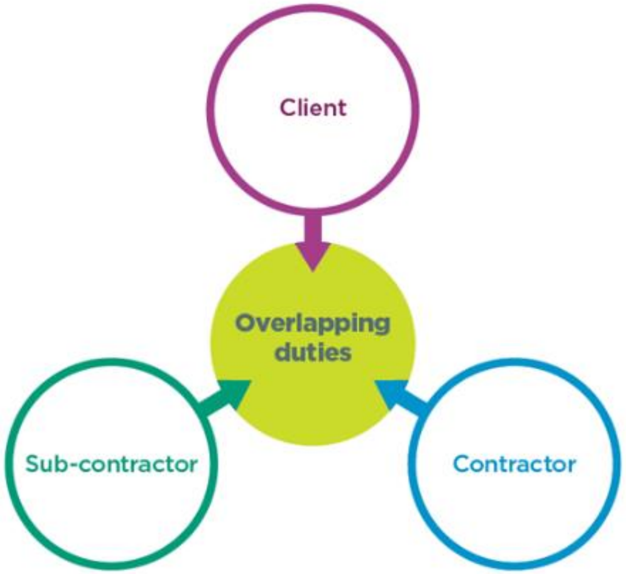
The health and safety component come from the Health and Safety at Work Act 2015 (HSWA) overlapping duties requirements and supporting officers and contractors when incidents occur involving footpaths.

Health and Safety at Work Act 2015

- Under the Health and Safety at Work Act 2015 (HSWA) persons conducting a business or undertaking (PCBU) are required so far as is reasonably practicable, to co-operate, co-ordinate and consult with other PCBUs about the duties they share in relation to the same matter. These are known as overlapping duties.
- A PCBU isn't only responsible to the workers they employ or contract. They are also responsible to workers they influence and direct, and for other people at the workplace. PCBUs must co-operate with each other to fulfil these duties.
- A PCBU cannot contract out of its duties.

Overlapping Duties & Due Diligence

- Overlapping duties are how Council ensures contractors complete work safely and with due diligence.
- Contractor management is identified as a critical risk in Councils health and safety risk register.
- Council, alongside the MWLASS Councils, requires contractors to be health and safety prequalified through an independent assessment system called SiteWise.
- All physical works required by Council are completed by contractors, including footpath building and maintenance.



Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

Footpath Data

- Horowhenua District total footpath length (km) = 229.92

- Latest condition rating completed December 2022 and January 2023
  - Excellent = 27.89km
  - Average = 103.95km
  - Good = 88.15km
  - Poor = 9.61km
  - Very Poor = 323m

Horowhenua 2040 Vision

Footpath Maintenance

- Council undertake a condition rating of the entire footpath network once every two years.
- From the rating we can work on a forward work renewal and minor maintenance plan.
- Tree roots are the biggest cause of tripping hazards (lips).
- Higgins Contractors maintain and renew footpaths around the rohe under the Road Maintenance contract.

New footpath completed.

Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

Footpath CRM Information

From 1 July 2022 to 30 June 2023;

- Council received 83 footpath related CRM's under the Health and Safety footpath category.
- These are directed straight to the contractor for making safe.
- From these 83 CRM, 33 were repaired using a grinding machine which saves digging the footpath out.
- The rest of the CRM footpath notifications were fixed to make safe.

Evidence of grinding repair on footpath.

Horowhenua 2040 Vision

Contractor Management – Health & Safety

- Health and safety prequalification ensures the contractor understands their health and safety responsibilities.
  - Evidence assessed includes procedures and processes in place to manage health and safety are appropriate to the company and work undertaken, this includes risk management.
- Council officers also ensure they co-operate, co-ordinate and consult with the contractors by;
  - Meeting and discussing the work
  - Completing site inductions and site audits
  - Receiving regular reports and updates
  - Reviewing contracts after the work is completed.

Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

CRM Example – Footpath Incident in Community

- CRM logged by member of the public (MOP) 24 May 2023 regarding a fall and injury sustained at works occurring near footpath.
- There was a cone on the footpath, which caused the MOP to walk on the berm, where there was a divot in the grass which caused them to trip.
- This occurred in the evening when there were no contractors on site, the cone had been moved from the berm onto the footpath by unknown persons.
- On Friday 2 June 2023, Council officer and H&S Lead visited the site with the contractors to review.

Divot on berm.

Horowhenua 2040 Vision

CRM – Footpath Incident in Community

- The site was made safe by leveling the divot, covering the work area and pinning the panels and the cone replaced on top.
- The contractors reported that cones used to identify hazards along the length of footpath get moved by persons unknown, usually overnight. The contractors check every morning and return them to the place where they are most effective.
- The injured person may have thought the footpath was closed because of the cone on the footpath, but it wasn't.
- After enquiries made to a Worksafe colleague, the incident was reported to Worksafe on 6 June 2023, because of the injuries involved. Worksafe replied on 7 June 2023 to inform the event was not notifiable and to continue with our internal health and safety procedures.
- The information was shared with the MOP via the Mayor's office, and it was reported back that the MOP were satisfied with the response.

Incident site made safe.

Horowhenua DISTRICT COUNCIL

Horowhenua 2040 Vision

6.5 Legislative Compliance Programme

File No.: 23/542

1. Purpose

1.1 This report familiarises the Risk and Assurance Committee with Council officers' suggestions around advancing and implementing a Legislative Compliance Programme. This program is designed with the Council's Risk Management Policy and Framework. The programme includes policy update, the identification of relevant legislation, and the reporting of key legislation to promote effective risk management and compliance practices.

2. Recommendation

2.1 That Report 23/542 Legislative Compliance 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.

3. Background/Previous Council Decisions

3.1 The last Legislative Compliance Report that came to the Risk and Assurance Committee provided information around good practice, what legislative compliance refers to and the benefit of reporting against it.

3.2 The below acts were a suggestion of the 'key acts' to report on in the short term:

Local Government Act 2002

Local Authorities (Members' Interests) Act 1968

Local Government (Rating) Act 2002

Local Government (Financial Reporting and Prudence) Regulations 2014

Building Act 2004

Resource Management Act 1991

3.3 We asked officers working with the Acts listed to assess the level of compliance for each legislation to the best of their knowledge, and to identify any immediate areas of non-compliance.

3.4 Officers found one example of statutory non-compliance since 1 January 2023. This was the Long Term Plan Amendment 2021-2041 adopted by Council on where Council received a lawful adverse audit opinion due to the inclusion of three waters information in the Long Term Plan Amendment beyond July 2024. This was not compliant with Local Government Act 2022.

3.5 We have not completed a comprehensive review, and so our confidence in this data is moderate until the full review is completed; this review will commence soon.

4. Discussion

4.1 Following the previous report, additional thought has been given to this programme. It is now proposed that we approach it as a cohesive programme, given the critical aspects to ensure comprehensive reporting.

4.2 Noting the link between risk management and legislative compliance is important as it forms the foundation for the sustainable and responsible operation of organisation.

4.3 By integrating risk management and compliance, officers can identify, assess, and mitigate potential risks associated with non-compliance with acts, bylaws and regulations. This proactive approach not only safeguards against legal repercussions and financial losses but also helps in maintaining our reputation and credibility.

4.4 The proposed Legislative Compliance Programme is to include the following;

(a) Legislative Compliance Policy Update – Update and develop the Legislative Compliance Policy so that is aligned with the existing Council Risk Management Policy and Framework.

(b) Identification of all Relevant Legislation – Identification of all legislation that Council has to comply with.

(c) Identification of Key Legal Risks in relation to legislation - The identification of the Key Legal Risks facing the Council as an organisation. Included in this will be developing an understanding of differing perspectives on Legal Risk.

(d) Training and Development – A training programme to ensure all relevant are trained as required to ensure they have the necessary knowledge.

(e) Continuous Improvement – Where examples of non-compliance or incomplete compliance are identified, a process to ensure systems are modified and/or training undertaken as appropriate and as part of business improvement programme.

(f) Complaints Handling – creation of procedures to be in place to record and respond to complaints from either staff, ratepayers or customers.

(g) Monitoring and measuring – Creation of reporting templates and schedule.

5. Next Steps

5.1 As the program advances, the committee can expect to receive regular reports regarding the progress and the compliance with relevant legislation. These reports will serve as essential updates to keep the committee informed about the program's development and its legal requirements.

Attachments

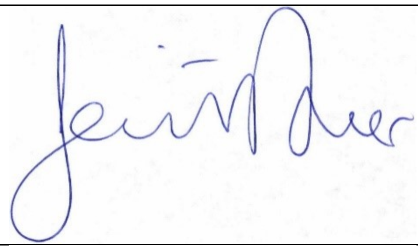
There are no attachments for this report.

<u>Confirmation of statutory compliance</u>

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

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

Signatories

Author(s)	Ashley Huria **Business Performance Manager**	
Approved by	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

6.6 Standard and Poor's Report

File No.: 23/506

1. Purpose

1.1 To formally inform the Risk and Assurance Committee of the Horowhenua District Council's credit rating affirmed by Standard and Poor's (S&P) Global Ratings in June 2023.

2. Recommendation

2.1 That Report 23/506 Standard and Poor's Report be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

3.1 On June 1, 2023, S&P Global Ratings affirmed its 'AA-' long-term foreign- and local-currency, and 'A-1+' short-term issuer credit ratings on Horowhenua District Council. The outlook on the long-term rating is stable.

3.2 The ratings are based on S&P Global Ratings' assessment of Council's financial management, New Zealand's institutional settings and the district's economic profile.

3.3 S&P Global is an internationally recognised organisation that provides credit ratings for over one million government, corporate, financial sector and structured finance entities and securities worldwide.

3.4 An AA-/A-1+ rating means that Council is considered to have a strong capacity to meet its financial commitments. It should also reassure our community and ratepayers that our books are in order, that Council is financially well-managed, and that the district is on the right track. A stable outlook means that Council's financial position will remain strong over the medium term.

4. Issues for Consideration

4.1 This rating can be important for Council's ability to borrow money, as lenders may be more willing to lend to an entity with a strong credit rating. Council's rating confirms our strong financial management and assures lenders that any debt carried comes with very low credit risk. We also have a strong capacity to repay any future debt needed for significant infrastructure or unplanned events.

4.2 The report states that strong financial management and New Zealand's excellent institutional settings support Council's credit profile. This framework is one of the strongest and most predictable globally, as it promotes a robust management culture and fiscal discipline with high transparency and disclosure.

4.3 This report from S&P confirms our forward-looking approach to financial management. The fact that Council prepares long-term plans every three years and annual plans in the intervening years set the foundation for prudent financial management and are an essential baseline for Council's operating and capex requirements.

4.4 The report also outlines that Horowhenua has a relatively balanced economy. Economic risks to the region include inflation, rising interest rates and supply chain disruptions. These factors also affect economic growth nationally and not only in the Horowhenua district.

4.5 S&P also highlights the potential benefit of the Wellington Northern Corridor Expressway to accelerate economic development and population growth in the future by cutting the travel times and freight costs between Horowhenua and Wellington. Council is in the midst of a large capital program, which is needed to address the needs of a growing population. S&P expects Council's liquidity position to be stronger than that of domestic peers. The affirmed ratings reassure the Council's ability to borrow funds for Horowhenua's infrastructure pipeline

Attachments

No.	Title	Page
A⇩	S&P Global Ratings release June 2023	123

Confirmation of statutory compliance

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

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

Signatories

Author(s)	Pei Shan Gan **Financial Controller**	

Approved by	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

S&P Global Ratings

RatingsDirect®

Research Update:

Horowhenua District Council 'AA-/A-1+' Ratings Affirmed; Outlook Stable

June 1, 2023

Overview

- Horowhenua District Council's after-capital account deficits should be large, as the council increases its capital expenditure(capex).
- The council's prefunding liquidity policies reduce refinancing risk and will ensure strong liquidity coverage.
- We affirmed our 'AA-' long-term and 'A-1+' short-term issuer credit ratings on Horowhenua.
- The stable outlook on the long-term rating reflects Horowhenua's infrastructure pipeline and large after-capital account deficits.

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Rating Action

On June 1, 2023, S&P Global Ratings affirmed its 'AA-' long-term foreign- and local-currency, and 'A-1+' short-term issuer credit ratings on Horowhenua, a New Zealand local government. The outlook on the long-term rating is stable.

Outlook

The stable outlook reflects Horowhenua's infrastructure pipeline and large after-capital account deficits. These will ensure debt remains high.

Downside scenario

We could lower our ratings if capex were to rise more steeply than we expect, further widening after-capital account deficits. This could push total tax-supported debt to more than 240% or interest expenses to more than 10% of operating revenue. It may also weaken liquidity coverage to previous lower levels.

Upside scenario

We could raise our ratings if Horowhenua reduces its after-capital account deficits. We believe debt would need to be lower than that of most 'AA' rated peers due to Horowhenua's weaker economic profile.

Rationale

Underpinning our ratings is our expectation that strong capital grants and higher rate rises than in the past will support Horowhenua's elevated capital spending. We expect the council's budgetary performance to weaken, with after-capital deficits of about 12.5% of revenue in 2021-2025. Its debt ratio should consequently rise over that period.

We anticipate Horowhenua will continue to prefund upcoming debt maturities, supporting liquidity coverage and reducing refinancing risk. This means the council will gross up its debt.

Strong financial management and New Zealand's excellent institutional settings continue to support Horowhenua's credit profile. Meanwhile, the district's economic profile tempers these strengths.

Our base case excludes the potential effects of the Crown's proposed water reforms. The reform program, as currently envisaged, could shift some responsibility for drinking water, wastewater, and stormwater assets from councils to 10 new regional water service entities from early 2025. The reforms are still under development.

New Zealand's excellent institutional framework and supportive financial management underpin Horowhenua's creditworthiness. The institutional framework within which the country's local governments operate is a key factor supporting Horowhenua's credit profile. We believe this framework is one of the strongest and most predictable globally. It promotes a robust management culture, fiscal discipline, and high transparency and disclosure. The system allows the council to support higher debt levels than what some of its international peers can tolerate at their current ratings.

Horowhenua's strong financial management supports our ratings. Management prepares long-term plans every three years and annual plans in the intervening years. These set the foundation for prudent financial management and are an important baseline for the council's operating and capex requirements. The council is reviewing its general property rates to ensure rates are equitable. It expects to complete this by its next long-term-plan.

Horowhenua received an adverse audit opinion from Audit New Zealand for including water assets beyond 2024 in its 2021-2041 Long Term Plan Amendment. This opinion does not weigh on our assessment of the council's financial management.

Debt and liquidity policies remain prudent. Horowhenua is restricted from borrowing in foreign currencies and hedges most of its interest exposure. The council is committed to its debt and liquidity strategy of prefunding upcoming debt maturities up to two years in advance. In our view, this reduces refinancing risk and improves liquidity coverage, although it grosses up debt levels.

Eight new councilors out of the 13 elected on Oct. 8, 2022, included two from newly established Maori wards. We expect the council to keep its overall direction, with a focus on climate change, managing population growth, and addressing aging infrastructure.

Horowhenua has a relatively balanced economy. Economic risks to the region include inflation, rising interest rates, and supply chain disruptions. These factors also weigh on economic growth nationally. We forecast national GDP per capita of about NZ$75,000 for 2023.

Horowhenua's lower wealth level than the national averages and industrial profile weigh on our assessment of its economy. Local GDP per capita persistently lags the national average, at about NZ$33,650 in 2022 (according to economics consultancy, Infometrics Ltd.) The district has a higher proportion of its elderly population living on a fixed income and slower population growth in its working-age population than other regions.

We expect Horowhenua to benefit from the Wellington Northern Corridor Expressway which will link the district to the national capital. This road project could spur development and growth because it will cut traveling time and freight costs to Wellington.

Capex program will result in large after-capital deficits, but liquidity coverage should remain strong. Horowhenua is in the midst of a large capital program, which will weaken its budgetary performance. We now expect after-capital account deficits to average 12.5% of total revenue between 2021 and 2025, versus our previous expectation of 7.7%.

Horowhenua's fiscal 2022 (ending June 30) was weaker than our expectation. This was due to higher professional services and storm damage costs, along with delays in capital grants. Our capex forecasts for 2024-2025 are about 75% of the council's budget. This reflects historical levels and our view of likely disruptions in supply chains and difficulties in obtaining internal and external resources (trends experienced nationally).

For the most part, Horowhenua will focus on spending to address the needs of a growing population. The council has sought financial assistance from Crown Infrastructure Partners for its major Tara-Ika Master Plan on Levin's southeast boundary. This project aims to alleviate housing pressures and develop water infrastructure.

We believe operating margins will remain healthy, averaging 12.8% of operating revenue between 2021 and 2025. Horowhenua is raising rates significantly from historical levels, beginning with a proposed rate increase of 7.9% for 2024. This comes after a reduction in the proposed rate increase in 2020 and a decrease in 2021 to support residents during the pandemic. The rate increases could safeguard operating margins from inflationary pressures.

We expect total tax-supported debt to be about 214% of operating revenue in 2025, including prefunding. In our estimation, the council could increase its debt to about NZ$142 million in 2025 from NZ$108 million in 2021. It will source all its debt from the New Zealand Local Government Funding Agency (LGFA). With growing debt and rising interest rates in New Zealand, interest expenses could average 6.43% of operating revenue between 2022 and 2024.

Horowhenua's contingent liabilities will be limited, mainly reflecting potential out-of-pocket costs related to natural disasters. The council has comprehensive insurance cover through the Whanganui-Manawatu Local Authority Shared Services collective.

We expect Horowhenua's liquidity position to be stronger than that of domestic peers. The council has a debt service coverage ratio with committed facilities of about 150% of upcoming debt maturities and interest payments over the next 12 months. As of April 2023, it had about NZ$18 million in cash and liquid assets after budget needs and NZ$24 million of undrawn bank facilities. These should cover NZ$15 million of commercial paper, upcoming term debt maturities of NZ$15 million per year, and interest costs. Liquidity support will come from Horowhenua's prefunding strategy that allows it to prefund long-term debt maturities up to 24 months in advance.

In addition, Horowhenua has access to LGFA. This provides the council and most of its New Zealand peers with strong access to an established source of external liquidity. In our view, LGFA benefits from an extremely high likelihood of extraordinary central government support.

Key Statistics

Selected Indicators

	Year ended June 30				
(mil. NZ$)	2021	2022	2023bc	2024bc	2025bc
Operating revenues	55	57	63	65	66
Operating expenditures	47	53	52	57	58
Operating balance	8	4	11	8	8
Operating balance (% of operating revenues)	14.1	7.6	17.9	12.4	11.9
Capital revenues	15	8	17	22	17
Capital expenditures	31	31	30	32	40
Balance after capital accounts	(8)	(19)	(1)	(2)	(15)
Balance after capital accounts (% of total revenues)	(12.0)	(28.7)	(1.5)	(2.1)	(18.2)
Debt repaid	51	10	14	15	22
Gross borrowings	53	29	15	17	37
Balance after borrowings	(6)	0	0	0	0
Tax-supported debt (outstanding at year-end)	108	124	125	127	142
Tax-supported debt (% of consolidated operating revenues)	196.2	216.3	197.4	195.8	214.4
Interest (% of operating revenues)	5.0	5.0	6.1	8.2	11.0
National GDP per capita (single units)	67,225	70,948	76,189	78,381	81,806

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario. N/A--Not applicable. N.A.--Not available. N.M.--Not meaningful.

Ratings Score Snapshot

Ratings Score Snapshot

Key rating factors	
Institutional framework	1
Economy	3
Financial management	2
Budgetary performance	4
Liquidity	1
Debt burden	4
Stand-alone credit profile	aa-

Ratings Score Snapshot (cont.)

Key rating factors	
Issuer credit rating	AA-

S&P Global Ratings bases its ratings on non-U.S. local and regional governments (LRGs) on the six main rating factors in this table. In the "Methodology For Rating Local And Regional Governments Outside Of The U.S.," published on July 15, 2019, we explain the steps we follow to derive the global scale foreign currency rating on each LRG. The institutional framework is assessed on a six-point scale: 1 is the strongest and 6 the weakest score. Our assessments of economy, financial management, budgetary performance, liquidity, and debt burden are on a five-point scale, with 1 being the strongest score and 5 the weakest.

Key Sovereign Statistics

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

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- Criteria | Governments | International Public Finance: Methodology For Rating Local And Regional Governments Outside Of The U.S. , July 15, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Default, Transition, and Recovery: 2022 Annual International Public Finance Default And Rating Transition Study, May 24, 2023
- Institutional Framework Assessment: New Zealand Local Governments, May 17, 2023
- Economic Outlook Asia-Pacific Q2 2023: China Rebound Supports Growth, March 26, 2023
- New Zealand Local Government Funding Agency, March 1, 2023
- Pipedream Or Panacea: New Zealand's "Three Waters" Reforms Pt.1, Feb. 27, 2023
- Pipedream Or Panacea: New Zealand's "Three Waters" Reforms Pt.2, Feb. 27, 2023
- Local And Regional Governments Outlook 2023: Rougher Seas Ahead, Nov. 29, 2022
- Credit FAQ: Lifting The Lid On New Zealand's "Three Waters" Reforms, Oct. 12, 2022
- Comparative Statistics: Local And Regional Government Risk Indicators: Asia-Pacific LRGs' Post-Pandemic Appetite For Capital Spending Is Strong, Sept. 22, 2022
- Global Ratings List: International Public Finance Entities 2022, June 3, 2022

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

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

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

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

Ratings List

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

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

6.7 LGFA Statement of Intent 2023-2026

File No.: 23/509

1. Purpose

1.1 To update the Risk and Assurance Committee on the Statement of Intent (SOI) 2023-2026 prepared by the New Zealand Local Government Funding Agency (LGFA).

2. Recommendation

2.1 That Report 23/509 LGFA Statement of Intent 2023-2026 be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

3.1 LGFA is enabled under the Local Government Borrowing Act 2011 and is a council-controlled organisation (CCO) for the purposes of the Local Government Act 2002. It is owned by the Government (30%) and 30 local authorities (80%). Horowhenua District Council has an ownership stake of 0.4% as at 31 December 2022.

3.2 This Statement of Intent (SOI) sets out the nature and scope of the activities, objectives and performance targets for the New Zealand Local Government Funding Agency Limited (LGFA) for the three-year period 1 July 2023 to 30 June 2026. The SOI is prepared in accordance with section 64(1) of the Local Government Act 2002.

4. Issues for Consideration

The following points regarding the LGFA 2023-26 SOI are worth noting:

4.1 The SOI performance targets are the same as the targets in the prior year SOI except for Climate Action Loans (“CALs”) that was included into the Environmental and Social Responsibility section.

4.2 There is a forecast increase in Net Operating Profit compared to prior years. This is due to an increase in forecast Net Interest Income arising from a larger amount of lending to Councils and CCOs. An additional $1 billion of council and CCO borrowing in each of the next three financial years compared to the Draft SOI forecasts was assumed.

4.3 Base on-lending margins are unchanged.

4.4 There remains some uncertainty within the SOI forecasts relating to the amount of both council loans and LGFA bonds outstanding as this depends upon the magnitude and timing of council borrowing. LGFA have based their forecasts on the Long-Term Plans (“LTPs”) of the seventy-seven council and three CCO members and the LTPs forecast a significant increase in borrowing in each of the next three years. The actual amount of borrowing will be influenced by the ability of councils to deliver on the capex projections in their LTPs, any cost increases as we well as the amount of Central Government assistance in funded capex delivery.

4.5 The Affordable Waters Reform programme has assumed the establishment of the ten new Water Services Entities (“WSE”) will take place from 1 July 2024 and be concluded by 1 July 2026. This period covers the second and third years of LGFA SOI forecast period and at this point in time it is unsure as to :

Any role by LGFA in lending to the WSEs once they have been established

How the transition of debt and assets between the councils and WSEs will occur

The borrowing behaviour by councils ahead of, and during the transition period.

4.6 LGFA's financial forecasts for the three years to 30 June 2026:

Comprehensive income $m	Jun 24	Jun 25	Jun 26
Net Interest income	**19.2**	**18.6**	**20.2**
Other operating income	1.3	1.3	1.3
Total operating income	**20.6**	**19.9**	**21.5**
Approved Issuer Levy	0.3	0.4	0.4
Issuance & onlending costs	3.8	3.9	4.0
Operating overhead	5.8	6.3	6.6
Issuance and operating expenses	**10.0**	**10.6**	**11.0**
P&L	**10.6**	**9.3**	**10.5**
Financial position (nominals) $m	**Jun 24**	**Jun 25**	**Jun 26**
Liquid assets portfolio	1,921	1,905	1,783
Loans to local government	18,120	20,030	21,505
Other assets	-	-	-
Total Assets	**20,041**	**21,935**	**23,288**
Bonds on issue (ex Treasury stock)	18,210	19,351	20,376
Bills on issue	700	700	700
Borrower notes	398	458	501
Other liabilities	-	-	-
Total Liabilities	**19,308**	**20,509**	**21,577**
Capital	25	25	25
Retained earnings	95	102	111
Dividend	(2)	(2)	(2)
Shareholder equity	**118**	**125**	**134**
Ratios	**Jun 24**	**Jun 25**	**Jun 26**
Liquid assets/funding liabilities	10.3%	9.6%	8.5%
Liquid assets / total assets	9.6%	8.7%	7.7%
Net interest margin	0.11%	0.09%	0.09%
Cost to income ratio	48.5%	53.2%	51.1%
Return on average assets	0.05%	0.04%	0.05%
Shareholder equity/total assets	0.6%	0.6%	0.6%
Shareholder equity + BN/total assets	2.6%	2.7%	2.7%
Asset growth	12.0%	9.4%	6.2%
Loan growth	12.8%	10.5%	7.4%
Return on equity	9.7%	7.9%	8.4%
Capital ratio	12.9%	13.3%	13.6%

Attachments

No.	Title	Page
A⇩	LGFA Letter re Statement of Intent 2023-2026	134
B⇩	LGFA Statement Of Intent 2023-2026 Final	136

<u>Confirmation of statutory compliance</u>

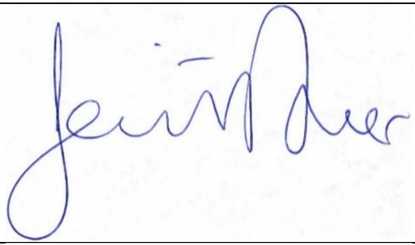
In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,

b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Pei Shan Gan **Financial Controller**	

Approved by	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

29 June 2023

Dear LGFA stakeholder

Statement of Intent 2023-2026

Please find attached the Statement of Intent (SOI) for the 2023-26 period.

LGFA remains focused on delivering strong results for our council borrowers and shareholders.

For our borrowing councils we seek to optimize funding terms and conditions by
- Achieving savings in borrowing costs
- Provide longer dated funding and
- Provide certainty of access to markets.

For our shareholders we are focused on
- Delivering a strong financial performance
- Monitoring asset quality and
- Enhancing our approach to treasury and risk management.

The following points regarding the 2023-26 SOI are worth noting:

- The SOI performance targets are the same as the targets in the prior year SOI except we have included Climate Action Loans ("CALs") into our Environmental and Social Responsibility section.
- There is a forecast increase in Net Operating Profit compared to prior years. This is due to an increase in forecast Net Interest Income arising from a larger amount of lending to Councils and CCOs. We have assumed an additional $1 billion of council and CCO borrowing in each of the next three financial years compared to the Draft SOI forecasts.
- Base on-lending margins are unchanged.
- There remains some uncertainty within the SOI forecasts relating to the amount of both council loans and LGFA bonds outstanding as this depends upon the magnitude and timing of council borrowing. We have based our forecasts on the Long-Term Plans ("LTPs") of our seventy-seven council and three CCO members and the LTPs forecast a significant increase in borrowing in each of the next three years. The actual amount of borrowing will be influenced by the ability of councils to deliver on the capex projections in their LTPS, any cost increases as we well as the amount of Central Government assistance in funded capex delivery.
- The Affordable Waters Reform programme has assumed the establishment of the ten new Water Services Entities ("WSE") will take place from 1 July 2024 and be concluded by 1 July 2026. This period covers the second and third years of our SOI forecast period and at this point in time we are unsure as to

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- Any role by LGFA in lending to the WSEs once they have been established.
- How the transition of debt and assets between the councils and WSEs will occur and
- The borrowing behaviour by councils ahead of, and during the transition period.

The changes made to the Final SOI compared to the Draft SOI that you received in February 2023 for comment have been:

- Net Interest Income has increased in the 2023-24, 2024-25 and 2025-26 financial years by $1.3 million, $1.5 million, and $3.5 million.
- Expenses have increased by $0.5 million in 2023-24 and by $0.8 million in each of 2024-25 and 2025-26 due to additional costs because of increased council lending and bond issuance.
- Forecast Net Operating Profit has increase by $0.8 million (2023-24), $0.7 million (2024-25) and $2.6 million (2025-26).

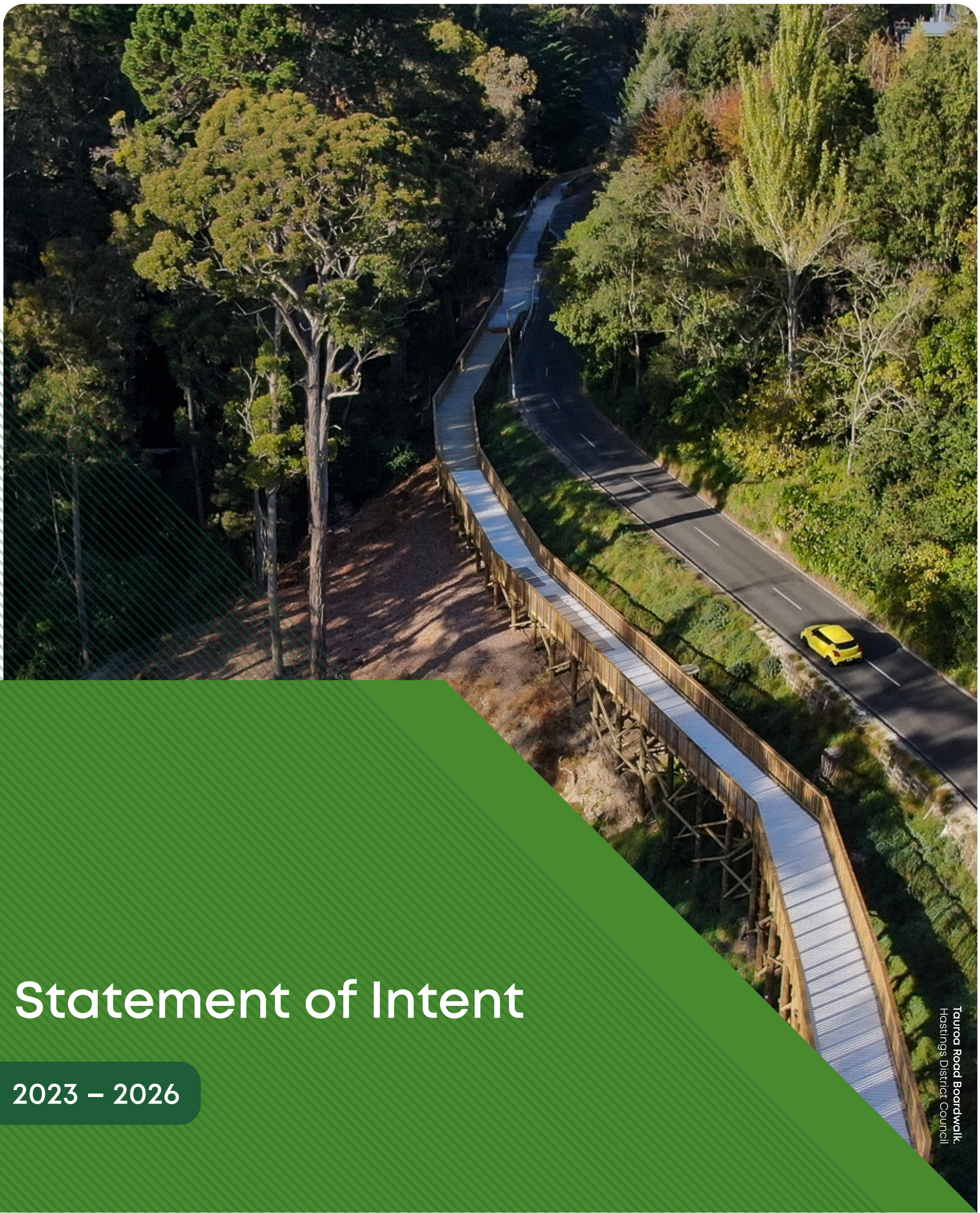
We remain committed to delivering the lowest possible borrowing cost to the sector, providing certainty of access to funding and long dated tenors to councils while at the same time protecting the interests of our guarantors and shareholders.

We thank you for your support of LGFA and please feel free to contact me if you have any questions or require further clarification on anything relating to the SOI or LGFA in general.

Yours sincerely

Mark Butcher
Chief Executive

LGFA
New Zealand Local Government Funding Agency
Te Pūtea Kāwanatanga ā-rohe



Statement of Intent

2023 – 2026

1. Introduction

This Statement of Intent (SOI) sets out the nature and scope of the activities, objectives and performance targets for the New Zealand Local Government Funding Agency Limited (LGFA) for the three-year period 1 July 2023 to 30 June 2026.

LGFA is enabled under the Local Government Borrowing Act 2011 and is a council-controlled organisation (CCO) for the purposes of the Local Government Act 2002.

The SOI is prepared in accordance with section 64(1) of the Local Government Act 2002.

Note: This SOI, including financial forecasts, assumes that there are no implications for LGFA from the Affordable Water Reforms. We are awaiting further information relating to the establishment of the Water Services Entities (WSEs); how WSEs are intending to structure their borrowing; how the transition of revenue and debt will occur between our council members and WSEs, and the impact on future council borrowing intentions from the Affordable Water Reforms. We will provide an update to stakeholders on implications for LGFA as further information becomes available.

2. Nature and scope of activities

LGFA raises debt funding for the purpose of providing debt financing to New Zealand local authorities and CCOs (participating borrowers).

LGFA may raise debt funding either domestically and/or offshore in either NZ dollars or foreign currency.

LGFA only lends to participating borrowers that have entered into required relevant legal and operational arrangements and comply with the LGFA's lending policies.

In addition, LGFA may undertake any other activities considered by the LGFA Board to be reasonably related, incidentally to, or in connection with, that business.

3. Our purpose Ta tatou kaupapa

Benefiting local communities through delivering efficient financing for local government.

Ka whiwhi painga ngā hapori mā te whakarato pūtea tōtika ki ngā kaunihera.

4. Our values Ō mātau uara

We act with integrity E pono ana mātau	We are customer focused E arotahi ana mātau ki te kiritaki	We strive for excellence E whakapau kaha mātau kia hiranga te mahi	We provide leadership He kaiārahi mātau	We are innovative He auaha mātau
We are honest, transparent and are committed to doing what is best for our customers and our company.	Our customers are our council borrowers, investors, and all other organisations that we deal with. We listen to them and act in their best interests to deliver results that make a positive difference.	We strive to excel by delivering financial products and services that are highly valued at least cost while seeking continuous improvement in everything we do.	We are here for our stakeholders in being strategically minded, providing resilience and executing our strategy. We embrace a high-performance culture and can be relied upon to deliver results.	To meet our ever-changing customer requirements, we will encourage innovation and provide a diverse range of financial products and services.

5. Foundation objectives

The Shareholders' Agreement is a foundation document and states that, in accordance with the Local Government Act, in carrying on its business the objectives of the Company will be to:

(a) achieve the objectives of the Shareholders (both commercial and non-commercial) as specified in the Statement of Intent. The Shareholders agree that the Company shall carry on its business with a view to making a profit sufficient to pay a dividend in accordance with the Dividend Policy, but that the primary objective of the Shareholders with respect to the Company is that it optimises the terms and conditions of the debt funding it provides to Participating Local Authorities;

(b) be a good employer;

(c) exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and

(d) conduct its affairs in accordance with sound business practice.

This Statement of Intent sets out the company's strategic priorities, together with associated objectives and performance targets, which align with the foundation objectives and have been agreed with shareholders.

6. Strategic priorities

The following five strategic priorities encompass the foundation objectives and guide the LGFA Board and management in determining our strategy, objectives and associated performance targets.

Governance, capability and business practice

LGFA is committed to demonstrating best practice corporate governance underpinned by sound business practice to ensure its long-term sustainability and success.

Optimising financing services for local government

LGFA's primary objective is to optimise the terms and conditions of the debt funding it provides to participating borrowers. Amongst other things, LGFA will achieve this by delivering operational best practice and efficiency across our lending products and services.

Environmental and social responsibility

LGFA recognises the risks inherent in climate change for councils and supports New Zealand's shift to a low-carbon economy. LGFA will exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

Effective management of loans

LGFA will ensure its loan book remains at a high standard by ensuring it understands each participating borrower's financial position and managing assets within an appropriate risk management framework to ensure shareholder value is not compromised.

Industry leadership and engagement

LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market and will work with key central government and local government stakeholders on sector issues.

7. Objectives and performance targets

This section sets out LGFA's objectives and performance targets for SOI 2023-2026.

The financial performance targets are focused on the 2023-2024 year and, as applicable, are based on the financial forecasts outlined in section 8.

Governance, capability and business practice

Objectives	How we measure our performance
LGFA will:	
Demonstrate best practice corporate governance.	The Annual Report outlines our compliance with the eight core principles underpinning the NZX Corporate Governance Best Practice Code.
Set and model high standards of ethical behaviour.	LGFA has adopted a formal Code of Ethics, incorporating its Conflicts of Interest and Code of Conduct policies, which sets out the standards and values that directors and employees are expected to follow.
Achieve the shareholder-agreed objectives and performance targets specified in this Statement of Intent.	LGFA reports performance against objectives quarterly to shareholders and in our Annual and Half Year Reports.
Ensure products and services offered to participating borrowers are delivered in a cost-effective manner.	LGFA prepares annual operating budgets and monitors progress against these monthly. Financial performance is reported quarterly to shareholders and in our Annual and Half Year Reports.
Be a good employer by providing safe working conditions, training and development and equal opportunities for staff	The Annual Report reports on our health and safety and wellbeing practices and policies, compliance with the Health and Safety at Work Act, diversity and inclusion and capability and development.

Performance targets	2023-2024 target
Comply with the Shareholder Foundation Polices and the Board-approved Treasury Policy at all times.	No breaches
Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency.	LGFA credit ratings equivalent to NZ Sovereign.
LGFA's total operating income for the period to 30 June 2024.	> $20.6 million
LGFA's total operating expenses for the period to 30 June 2024.	< $10.0 million

Optimising financing services for local government

Objectives	How we measure our performance
LGFA will:	
Provide interest cost savings relative to alternative sources of financing.	Measure LGFA issuance spreads against other high-grade issuers in the New Zealand domestic capital markets.
Offer flexible short and long-term lending products that meet the borrowing requirements for borrowers.	Measure LGFA's share of overall council borrowing. Survey participating borrowers on an annual basis.
Deliver operational best practice and efficiency for lending services.	Monitor settlements errors for new trades and cashflows. Survey participating borrowers on an annual basis.
Ensure certainty of access to debt markets, subject always to operating in accordance with sound business practice.	Maintain a vibrant primary and secondary market in LGFA bonds. Monitor participation by investors at our tenders through bid-coverage ratios and successful issuance yield ranges.

Performance targets	2023-2024 target
Share of aggregate long-term debt funding to the Local Government sector.	> 80%
Total lending to Participating Borrowers.	> $17,870 million
Conduct an annual survey of Participating Borrowers who borrow from LGFA as to the value added by LGFA to the borrowing activities.	> 85% satisfaction score
Successfully refinance existing loans to councils and LGFA bond maturities as they fall due.	100%
Meet all lending requests from Participating Borrowers, where those requests meet LGFA operational and covenant requirements.	100%

Environmental and social responsibility

Objectives	How we measure our performance
LGFA will:	
Assist the local government sector in achieving their sustainability and climate change objectives.	LGFA is committed to assist borrowers financing of projects that promote environmental and social wellbeing in New Zealand. Green, Social & Sustainability (GSS) loan applications from councils are appraised by the LGFA Sustainability Committee, with approved loans monitored for ongoing compliance.
Improve sustainability outcomes within LGFA.	LGFA is committed to reducing our carbon emissions and formalised processes to measure our greenhouse gas (GHG) emissions, as well as management plans to reduce our company's emissions.

Performance targets	2023-2024 target
Comply with the Health and Safety at Work Act 2015.	No breaches
Maintain Toitū Carbon Zero certification.	Carbon-zero certification maintained.
Meet reduction targets outlined in our carbon reduction management plan.	Reduction targets met.
Increase our GSS lending book and Climate Action Loans (CALs).	Two new GSS loans undertaken. Three new borrowers enter into CALs
Ensure Annual Report is prepared in compliance with applicable GRI Standards.	100%
Meet all mandatory climate reporting standards.	100%

Effective management of loans

Objectives	How we measure our performance
LGFA will:	
Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies.	LGFA reviews all participating councils and CCOs financial statements on an annual basis and the agendas and management reports on an ongoing basis for all councils on the LGFA borrower watch-list. Participating borrowers are required to complete annual compliance certificates by the end of November each year.
Analyse finances at the Council group level where appropriate and report to shareholders.	
Endeavour to meet each participating borrower annually, including meeting with elected officials as required, or if requested.	Number of participating borrowers visited in a year.

Ensure a smooth transition of water-related loans if the Affordable Water Reforms progresses over forecast period.	LGFA will be able to ensure the successful transition of existing council water-related loans to the Water Services Entities (if requested by a council).

Performance targets	2023-2024 target
Review each Participating Borrower's financial position.	100%
Arrange to meet each Participating Borrower over a 15-month period, including meeting with elected officials as required, or if requested.	100%

Industry leadership and engagement

Objectives	How we measure our performance
LGFA will:	
Take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.	Report on actions undertaken and progress made on sector issues.
Assist the local government sector with significant matters such as the Affordable Water Reforms.	Identifying any legislative or Central Government policy changes that may impact LGFA and undertake formal or informal submissions.
Maintain productive relationships with central government representatives.	Assist the local government sector with understanding any legislative or Central Government policy changes that may impact LGFA.
Support councils and CCOs in the development of reporting disclosures of the impacts of sector activity on climate change.	Report back on the alignment of LGFA and council's climate and emissions reporting requirements.
	Report back in how we are helping smaller council's understand future reporting requirements.

8. Financial forecasts

LGFA's financial forecasts for the three years to 30 June 2026:

Comprehensive income $m	Jun 24	Jun 25	Jun 26
Net Interest income	**19.2**	**18.6**	**20.2**
Other operating income	1.3	1.3	1.3
Total operating income	**20.6**	**19.9**	**21.5**
Approved Issuer Levy	0.3	0.4	0.4
Issuance & onlending costs	3.8	3.9	4.0
Operating overhead	5.8	6.3	6.6
Issuance and operating expenses	**10.0**	**10.6**	**11.0**
P&L	**10.6**	**9.3**	**10.5**
Financial position (nominals) $m	**Jun 24**	**Jun 25**	**Jun 26**
Liquid assets portfolio	1,921	1,905	1,783
Loans to local government	18,120	20,030	21,505
Other assets	-	-	-
Total Assets	**20,041**	**21,935**	**23,288**
Bonds on issue (ex Treasury stock)	18,210	19,351	20,376
Bills on issue	700	700	700

Borrower notes	398	458	501
Other liabilities	-	-	-
Total Liabilities	**19,308**	**20,509**	**21,577**
Capital	25	25	25
Retained earnings	95	102	111
Dividend	(2)	(2)	(2)
Shareholder equity	**118**	**125**	**134**
Ratios	**Jun 24**	**Jun 25**	**Jun 26**
Liquid assets/funding liabilities	10.3%	9.6%	8.5%
Liquid assets / total assets	9.6%	8.7%	7.7%
Net interest margin	0.11%	0.09%	0.09%
Cost to income ratio	48.5%	53.2%	51.1%
Return on average assets	0.05%	0.04%	0.05%
Shareholder equity/total assets	0.6%	0.6%	0.6%
Shareholder equity + BN/total assets	2.6%	2.7%	2.7%
Asset growth	12.0%	9.4%	6.2%
Loan growth	12.8%	10.5%	7.4%
Return on equity	9.7%	7.9%	8.4%
Capital ratio	12.9%	13.3%	13.6%

The above forecasts assume a gross bond issuance programme of $4.20 billion (FY24), $4.15 billion (FY25) and $4.24 billion (FY26) based upon term lending to councils of $3.91 billion (FY24), $4.19 billion (FY25) and $3.81 billion (FY26).

Note there is a high level of uncertainty regarding the financial forecasts for both council borrowing and LGFA bond issuance due to the uncertainty relating to the Affordable Water Reforms and the impact on councils.

Councils prepared their 2021-31 Long Term Plans (and borrowing forecasts) on the assumption that the Affordable Water Reforms was not progressing, and we have made the same assumption with our forecasts. LGFA projects it could have between $5 billion to $6 billion of loans to councils in June 2024 that are related to three waters. There have been no final decisions regarding the transfer mechanism for assets, liabilities and revenue from councils to the proposed Water Services Entities. We will update stakeholders on implications for LGFA as further information becomes available.

9. Dividend policy

LGFA primary objective is to maximise benefits to participating borrowers rather than shareholders. Consequently, it is intended to pay a limited dividend to shareholders.

The Board's policy is to pay a dividend that provides an annual rate of return to shareholders equal to LGFA fixed rate bond cost of funds plus 2.00% over the medium term.

At all times payment of any dividend will be discretionary and subject to the Board's legal obligations and views on appropriate capital structure.

10. Governance

Board

The Board is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with the Companies Act 1993, the Local Government Act 2002, the Local Government Borrowing Act 2011, the Company's Constitution, the Shareholders' Agreement for LGFA and this SOI.

The Board comprises six directors with five being independent directors and one being a non-independent director.

The Board's approach to governance is to adopt best practice with respect to:

- The operation of the Board.
- The performance of the Board.

- Managing the relationship with the Company's Chief Executive.
- Being accountable to all Shareholders.

All directors are required to comply with a formal Charter.

The Board will meet on a regular basis and no fewer than six times each year.

Shareholders' Council

The Shareholders' Council is made up of between five and ten appointees of the Shareholders (including an appointee from the Crown). The role of the Shareholders' Council is to:

- Review the performance of LGFA and the Board, and report to Shareholders on that performance on a periodic basis.
- Make recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors.
- Make recommendations to Shareholders as to any changes to policies, or the SOI, requiring their approval.
- Ensure all Shareholders are fully informed on LGFA matters and to coordinate Shareholders on governance decisions.

11. Information to be provided to Shareholders

The Board aims to ensure that Shareholders are informed of all major developments affecting LGFA's state of affairs, while at the same time recognising both LGFA's obligations under NZX Listing Rules and that commercial sensitivity may preclude certain information from being made public.

Annual Report

The LGFA's balance date is 30 June.

By 30 September each year, the Company will produce an Annual Report complying with Sections 67, 68 and 69 of the Local Government Act 2002, the Companies Act 1993 and Financial Reporting Act 2013. The Annual Report will contain the information necessary to enable an informed assessment of the operations of the company, and will include the following information:

- Directors' Report.
- Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cashflows, Statement of Accounting Policies and Notes to the Accounts.
- Comparison of the LGFA's performance regarding the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Auditor's Report on the financial statements and the performance targets.
- Any other information that the directors consider appropriate.

Half Yearly Report

By 28 February each year, the Company will produce a Half Yearly Report complying with Section 66 of the Local Government Act 2002. The Half Yearly Report will include the following information:

- Directors' commentary on operations for the relevant six-month period.
- Un-audited half-yearly Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position and Statement of Cashflows.

Quarterly Report

By 31 January, 30 April, 31 July, and 31 October each year, the Company will produce a Quarterly Report. The Quarterly Report will include the following information:

- Commentary on operations for the relevant quarter, including a summary of borrowing margins charged to Participating Borrower's (in credit rating bands).
- Comparison of LGFA's performance regarding the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Analysis of the weighted average maturity of LGFA bonds outstanding.
- In the December Quarterly Report only, commentary on the Net Debt/Total Revenue percentage for each Participating Local Authority that has borrowed from LGFA (as at the end of the preceding financial year).

- To the extent known by LGFA, details of all events of review in respect of any Participating Borrower that occurred during the relevant quarter (including steps taken, or proposed to be taken, by LGFA in relation thereto).
- Details of any lending to CCOs during the quarter and the amount of CCO loans outstanding.
- Commentary on sustainability initiatives.

Statement of Intent

By 1 March in each year the Company will deliver to the Shareholders its draft SOI for the following year in the form required by Clause 9(1) of Schedule 8 and Section 64(1) of the Local Government Act 2002.

Having considered any comments from the Shareholders received by 30 April, the Board will deliver the completed SOI to the Shareholders on or before 30 June each year.

Shareholder Meetings

The Board will hold an Annual General Meeting between 30 September and 30 November each year to present the Annual Report to all Shareholders.

The Company will hold a meeting with the Shareholders' Council approximately every six months – prior to the Annual General Meeting and after the Half Yearly Report has been submitted. Other meetings may be held by agreement between the Board and the Shareholders' Council.

12. Acquisition / divestment policy

LGFA will invest in securities in the ordinary course of business. It is expected that these securities will be debt securities. These investments will be governed by LGFA's lending and/or investment policies as approved by the Board and/or Shareholders.

Any subscription, purchase or acquisition by LGFA of shares in a company or organisation will, if not within those investment policies, require Shareholder approval other than as concerns the formation of wholly-owned subsidiaries and the subscription of shares in such wholly-owned subsidiaries.

13. Activities for which compensation is sought from Shareholders

At the request of Shareholders, LGFA may (at its discretion) undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full cost of providing such activities.

Currently there are no activities for which compensation will be sought from Shareholders.

14. Commercial value of Shareholder's investment

LGFA will seek to maximise benefits to Participating Local Authorities as Borrowers rather than Shareholders.

Subject to the Board's views on the appropriate capital structure for LGFA, the Board's intention will be to pay a dividend that provides an annual rate of return to Principal Shareholders equal to LGFA fixed rate bond cost of funds plus 2.00% over the medium term.

As the Shareholders will have invested in the LGFA on the basis of this limited dividend, the Board considered that at establishment the commercial value of LGFA was equal to the face value of the Shareholders' paid up Principal Shares - $25 million.

In the absence of any subsequent share transfers to the observed share transfers on 30 November 2012, the Board considers the current commercial value of LGFA is at least equal to the face value of the Shareholders' paid up Principal Shares of $25 million. This equates to a value per share of $1.00.

15. Accounting policies

LGFA has adopted accounting policies that are in accordance with the New Zealand International Financial Reporting Standards and generally accepted accounting practice. A Statement of accounting policies is attached to this SOI.

Statement of Accounting Policies

1. Reporting entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating borrowers.

The registered address of LGFA is Level 8, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

2. Statement of compliance

LGFA is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). These financial statements have been prepared in accordance with that Act and the Financial Reporting Act 2013. LGFA's bonds are quoted on the NZX Debt Market.

LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with NZ IFRS and other applicable Financial Reporting Standard, as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

3. Basis of preparation

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

There have no changes to accounting policies.

Early adoption standards and interpretations

LGFA has not early adopted any standards.

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements.

Financial instruments

Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand, bank accounts and deposits with an original maturity of no more than three months.

Cash provided by LGFA as security for financial arrangements remains a financial asset of LGFA and is recognised as cash pledged as collateral in the Statement of Financial Position, separate from cash and cash equivalents.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date, an expected credit loss assessment is performed for all financial assets and is calculated as either:

- Credit losses that may arise from default events that are possible within the next 12 months, where no significant increase in credit risk has arisen since acquisition of the asset, or
- Credit losses that may arise from default events that are possible over the expected life of the financial asset, where a significant increase in credit risk has arisen since acquisition of the asset.

Impairment losses on financial assets will ordinarily be recognised on initial recognition as a 12-month expected loss allowance and move to a lifetime expected loss allowance if there is a significant deterioration in credit risk since acquisition.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

Other assets

Property, plant and equipment

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

Intangible assets

Intangible assets comprise software and project costs incurred for the implementation of the treasury management system. Capitalised computer software costs are amortised on a straight-line basis over the estimated useful life of the software (three to seven years). Costs associated with maintaining computer software are recognised as expenses.

Other liabilities

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Segment reporting

LGFA operates in one segment being funding of participating borrowers in New Zealand.

Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts. For example, the fair value of financial instruments depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and these estimates and underlying assumptions are reviewed on an ongoing basis. Where these judgements significantly affect the amounts recognised in the financial statements they are described in the following notes.

6.8 Annual Insurance Renewal Process Update

File No.: 23/556

1. Purpose

1.1 This memo has been submitted to the RAC agenda for the Committee's information.

2. Recommendation

2.1 That Annual Insurance Renewal Process Update be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

3.1 As previously reported the Insurance Renewal Review and Submission for 2023, has identified a number of challenges. They are associated with the renewal process such as deductibles, asset registers, valuations, LASS membership insurance benefits, natural hazard risk, insurance brokerage, risk transfer through insurance of assets, policy extension layers and external party coverage through HDC Insurance Policies. This Memo provides a summary insight to these challenges in offering solutions and opportunities in accepting or mitigating any associated risks as part of the renewal process

4. Issues for Consideration

4.1 The renewal process is complex and still requires a significant amount work, to ensure we have a seamless renewal submission document that provides accurate data and information to determine the total amount of risk to transfer to insurance. This work will continue over the next several months as we look to establish a comprehensive Insurance Renewal Strategy stipulating guiding principles and business rules that provide clear understanding key steps taken on an annual basis.

4.2 This memorandum is presented for the committee's information

Attachments

No.	Title	Page
A⇩	Memo To CEO - Insurance Renewal Submission 2023-24	151

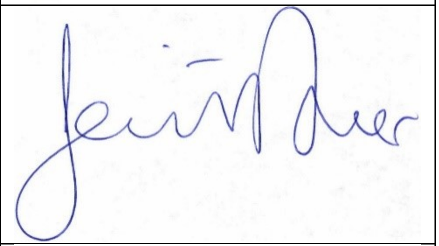
Confirmation of statutory compliance

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

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

Signatories

Author(s)	Rob Benefield **Risk Manager**	

Approved by	Ashley Huria **Business Performance Manager**	
	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

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Memo To: Monique Davidson – Chief Executive
Jacinta Straker – GM Organisation Performance

From: Rob Benefield – Risk Manager

Date: 31 July 2023

Subject: **Annual Insurance Renewal Process**

1. Background

The Insurance Renewal Review and Submission for 2023, has identified a number of challenges. They are associated with the renewal process such as deductibles, asset registers, valuations, LASS membership insurance benefits, natural hazard risk, insurance brokerage, risk transfer through insurance of assets, policy extension layers and external party coverage through HDC Insurance Policies.

The renewal process is complex and still requires a significant amount work, to ensure we have a seamless renewal submission document that provides accurate data and information to determine the total amount of risk to transfer to insurance. This work will continue over the next several months as we look to establish a comprehensive Insurance Renewal Strategy stipulating guiding principles and business rules that provide clear understanding key steps taken on an annual basis.

New to my role, the renewal process and review has provided me with an excellent opportunity and exposure to understand the continuously evolving insurance sector. While I still have a lot to learn, I have gained a tangible amount of knowledge relating to risks associated with our assets and natural hazards within the Horowhenua District. The experience has also provided a comprehensive understanding of the renewal process and the complexities related to providing an accurate renewal submission.

Table 1.1 is a timetable for this for 2023/24 renewal process and provides holistic view of the remaining steps before the 2023/24 renewal process and submission is complete.

Table 1.1 - Key Renewal Timeframes

March/April 23	May 23	7 July 23	August 23	October 23	1 November 23
Pre renewal review **Completed**	Schedules provided to Council - Meeting with AON re submission **Completed**	Council submit renewals to AON (Broker) **On Track**	Renewal Submissions to Insurer (London)	Confirm Renewal	Start new schedule and premium

2. Insurance Renewal Review

The following facts, assumptions and proposals provides a summary of points specific for this year's Insurance Renewal Submission, allowing an improved insight to our approach. Equally important is the context to provide clarity of key renewal decisions.

1. Policy Coverage for 2023/24 starts from 1 November 2023 until 31 October 2024
2. For the 2023-24 submission, the 2022 valuations have been updated with industry specific (WSP) percentages applied.
3. Underground assets remain ensured fully through LAPP, all assets have been updated and valuation percentage increases applied.

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   a. Brokerage and Insurance Policies in this area need to be reviewed to ensure that LAPP is still the best value approach. Only 18 Councils remain within the LAPP Programme, the majority now preferring alternative broker options. (As part of our strategy we will be reviewing our insurance brokers in researching the opportunities for coverage moving forward)
   b. This year we have provided LAPP with our Horowhenua Natural Hazard Risk Assessment & Mapping on Underground Assets layered with our limited natural hazard mapping i.e. fault lines, tsunami and flood plains.
   c. Asset schedules and asset data from the Core Infrastructure Asset management system need to be updated to ensure that accurately capture all of the assets added and upgraded over the last 3-5 years. (ACTION)
   d. No change will be put in place relating to the existing policy terms and conditions as these are set by LAPP who cover 40% of total damage and the Govt represent cover of 60%. The deductible remains at $1m of which HDC are responsible for $400k and Govt $600k.
   e. It is worth noting that a number of councils are removing a number of infrastructure assets from coverage i.e. Auckland City Council (Watercare Services Limited) have removed 41% of their infrastructure assets from insurance coverage.
4. Assets above ground, identified as critical infrastructure also remain fully insured with valuation percentage increases applied
   a. The Asset Schedule has been updated to include new assets, limited material information, and updated valuation information through a calculated average percentage increase from Capital Goods Price Index, AON References, and BERL Forecast.
   b. An Asset Register that includes accurate material data and location information needs to be completed so a full mapping project can be completed; in addition our mapping data needs to be updated with the latest Natural Hazard mapping information from EQC, GNS and specified reports this will provide improved information supplied to the submission process and commissioned by HDC and Horizons (ACTION)
5. Insurance Policies for our Vehicles, General Liability, Cyber Liability, Employers Liability, Statutory Liability, Crime Policy, Fine Arts Special Risk, Group Personal Accident and Forestry remain the same.
   a. For the 2024/25 Renewal Submission each of these policies will be reviewed through a combination of internal audits, risk assessments and industry specific research. (ACTION)
6. As part of our renewal submission for 2023/24 we have asked our broker to quote 3 deductible levels on our MDI/BI Policy. These levels sit at $100k, $200k, & $300k with the highest level still $100k less that the deductible agreement HDC has with LAPP. The quote will allow us to make a more accurate decision on what level of risk we wish to retain or transfer to our insurers.
   a. The policy outlines one deductible is payable per event.
   b. Our deductible level will be reviewed annually. (ACTION)
   c. LAPP deductibles for underground infrastructure already sits at $1m ($400k for LGA)
7. Bridges and Roads within our district remain uninsured. Waka Kotahi provide 60% coverage should we experience damage through a natural disaster.
8. Our External Party Internal Coverage Scheme (EPICS) expansion has yet to be approved, the 2023/24 renewal will only include existing groups as a decision on the expansion is pending.
   a. It is important members of the MWLASS are aware of the impacts on the coverage ratios if External Party Coverage is applied Region wide. Effectively the more external parties insured through a

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Council, should a regional wide event occur our layer of coverage diminishes as external parties are entitled to a share of that coverage. This will put pressure on additional layers of coverage required for to cover the expanded level of assets and increased value. (ACTION)

9. Working with managers from Community Infrastructure, Housing & Business Development, Community Vision and Delivery and the Executive the existing Asset Register Schedule has been reviewed. Taking the opportunity to assess assets against age, value and value to the community as list of assets suitable for no coverage (similar to that of bridges and roads) has been compiled.
    a. An Asset Valuation & Selection Policy has been drafted, this will provide the criteria and principles that will assist in the asset selection process for annual Insurance Renewal submission. This draft will be submitted to the Executive and Risk & Assurance Committee for feedback in August 2023. (ACTION)
    b. The compiled draft list amounts to $14.8M in Assets and related to $47.8k in premiums. A modest amount that equates to approximately 4.5% of our total asset base.
    c. Given the estimated 10-15% increase on premiums during this renewal round, this will assist in negating any the impacts relating to this rise.
    d. As our Asset Register, data management and risk assessment material evolves, there will be additional opportunities to select higher value assets that can be removed from the renewal process. (ACTION)
10. As part of the MWLASS Insurance Agreement we have taken the offer of an extension layer for MD/BI Policy based on increased valuations. The decision to continue this also needs to be made against a Natural Hazard risk assessment that may or may not be different for each council district. In short the existing extension coverage is set up for any major natural hazard event, such as a mega quake from the subduction zone (associated to the Hikurangi Trench and the Australian & Tasman Techtronic Plates). Natural hazards such as flooding, tsunami or tornados would unlikely test the first layer ($150M Coverage) of insurance coverage as regional wide devastation, would be limited. The question we need to ask is the likelihood and effects of such an event on the Horowhenua District? As identified the Horowhenua Natural Hazard Risk Assessment Report, the epicentre and depth of a Mega Quake is important to the understanding the damage experienced during an event. Over the last 200 years Horowhenua district has never experienced a quake or epicentre over 4.5 on the Richter scale within our district boundaries. The biggest quake (8.2) ever recorded in NZ was in 1844 in the Wairarapa with limited damage to the Horowhenua district.
    a. Initially MWLASS had a total regional MD/BI coverage of $150m to cover assets during a disaster within the region.
    b. In 2022 the Time Dependant valuation (TDV) of the collective assets owned by the MWLASS councils increased from $1.13B to $1.6N or 40%. At that time the MWLASS introduced a second extension layer of MD/BI cover for $150m. This layer is in addition to the first layer and only comes into effect if the first layer is exhausted. Whilst Assets increased in value by 40% this increase layer equated to an increase of 100% of coverage. The additional MD/BI extension layer that MLASS entered into across the region at a cost HDC an additional $199K and on top of our first layer which cost $922K. This first layer premiums have the potential to raise approximately $200k and the second layer $40-50k in 2023, 2024, 2025 based on AON estimations.
    c. Subsequently MWLASS have proposed a third layer of $150m be introduced in 2023 increasing coverage to $450m through 3 layers. Given the extension layers are generally focused on Asset value rather than Natural Hazard risk the second and third layers are disproportionate to the both the asset values and our HDC Natural Hazard risk assessment. An example is during Cyclone

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Gabriel the impact on the Councils assets in the Hawkes Bay was approximately $109m which is covered by the first layer of MD/BI.

d. It is important that each council undertakes its own due diligence on likelihood and consequence related to their district before taking part in additional layers of coverage. The natural disaster risk that Horowhenua District is exposed too is not equal to the risk other councils in our LASS have.

e. Through research and the Natural Hazard Risk Assessment, I am of the opinion that this second layer of MD/BI Coverage is not yet required (2023/24). Two councils opted out of the second layer for a number of reasons including affordability. As part of our Insurance Strategy we need to review the need for extension layers, this is something we can review annually. In context our biggest risk of damage sits with a megathrust earthquake and where it epicentres, the last one was in 1855 measuring 8.2 in the Wairarapa. Over the last 100 years our Aotearoa (our land) has experienced approximately 2 million earthquakes or movements of which approximately 17000 were felt of which approximately 4 (Napier 1931 – 7.8, Canterbury 2010/2011 – 7, and Kaikoura 2016 – 7.8) caused significant damage to infrastructure. The majority of large magnitude earthquakes epicentre on the East Coast. In February 2023 a 6.3 magnitude earthquake epicentre of the Kapiti Coast was felt however was limited in any damage to property.

11. Secondly the two extensions on Public Liability & Professional Indemnity were taken out with the reduction from Insurers in the level of coverage they were willing to underwrite to $15M. Again this was a decision made by MWLASS looking to extend the coverage to a higher level in transferring the risk of large scale claims against councils. Again this decision was made without considering the exposure of risk each council is faced with. Areas that need to be assessed include any large scale subdivisions, projects that are built in natural hazard areas or have the potential to consenting liabilities attached to them. We also need to considerer that New Zealand has the Accident Compensation Commission (ACC) which does cover injury in a workplace and prevents organisations from being sued for workplace accidents. Public Liability is required to cover property, death or injury in circumstances not covered by ACC, however the $15m liability coverage is adequate based on historical claim experience and small value projects happening within the district.

    a. The additional 2 extension layer policies for PL/PI insurance include additional premiums of $14,111.46 and $1,426.63 plus 15-20% estimated premium increases.

3. Risk Assessment

Attached in Appendix 2 is a brief risk assessment specific to the Insurance Renewal Process. This is supported by the Insurance Renewal Workplan (appendix 3) that lists a number of workstreams that need to take place over the next 5-7 months as we continuously enhance our Insurance Renewal Process.

4. 2023/24 Insurance Renewal Summary

2023-24 is the first time we have focussed resources to ensuring our Insurance Renewal Process is accurate in the information we provide to our brokers and underwriters. As with any risk, quantifiable information is necessary in supporting our ability to make better decisions. It would be fair to say that this year's renewal process has been made more difficult by my lack of understanding of the complexities offered by Local Government sector and MWLASS dynamics, and competing priorities for HDC. This said the workplan below (Appendix 3) identifies key workstreams that need to continue in allowing HDC to evolve to a point of complete confidence that ensures each renewal process and annual submissions are professionally articulated and accurate in risk transfer.

I am confident that this year's submission is a positive reflection of the work we have done to date and a significant improvement on our past submissions. HDC now have visibility on the whole renewal process and understands what we need to deliver an annual Insurance Renewal Submission that is cost effective, accurate

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in transferring risk and overall value for money. The benefits of this work will also integrate into our planning for future growth, LTP, and our District Plan

Included below a number of possible recommendations to be considered for approval, I would appreciate any additional thoughts, ideas or recommendations moving forward.

Rob Benefield
Risk Manager – Organisation Performance

Recommendations & Decisions

The following recommendations have been included for your perusal and guidance

1	Accept the submitted Asset Selection List (Appendix 1) in removing $14.86m Assets from the Insurance Renewal Schedule.	Yes	No
2	Assess the deductible quotes provided by the broker in establishing a new deductible level of either $100k, $200k or $300k. To be provided	Yes	No
3	Withdraw from the additional MD/BI Extension Policy Layer offered through the MWLASS	Yes	No
4	Withdraw from the two additional PL/PI Extension Policy Layers offered through the MWLASS	Yes	No
5	Decline the opportunity to participate in the third layer extension for MD/BI as presented by MWLASS	Yes	No
	Executive Comments or Recommendations:		

Date: **Signature** **Jacinta Straker** **GM – Organisation Performance**	**Date:** **Signature** **Monique Davidson** **Chief Executive, HDC**

Appendix 1 - 2023/24 Asset Selection Register (Attached)

Appendix 2 - Risks Assessment – Insurance Renewal Process

Potential Disruption Arising from Natural Hazards			
	Risk	**Consequence**	**Mitigation & Residual Risk**
1	Rolling over Insurance Renewal Submission annually without adequate review process or resources.	Inaccurate submission and transfer of risk. Poor modelling, valuations, asset information and risk assessment. Potential for higher premiums, inadequate coverage, poor decision making, lost business improvement opportunities.	**Moderate Risk** 1. Insurance Renewal Strategy 2. Valuation and Asset Selection Policy 3. Dedicated resource to oversee annual renewal submission 4. HDC Integrated and Comprehensive Asset Management programme
2	Critical Assets not included in submission no coverage in major event.	New or disposed assets not included in asset register, asset register not updated in real-time to include all essential information. This would impact accuracy of renewal submission and assets may not be included in coverage, information could be inaccurate impacting on financial return from insurer after event. Ability to Loss map is limited increasing premiums and unable to inform Master Planning	**Moderate Risk** 1. Project to work through and HDC wide Asset Management Programme that ensures assets are registered accurately within set timeframes and with the required information. 2. Link Asset Management Programme to Mapping and Natural Hazard data.
3	No integrated asset management programme within HDC	As above this risk exposes HDC to number of missed opportunities and risks associated with poor consolidation of asset data	**Moderate Risk** 1. Project to work through and HDC wide Asset Management Programme that ensures assets are registered

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			accurately within set timeframes and with the required information.
4	No business rules or principles for reviewing key components during the renewal process	Ad hoc approach to the Annual Insurance Renewal Process, with undefined expectations on key actions that impact on the accuracy of the renewal submission. Submission offers no value. Loss of expenditure, lost opportunities to improve insurance transfer decisions	**Moderate Risk** 1. Insurance Renewal Strategy principles and business rules when undertaking renewal process 2. Valuation an Asset Selection Policy that informs asset coverage decisions 3. Ongoing risk assessment of natural hazards in Horowhenua district.
5	On-going COLC and weather events that continuously put pressure on rising premiums.	Premiums continue to rise at unprecedented rates global economy pressures and climate change cause significant events. Expected premium increases of 10-15% over the next 3 years will make transferring risk through insurance unachievable for a number of organisations. Lack of coverage during major event	**Low Risk** 1. Continue to resource a that provides the necessary oversight of the Insurance, LG, HDC sectors and coordinates the annual renewal process
6	Insurance Policies not fit for purpose	HDC has a number of Insurance policies that cover a diverse range of risks within the HDC environment. Overtime policies run the risk of becoming out of date and ineffective against the continuously evolving risk environment. This has the potential for our organisation to engage a policy that no longer meets our operational needs, providing inadequate coverage and wasted premiums.	**Moderate Risk** **1.** Undertake a review all of HDCs Insurance Policies over the next 5 months

Appendix 3 - Insurance Renewal Process Work Plan

	Action	Responsible	
1	Brokerage and Insurance Policies need to be reviewed to ensure that LAPP is still the best value approach. Only 18 Councils remain within the LAPP Programme, the majority now preferring alternative broker options.	Risk Manager	October/November 2023
1a	Insurance Broker review – work with procurement in undertaking a comprehensive review of Insurance management opportunities.	Procurement and RM	
2	An Asset Register that includes accurate material data and location information needs to be completed so a full mapping project can be completed; in addition our mapping data needs to be updated with the latest Natural Hazard mapping information from EQC, GNS and specified reports this will provide improved information supplied to the submission process and commissioned by HDC and Horizons	TBC	
3	Insurance Policies for our Vehicles, General Liability, Cyber Liability, Employers Liability, Statutory Liability, Crime Policy, Fine Arts Special Risk, Group Personal Accident and Forestry are reviewed for the 2024/25 Renewal Submission.	Risk Manager	August – December 2023
4	It is important members of the MWLASS are aware of the impacts on the coverage ratios if External Party Coverage is applied Region wide. Effectively the more external parties insured through a Council, should a regional wide event occur our layer of coverage diminishes as external parties are entitled to a share of that coverage. This will put pressure on additional layers of coverage required for to cover the expanded level of assets and increased value.	TBC	
5	An Asset Valuation & Selection Policy has been drafted, this will provide the criteria and principles that will assist in the asset selection process for annual Insurance Renewal submission. This draft will be submitted to the Executive and Risk & Assurance Committee for feedback in August 2023.	Risk Manager	August/September 2023
7	A Insurance Renewal Strategy has been drafted, this will provide the key direction and principles when delivering the Annual Renewal Submission	Risk Manager	August/September 2023
8	Asset Register, data management and risk assessment material evolves, there will be additional opportunities to select higher value assets that can be removed from the renewal process.	Risk Manager	

6.9 Continuous Improvement and Audit Actions Monitoring Report

File No.: 23/507

1. Purpose

1.1 To report to the Risk and Assurance Committee on progress of the action items from previous resolutions.

2. Recommendation

2.1 That Report 23/507 Continuous Improvement and Audit Actions Monitoring 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 Risk & Assurance Committee notes the Risk & Assurance Committee resolution and actions monitoring report.

3. Background/Previous Council Decisions

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

3.2 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.

3.3 The monitoring actions have been carried over from the Finance, Audit and Risk Committee from the previous Triennium.

4. Issues for Consideration

4.1 Good progress had been made on some monitoring actions and Council officers have noted the progress of each action in the column “Officer Comment”.

4.2 Where progress had not eventuated as scheduled for some actions, these are also noted.

4.3 Completed monitoring actions had not been removed since the last report and will continue to show until the Committee agrees for them to be removed.

Attachments

No.	Title	Page
A⇩	Continuous Improvement and Audit Actions Monitoring Report - August 2023	159

Confirmation of statutory compliance

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

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,

b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Pei Shan Gan **Financial Controller**	

Approved by	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

Risk & Assurance Committee Actions Monitoring Report

	Completed
	In progress
	Transfer
	Off track/Not Started

Reference	Resolution/Action	Officer	Due date	Status	Officer Comment
21/337	Health & Safety Report • Enhanced risk management reporting, over time, in response to the SafePlus comment "some risk controls were being monitored but effectiveness of controls were not being verified"	T Glavas	Ongoing		The effectiveness of the controls is being monitored through ongoing incident reporting.
21/392	Finance, Audit & Risk Committee Work Programme • 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	Complete		Risk improvement programme presented to Council and implementation programme underway. Future updates will be via Risk Status Reports.

D23/18110

Last update: 9-Aug-23

UNCLASSIFIED

Key from Audit

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

Audit Management Report 2020/22 Previous Recommendations			
Recommendation	Due date	Status	Officer Comment
Necessary			
Credit card usage			
• Credit card holders should be reminded of, and adhere to, the requirements of the sensitive expenditure policy. • Either the sensitive expenditure policy be updated to reflect current practice where the Chief Financial Officer's credit card is used as a corporate card or the practice of using that credit card as a corporate card should cease.	**30/06/2023**		Improvements have been made around the management of credit card usage during the year: • All staff announcement made recently on Council intranet as a reminder to staff about Sensitive Expenditure Policy and credit card usage policy. • Organisation–wide policy training is being investigated to ensure staff awareness of credit card usage. • Work has started to explore purchase cards option for those staff who are frequent credit card users with the attempt to stop the single named credit card being used as a corporate card. This is expected to be in place from 2024.
Annual Reporting Process			
Implement audit recommendations to improve the audit process including improving the quality assurance review over the annual report. The particular areas we would expect to see improving is: • Implementing a quality assurance review over the annual report before providing to audit, performed by a staff member not directly involved in collating the information. This should	**30/06/2023**		Significant improvements are planned and currently being implemented for the 2022/23 annual report (AR) to improve the document and the way that it is prepared to ensure better quality assurance is achieved.

include a check that notes agree to the face of the accounts, disclosures, variance explanations and statement of service performance information are complete.			• Key staff on the AR are meeting twice weekly to check in on progress. • A detailed tasks schedule with responsibilities and due dates were circulated at the start of the AR process, with outstanding tasks being actively followed up on. • Management guidance and direction are sought and received in a timely manner. • Review process is built into the timetable by the finance team (peer review), the Financial Controller (Full document review), and ELT.
Three water infrastructure assets valuation			
Areas of improvement identified by the external valuer (WSP) and us, should be addressed prior to the next valuation, being: • update of the GIS asset register to reflect the reassessed useful lives in the valuation worksheet; • componentisation of the treatment plants and pump stations; • water supply tanks are revalued in conjunction with treatment plants and pump stations; • further investigation and tracking of Alliance costs as the true on-costs applied to capex projects could be higher than the currently applied value; • investigate and reconcile the discrepancy between water and wastewater laterals and house connections; and • investigate the impact of significant population growth on the remaining life where replacement date could be brought forward to achieve required capacity/standards.	**31/12/2023**		WSP noted that there have been improvements since the 2020/21 valuation specifically in respect of the componentisation of the treatment plants and pumps stations. Significant work is happening in this area currently to improve the way that we work. A more detailed overview will be provide at the next meeting.

Ensuring all assets within an asset class are revalued			
A process/reconciliation should be implemented to ensure that all assets within an asset class are revalued.	**30/06/2023**		Only revaluing Solid Waste assets for the 2022-23 Annual Report but all assets are being revalued. The reconciliation for other asset classes will be done in time for next revaluations.
Elevated network user accounts need management			
Use of the generic administrator account should be eliminated, and the password stored away for use in an emergency.	**31/12/2023**		Currently developing business case to move from E3 to E5 Microsoft Licencing which allow us to implement Privileged Identity Management – this supports appropriate access and permission management across various administrative roles
Legislative compliance			
The District Council should look at mechanisms to actively monitor compliance with legislative requirements.	**30/06/2023**		The development of a Legislative Compliance Programme is underway and will be presented to the Risk and Assurance Committee which will be aligned with and form part of the existing Council Risk Management Policy and Framework. This programme will include a way to monitor and report compliance.
Three Waters Alliance arrangements			

The risk register could by improved by making the intended or expected impact of any risk treatment on the likelihood and/or consequence (the risk priority) clearer.	**31/12/2023**		Our risk manager is continuously working with the alliance and community infrastructure team to review the water services risk register and improve the risk identification and assessment processes.
We encourage the District Council to take some time to rationalise and fully align performance measures and ensure they are being used consistently for reporting purposes.	**30/06/2024**		The performance measures will be reviewed as part of the LTP 2024-44.
Maintenance of fixed assets WIP schedule/depreciation			
Perform a full review of the Fixed Asset Register (FAR) to ensure valid data is contained in the module. Review accounting policies to ensure depreciation rates are appropriate and detailed enough for assets which are commonly added to the schedule. Implement regular reconciliations between the Asset Management Systems, maintained by the asset managers, and the FAR, maintained by the finance team. The reconciliations should be reviewed by an independent person evidenced with a dated signature.	**31/12/2023**		This is currently being worked on.
Infrastructure, land and buildings valuations			
Ensure there is a clear reconciliation between the revalued assets back to the valuation information. Develop a clear process to document adjustments to the valuation information and reassess the useful lives of infrastructure assets on a regular basis to ensure lives are in line with asset condition.	**30/06/2024**		A focus on improvements is underway.

Payroll masterfile review			
• Changes to the payroll masterfile be regularly reviewed against the supporting documentation for appropriateness through the running and review of a Masterfile change report. • Consideration be given to giving the reviewer "read-only" access to the payroll masterfile to ensure the review is independent.	**30/06/2023**		Any masterfile changes must be supported by the appropriate paperwork. The pay edit listing is reviewed by two people and the documentation for changes is supplied to the second reviewer. The pay edit listing is signed by the second reviewer before the pay is completed. A new payroll masterfile audit report has been written and it is system generated. The review process commenced in April 2022.
Performance measures process for complaints			
• Review the effectiveness of the current reporting and systems to accurately capture the underlying data and to ensure the data is complete. Systems and processes should be formally documented, and regular training provided to all staff involved. • Perform a regular, weekly or even daily, quality review of data entered into the Customer Request Management system (CRM) for complaints, service requests and response times to ensure it is complete, accurate and supportable. Reviews should also focus on following up unclosed jobs, ensuring all data fields are updated, and review of unusual response times. We would expect that these reviews are formally evidenced by way of a date and signature.	**30/06/2023**		CRMs are currently a focus for Council for ongoing improvement.

• Ensure data fields include information to clearly show why data has been amended or re-categorised with a clear audit trail of any changes made and who authorised them. • Document any calls that are excluded as Department of Internal Affairs (DIA) service requests or complaints. This may require additional fields to be added to the existing CRM if this information is not already captured. • Continue to review DIA guidance to ensure that the data being captured and reported, meets the mandatory reporting requirements. We expect that there will be further clarification around these measures as they become embedded into the annual reporting. • Establish a system to check contractor times recorded, are accurate instead of relying solely on the time that the contractor/staff noted. This is important to ensure accurate monitoring of contractor performance against the District Council's key performance targets. • Use the data from the CRM to monitor the District Council's performance, on a regular basis, to ensure corrective action can be taken as needed.			
Service performance: Evidencing monthly review of CRM requests			
Evidence review of the CRM requests at month-end with a dated signature.	**30/06/2023**		Monthly CRM report is being sent to Managers & Group Managers electronically with the intention to review the CRMs. Information Services currently support CRM reporting for Managers.

Classification of records in the CRM system			
We recommend that a monthly review of the CRM is implemented in order to mitigate the risk of overstating the reported results.	**30/06/2023**		Monthly CRM report is being sent to Managers & Group Managers electronically with the intention to review the CRMs. Information Services currently support CRM reporting for Managers.
Organisational Business Continuity and IT Disaster Recovery			
We recommend that the District Council continue to support and execute the overall BCP work programme underway to achieve BCP and DR plans that meet Council requirements, including confirming the risk tolerance and response to achieve mitigation required for the District Council's target risk level.	**30/06/2023**		Council now has a permanent Risk Manager role in place and is in process of building capability and maturity across risk and business continuity. Information Services continues to work closely with the Risk Manager to ensure that IT risks and BCPs are captured and managed.

Key from PricewaterhouseCoopers

Priority	Explanation
Urgent	High risk/immediate action required
Necessary	Medium risk/attention recommended in the medium term
Beneficial	Low risk/for your information only
√	Tax opportunity/action required

GST Compliance evaluation by PwC Recommendations – 17 February 2023					
Area of focus	Recommendation	Priority	Due date	Status	Officer Comment
GST Process/Procedure					
GST Procedural Documentation	We recommend that Council updates the GST procedural documentation to provide support for the basis of the calculations being made. In the event of an Inland Revenue risk review or audit, one of the first things that Inland Revenue request is procedural documentation and Inland Revenue will have a high degree of confidence over tax compliance if a taxpayer can produce up-to-date, comprehensive procedural documentation.	Beneficial	31/12/2023		Procedural documentation was reviewed and tested by another Council officer, who was new to the process and completed a couple of GST returns purely based on the documentation, to ensure completeness of the documentation. Further refinement to the documentation is built into the BAU GST process, and will be made as/when required.
GST Return Preparation					
GST Return Preparation Process	We are of the view that Council's GST return process is broadly sound and in line with our expectations. Whilst a manual workaround has been created,	Necessary	30/06/2023		The recommended monthly adjustment is put in place from the March 2023 GST return to recognise GST on

	we recommend that the underlying system settings are investigated to ensure these transactions are posted to the correct GST payable or receivable account. The manual workaround may correct this in most instances, however there can be legitimate reasons for negative postings (e.g. credit notes), which should not be transferred to the opposite GST account. We provide our further comments below in respect to individual aspects of the return for specific consideration, including an additional adjustment recommend for resource consent deposits.				the Resource Consent deposit when a payment is received. The underlying system settings will be explored as part of the action under “GST codes” below.
Trend Analysis	To support the high-level analysis already undertaken by Council each month, the input and output GST accounts could be tracked in a separate workbook or system output, with larger variances above a defined threshold noted within. This could also be translated into a graph which can provide an effective high-level visualisation of movements in GST for Council.	√	**31/12/2023**		Completed
GST Codes	We agree that in some instances, GST treatment can differ for items coded to a particular code, however there are many instances (e.g. rates penalties), where a default GST code should be used to ensure these are treated correctly for GST. Accordingly, we recommend Council review the default GST coding	√	**31/12/2023**		Initial discussion with Council’s system provider (Civica) to explore GST return capability in the system took place in May 2023.

	and ensure there is a default code where a particular GST treatment is certain or very common.				Further exploration session with Civica is needed to investigate the possibility of configuring the GST return function in the system by making use of the GST codes setting.
Rates					
Rates – General	For GST purposes, rates have a modified time of supply trigger, being the earlier of: - The date the instalment notice is issued; - the due date for payment required by the instalment notice; or - the date any payment is received. Council sets the rates for the year around July/August with four instalment dates which are invoiced as a "Tax Invoice/Credit Note/Debit Note" quarterly each year. For the GST return, Council's system defaults to return the full GST portion of the rates set for the year and will make an adjustment per month according to how much has been invoiced and how much has been paid in advance. No action required.	Beneficial	**NA**	For noting. No action required.	No action required.
Rates – Penalties	We recommend that Council amend the invoice format to include a total amount of GST in the row above the total due. We also recommend that there is a specific comment stating the rates penalties are exempt from GST.	Necessary	**31/12/2023**	Not started	This work is due to start in September 2023 as part of the overall rates invoice redesign.

Rates - Paid in Advance	Technically, Council has no obligation to return GST on rates paid in advance of the rates being set. However, given the rarity of rates paid in advance and that Council's approach is conservative, we consider the risk minimal, and the current treatment is appropriate. No action required.	Beneficial	**NA**	For noting. No action required.	No action required.
Rates – Remissions	We recommend that Council amend the tax invoice template to include a separate line to show the remission amount. Council should make clear that GST will only apply to the discounted rate where remissions have been applied.	Necessary	**31/12/2023**	Not started	This work is due to start in September 2023 as part of the overall rates invoice redesign.
Rates - Recent Invoice Error	We recommend that when Council reissues an amended invoice, that it shows a separate line for the full amount incorrectly charged as a credit, then have the correct amount shown as the amount due. For example: Opening balance: $1,200 Credit for prior invoice: ($1,200) Correct Amount: $1,000 ----------------------------- Total Amount Due: $1,000 We note that whilst there is a risk that a ratepayer may inadvertently claim GST on both invoices, the onus falls on the recipient to ensure GST is not over claimed in these instances.	Necessary	**NA**	For noting. No action required.	No action required.
Dog Licence Registrations					

Time of Supply	We recommend that going forward, Council ensure any invoices dated the 1st of the month are not sent during the month earlier, to avoid triggering the time of supply for GST purposes.	Necessary	**30/06/2023**		Compliance team had been notified and this is built into the processing notes for future invoices.
Dog Licensing – Invoices	We recommend that to rectify the issues noted going forward, Council amend the invoice template to read “Tax invoice when paid” as well as include a GST line on the document. This will ensure that the documentation issued reflect Council’s current practice and simplifies the process.	Necessary	**31/12/2023**		Invoice template updated to include the wording “Tax invoice when paid” and a separate GST line. This was completed by 30 June 2023 to align with the Dog registration timing.
Dog Licensing Fees - Credit Notes	Consistent with the above recommendation, we recommend that Council amend the invoices for licensing to read "Tax Invoice When Paid". This would negate the requirement for Council to issue a credit note.	Necessary	**31/12/2023**		Invoice template updated to include the wording “Tax invoice when paid” and a separate GST line. This was completed by 30 June 2023 to align with the Dog registration timing.
Property and Land Transactions					
Property Purchases and Disposals	We recommend that Council update the sales/disposals on property and land policy and procedure documentation to ensure the finance team is made aware of potential transactions early and the expected GST treatment is determined prior to the transaction being finalised. We recommend that Council ensures that the GST schedule within all Sale & Purchase agreements are completed. In the event that the GST treatment is ever scrutinised by the other party or by Inland	Urgent	**30/06/2023**		Whilst more time is needed to work on updating the policy and procedure documentation related to the sales/disposals on property and land, as an interim measure, the relevant team had been notified of the need to include the Finance team in completing the GST schedule within the agreements, and generally

	Revenue, having this completed should support the GST position taken by Council.				with questions around GST treatment.
Residential Property	We recommend that Council confirm whether the tenants at Valvaleen Farm (66 Old Foxton Road) and the Salvation Army (24 Durham Street) have "quiet enjoyment" for residential purposes. Based on our discussions we understand this is likely. If confirmed as exempt from GST, we recommend that Council contact the leasee to notify them that Council will no longer charge GST on the rent. We understand the current contracts state 'plus GST'. We recommend this is amended to exclude GST on these contracts and any similar contracts entered into in future that have the same GST treatment. Council should confirm if these properties were ultimately purchased for taxable supply purposes, and if so, the SOLGM agreement (as discussed below) could apply, meaning that notional GST should be returned on the rent received. However, GST should not be charged to the tenant. If treated as exempt, Council should ensure GST is not claimed on any expenses incurred by Council in relation to the residential properties. Council should ensure appropriate training and controls are put in place to ensure those coding the expenses do not claim the GST.	Necessary	**30/06/2023**		Further guidance was sought from PwC on this, and tenants for the properties in question had been approached and notified of the need for change of GST treatment (GST exempt). Retrospective adjustments were made. Future billing have also been corrected. Finance is proactively investigating expenses and questioning processes followed.

Consents and Contributions					
Resource Consent Deposits - Time of Supply	Moving forward, we recommend that Council recognise GST on the deposit when a payment is received. Only the GST portion of the deposit need be accounted for in the GST return as the full cost of the resource consent is not yet known. We recommend that this is a monthly adjustment completed in the GST return workpaper similar to the rates in advance adjustment. Ideally, a report could be run monthly detailing resource consent debtors with a credit balance and the movement between months included within the GST return.	Necessary	**31/12/2023**		The recommended monthly adjustment is put in place from the March 2023 GST return to recognise GST on the Resource Consent deposit when a payment is received.
Grants					
Grants	We recommend that the finance team ensures it has oversight on all grants going both in and out of Council, to ensure the GST treatments are correct. We provide specific recommendations below in regard to individual grants and provide further information on the distinction between grants and donations at Appendix Four.	Beneficial	**31/12/2023**	Not started	A review process will be put in place by December 2023 to ensure the finance team performs regular review on process related to grants.
Other					
Staff Reimbursements/ Credit Cards	We recommend that Council ensures that managers who are responsible for approving invoices are given appropriate guidance on what to look out for from a GST perspective when undertaking this process, including a high-level	Beneficial	**31/12/2023**		Fortnightly drop in session on Purchase order (PO) and Accounts Payable (AP) were put in place to educate staff about processes around PO and invoice payments.

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	understanding of GST claiming thresholds where no tax invoice provided. We also recommend that Council develop internal policy on any thresholds and limitations to staff reimbursements to minimise the number of personal claims going through and clarify the requirements for invoices/receipts required for expense claims. We note that GST invoicing requirements will be changing for taxable periods starting 1 April 2023 onwards. We provide more information on this at Appendix Two.				Information about GST requirements on tax invoice was made available on Council's intranet. AP officer taken on more responsibility in educating staff about GST invoicing requirements. Further staff training options are being explored.
SOLGM Agreement	We recommend that Council apply this methodology where applicable in relation to future purchases. We note that Inland Revenue are now very reluctant to accept similar GST apportionment agreements to that secured with SOLGM. As it significantly simplifies compliance, Council should take advantage of this option when it does apply.	√	**31/12/2023**	Not started	A review of GST position of properties that will fall under the SOLGM Agreement is pending.
WHT/GST	We recommend that Council incorporate controls within the accounts payable process to ensure withholding tax (WHT) is considered when paying suppliers, particularly individuals and ad hoc suppliers.	Beneficial	**31/12/2023**		Council does not often engage with contractors that will be subject to WHT. Currently, there is no WHT issue as the contractors that Council has engaged with are companies. Councillors are also subject to WHT, and this is processed through payroll with WHT being deducted appropriately.

					New Creditor Form used by Council has been reviewed and updated in March 2023 to capture WHT information. Work continues to explore accounts payable module being able to handle WHT.

Key from PricewaterhouseCoopers

Priority	Explanation
Urgent	High risk/immediate action required
Necessary	Low – Medium risk – action recommended
Beneficial	Low risk/for your information only

PAYE Compliance evaluation by PwC Recommendations – 11 May 2023					
Area of focus	Recommendation	Priority	Due date	Status	Officer Comment
Overall					
Procedural Documentation	We recommend that Council continue with the review and completes the PAYE procedural documentation. Following this, Council should ensure the documentation is kept up to date with any changes in process.	Beneficial	31/12/2023		Council continues to review and complete the PAYE procedural documentation. Changes in procedure is updated when required. A Payroll Audit Report is run each pay cycle, which is updated with supporting documentation and signed off by the People & Capability Manager
Knowledge and awareness	We encourage the Council to ensure that the team members who are involved in the PAYE process have access to up-to-date training and materials to ensure that they stay up to date with current tax legislation and Inland Revenue practice. Furthermore, we recommend that Council run regular checks and tests on the payroll system to ensure automatic calculations are being done correctly.	Necessary	30/06/2023		Ongoing training has been implemented via CHH Learning and NZPPA to ensure legislative changes are actioned when required. Going forward we will implement a process where spot checks are completed on automatic processes to ensure accuracy.

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Key person risk	We recommend that Council ensure that there are other suitable team members in place who can ensure that the payroll process could still be completed in the absence of the Payroll manager.	Necessary	**30/06/2023**		Payroll function is now included within the People and Capability team. Key person risk is mitigated by cover put in place where both People and Capabilities Coordinators provide cover for each other in Payroll and Human Resources functions).
Potential future benefits	Tax advice should be considered prior to implementing any new benefits to employees. We recommend ensuring any potential offers to staff are communicated between HR, payroll and finance teams to ensure that the correct tax treatment is understood before implementation and ultimately is applied, particularly if there are any non –taxable offerings.	Necessary	**30/06/2023**		This has been implemented to ensure the correct tax treatment is understood before implementation.
Payroll					
Fortnightly pay run	As the ad hoc payments are calculated separately from the regular fortnightly pay run, the payment is made at the same time as the regular fortnightly pay. If the situation arises where the ad hoc pay runs give rise to an actual separate payment, this will trigger a pay day filing requirement for that payment. Council should ensure this is monitored and the pay day filling requirements are met.	Beneficial	**31/12/2023**		Ad hoc payments are filed within the same pay period to Inland Revenue. A reconciliation file is prepared for each pay run and reviewed by the People and Capabilities Manager. This is embedded into day-to-day process and closely monitored.

Final Pay – Ordinary Pay tax rate	We recommend that Council correct this calculation going forward by processing it through the payroll system. We understand that Council performs a manual calculation in attempt to avoid employees having a large refund or tax to pay when their individual tax return is assessed. In our view, the risk for Council is significantly lower if the calculation is performed using Inland Revenue's expected methodology as Council could be responsible for amending their PAYE returns upon investigation if the current methodology is used.	Urgent	**30/06/2023**		Further investigation required and will consult further with IRD.
Final Pay – Lump sum payment	We recommend that Council correct this calculation going forward by processing it through the payroll system if it has the capability. Alternatively, Council could amend the manual calculation methodology. We understand that Council performs a manual calculation in attempt to avoid employees having a large refund or tax to pay when their individual tax return is assessed.	Urgent	**30/06/2023**		Further investigation required and will consult further with IRD.
Backpay	Our sample testing of payslips indicated that the backpay component of a payslip was treated as ordinary pay rather than extra pay. Whilst we understand this was a unique instance, we recommend that in future, each instance of backpay is	Beneficial	**31/12/2023**		All backpay components are processed and recorded separately to ordinary pay.

	considered carefully to split out the actual backpay and the amount relating to the current period.				
Contractors & Withholding tax (WHT)	We understand that Council does not often engage with contractors and will do so sparingly. Currently, there is no WHT issue as the contractors that Council has engaged with are companies. Councillors are also subject to WHT, and this is processed through payroll with WHT being deducted appropriately. No action required.	Beneficial	**NA**	For noting. No action required.	No action required.
Superannuation					
Superannuation	Council currently offers KiwiSaver and SuperEasy to employees. The interaction between superannuation schemes can be complex, however, as Council only contributes to KiwiSaver, this risk is mitigated. No action required.	Beneficial	**NA**	For noting. No action required.	No action required.
ESCT rates for new employees	Council relies on the payroll system to automatically calculate an employee's ESCT rate. Through our sample testing of payslips, we discovered that Council's payroll system, has been calculating ESCT rates for new employees incorrectly. Based on our testing, it appears that ESCT rates are determined based on their prior year earnings, regardless of when the employee started. This has resulted in ESCT rates being automatically set at	Urgent	**30/06/2023**		On 25 October 2022, we made a voluntary disclosure to the Inland Revenue in relation to the underpayment of Employer Superannuation Contribution tax (ESCT). On 7 December 2022, Inland Revenue accepted the disclosure and amended the amount of ESCT payable for the periods (31/03/20, 31/03/21 and 31/3/22) and Council paid the amount of

	10.5% for new starters, resulting in an underpayment of ESCT by Council. We recommend that Council carry out a specific engagement to calculate the amount of ESCT underpaid over past four years and file a voluntary disclosure to Inland Revenue. Whilst this may result in a tax liability for Council, the alternative would be to amend employees Kiwisaver contributions which would be a very difficult process in addition to creating a high risk of disputes from employees. Calculating the shortfall will likely be difficult, as such Council should consider seeking external assistance and/or the use of data analytic tools.				$25,705.67 including use-of-money interest (UOMI). No shortfall penalty was imposed. Going forward, ESCT rates check had been included into the checklist for Payroll end of year process.
Change in superannuation rate + contributions holiday	Where Council employees want to change their contribution rate, they advise payroll and fill out a form. For a contributions holiday (Savings suspension) employees must notify Inland Revenue who will then notify payroll. No action required.	Beneficial	**NA**	For noting. No action required.	No action required.
Benefits and Allowances					
Benefits and Allowances	We understand that Council currently provides very few allowances to employees. Councillors are provided with a mobile/telephone internet and mileage, and this is governed under the remuneration authority. No action required.	Beneficial	**NA**	For noting. No action required.	No action required.

Flu vaccinations	Flu vaccinations provided on site and paid for by Council will fall under the health and safety exemption under the FBT regime. Where an employee is reimbursed for obtaining their own vaccination, this is technically subject to PAYE regime where there is no mirroring health and safety exemption. As such, these reimbursements should be processed through the payroll system and subject to PAYE and other deductions (Kiwisaver, ACC levy, Student loan etc.) We recommend that in future when reimbursements are made for flu vaccinations, that these are grossed up and paid through the payroll system.	Beneficial	**31/12/2023**		Most flu vaccinations are provided on-site. In the unlikely event of an employee seeking a reimbursement for obtaining their own vaccination, this will be submitted to our Health and Safety Lead for review and if approved, it will be flagged to Finance to be processed through the payroll system so the appropriate deductions are recorded.
Purchasing of goods on Council's account	The provision of loans to employees for low or nil interest will be subject to FBT. We recommend that Council review its procedures regarding this treatment of personal purchases going forward.	Necessary	**31/12/2023**		Council staff is able to purchase paints from Resene on Council's account to access commercial discounts. All such purchases are to be paid at the time of purchase by the staff member. Close monitoring is in place to ensure full payment i.e. no provision of loans to employees as such. Staff private purchasing policy is pending review.

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Clothing	As this is a relatively rare reimbursement, we recommend that Council fix this going forward. As plain black pants and other similar items are not distinctive work clothing, the reimbursement for the pants will need to be subject to PAYE.	Necessary	**31/12/2023**	Not started	Review policy regarding clothing/uniform and ensure is aligned with the Collective agreement. Current process for Swazi jackets which are subsidised, employees pays their portion through AP or deduction from pay (no PAYE)
Other					
S 123 payments (hurt & humiliation payments)	As this is always a target area in Inland Revenue audits. We recommend that Council adopt a conservative approach to remediation payments and ensure there are documented procedures in place.	Beneficial	**31/12/2023**	Not started	Agreed, a conservative approach is taken to all remediation payments. Documented procedures to be looked at.
Relocation payments	We recommend that Council continue to obtain receipts and ensure that any relocation payments made fall within Inland Revenue's determination 09/04, to ensure they can be paid tax-free.	Beneficial	**31/12/2023**	Not started	Any relocation payments are paid for by the individual and then reimbursed so will not incur tax. Criteria for these payments needs to be included either in the new recruitment/talent policy or the sensitive expenditure policy when this is reviewed.

6.10 Risk and Assurance Committee Work Programme

File No.: 23/541

1. Purpose

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

2. Recommendation

2.1 That Report 23/541 Risk and Assurance 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 Risk and Assurance Committee notes the Finance, Audit and Risk Committee Work Programme.

3. Issues for Consideration

The Risk and Assurance Committee work programme is attached for consideration.

Attachments

No.	Title	Page
A⇩	Risk and Assurance Committee Work Programme 2023/24	187

Confirmation of statutory compliance

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

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,

b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Ashley Huria **Business Performance Manager**	AHuria

Approved by	Jacinta Straker **Group Manager Organisation Performance**	
	Monique Davidson **Chief Executive Officer**	

Risk and Assurance Committee Work Programme

	Q3 - 16 August 2023	Q4 - 08 November 2023	Q1 - 2024	Q2 - 2024
Internal Audit / Treasury	Independent Treasury Report (Bancorp) Monitoring Report • Audit NZ • PwC Tax for internal audit • Other internal audit *Legislative Compliance Report* *Sensitive expenditure presentation* PwC Tax Governance Presentation Procurement Update Standard & Poor's Report	Independent Treasury Report (Bancorp) Monitoring Report • Audit NZ • PwC Tax for internal audit • Other internal audit 2022/23 Annual Report • Final Annual Report (Draft report to be circulated in early September). • Audit Management Letter Procurement Update	Independent Treasury Report (Bancorp) Monitoring Report • Audit NZ • PwC Tax for internal audit • Other internal audit *Sensitive expenditure report* *Legislative Compliance Report* Insurance presentation Procurement Update	Independent Treasury Report (Bancorp) Monitoring Report • Audit NZ • PwC Tax for internal audit • Other internal audit Procurement Update
Risk Management	Risk Register Risk Architecture and Culture	Risk Register Risk Appetite Review Emergency Management effectiveness within the organisation	Risk Register	Risk Register
Health, Safety and Wellbeing	Dashboard Report Deep Dive – Footpaths	Dashboard H,S&W Action Plan Deep Dive – Land Transport – Critical Risk Driving/Contractor Management Dashboard comparison	Dashboard H,S&W Action Plan Deep Dive – Animal Control	Dashboard H,S&W Action Plan Deep Dive

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

The following motion is submitted for consideration:

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

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

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

C1 Health and Safety Investigation

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