



# Risk and Assurance Committee

## *Te Komiti Whakahaere Tūraru*

Friday, 17 May 2024  
*Rāmere, 17 Haratua 2024*

Totara Room, Whakatāne District Council  
14 Commerce Street, Whakatāne  
Commencing at: 9:00 am

Chief Executive: Steph O'Sullivan  
Publication Date: 13 May 2024



**Live Streaming the Meeting - *Ka whakapāho mataora te hui***

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**PLEASE NOTE**

The **public section** of this meeting will be Live Streamed via YouTube in real time.  
The live stream link will be available via Council's website.

All care will be taken to maintain your privacy however, as a visitor in the public gallery, your presence may be recorded. By remaining in the public gallery, it is understood your consent is given if your image is inadvertently broadcast.

The opinions or statements expressed during a meeting by individuals are their own, and they do not necessarily reflect the views of the Whakatāne District Council. Council thus disclaims any liability with regard to said opinions or statements.

## **A Membership - *Mematanga***

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Mayor Dr V Luca

Independent Chairperson - Stuart Henderson

Deputy Mayor L N Immink - Deputy Chairperson

Councillor W B James

Councillor T O'Brien

Councillor J Pullar

Independent Member - P Lucioli

### **B Delegations to the Risk and Assurance Committee - *Tuku Mahi ki te Komiti***

The purpose of the Risk and Assurance Committee is to oversee the effectiveness of Council's risk management, internal control environment, legal responsibilities, statutory compliance, and external auditing process.

The Committee has the authority to appoint up to two independent persons who are not elected members, who can assist the Committee to meet its obligations and responsibilities.

The quorum for this Committee is 4 members.

#### **Responsibilities and Functions**

- a. Oversee the effectiveness and appropriateness of the Enterprise Risk Management framework, including but not limited to Council's Risk Policy and Corporate Risk Register.
- b. Advise the Council on matters of risk and risk appetite.
- c. Ensure that the Organisation has internal control systems in place.
- d. Monitor Council's compliance with applicable laws, regulations, standards and best practice guidelines for public entities.
- e. To monitor performance of the Council's treasury function.
- f. Maintain oversight of legal proceedings involving Council.
- g. Oversee the effectiveness and appropriateness of the internal control environment.
- h. Review the policies, systems, processes and controls to ensure that fraud is detected and effectively investigated.
- i. Ensure the adequacy, integrity and reliability of the external financial reporting of Council.
- j. Review the integrity and appropriateness of external reporting, and accountability arrangements.
- k. Review, and monitor progress against, the external auditors' recommendations.
- l. Recommend to the Office of the Auditor General the decision either to publicly tender the external audit or to continue with the existing provider for a further three-year term.
- m. Where required, request expert advice through the chief executive where necessary.



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## **1 Meeting Notices - *Ngā Pānui o te hui***

### **1 Meeting Notices - *Ngā Pānui o te hui***

#### **1. Live Streaming**

The Whakatāne District Council livestreams Council and Standing Committee meetings held in Tōtara Room, within the Council building. The webcast will live stream directly to Council's YouTube channel in real time. The purpose of streaming meetings live is to encourage transparency of Council meetings.

By remaining in the public gallery, it is understood your consent has been given if your presence is inadvertently broadcast.

Please be aware the microphones in Totara Room are sensitive to noise, so please remain quiet throughout the meeting unless asked to speak.

#### **2. Health and Safety**

In case of an emergency, please follow the building wardens or make your way to the nearest exit. The meeting point is located at Peace Park on Boon Street.

Bathroom facilities are located opposite the Chambers Foyer entrance (the entrance off Margaret Mahy Court).

#### **3. Other**

### **2 Apologies - *Te hunga kāore i tae***

No apologies have been received at the time of writing the agenda.

### **3 Acknowledgements / Tributes - *Ngā mihimihi***

An opportunity for members to recognise achievements, to notify of events, or to pay tribute to an occasion of importance.

### **4 Conflicts of Interest - *Ngākau kōnatunatu***

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as an elected member and any private or other external interests they might have.

The Elected Member Register of Interest is available on the Whakatāne District Council website. If you wish to view the information, please click this [Register link](#).

## **5 Public Participation - *Wānanga Tūmatanui***

### **5 Public Participation - *Wānanga Tūmatanui***

#### **5.1 Public Forum - *Wānanga Tūmatanui***

The Committee has set aside time for members of the public to speak in the public forum at the commencement of each meeting. Each speaker during the forum may speak for five minutes. Permission of the Chairperson is required for any person wishing to speak during the public forum.

With the permission of the Chairperson, Elected members may ask questions of speakers. Questions are to be confined to obtaining information or clarification on matters raised by a speaker.

#### **5.2 Deputations - *Nga Whakapuaki Whaitake***

A deputation enables a person, group or organisation to make a presentation to Committee on a matter or matters covered by their terms of reference. Deputations should be approved by the Chairperson, or an official with delegated authority, five working days before the meeting. Deputations may be heard at the commencement of the meeting or at the time that the relevant agenda item is being considered. No more than two speakers can speak on behalf of an organisation's deputation. Speakers can speak for up to 5 minutes, or with the permission of the Chairperson, a longer timeframe may be allocated.

With the permission of the Chairperson, Elected members may ask questions of speakers. Questions are to be confined to obtaining information or clarification on matters raised by the deputation.

## **6 Confirmation of Minutes - *Te whakaaetanga o ngā meneti o te hui***

### **6.1 Risk and Assurance Minutes 1 March 2024**

The minutes from the Council meeting held Monday, 13 November 2023 can be viewed via the Council website.

Click on the link below in order to view the 'unconfirmed minutes'.

- [Whakatane District Council website | Risk and Assurance Standing Committee | 1 March 2024](#)

## 6.2 Action Items

### Risk and Assurance Committee

### Public Agenda – Action Sheet

**STATUS LEGEND**

Complete = Staff completed, waiting meeting approval to close.

Closed = Meeting approved action closed and moved to 'Closed actions table'.

### OPEN ACTIONS following committee meeting of March 2024

| ID         | Raised by     | Target Date         | Assigned                     | Title                        | Description   | Actions/Update  | Status    |
|------------|---------------|---------------------|------------------------------|------------------------------|---|---|-----------|
| June – 23  | Council       | Before next meeting | CFO & GM Business Partnering | PWC Invitation               | Invitation to PWC to cover treasury policy and run a follow-up on treasury matters.                                 | Scheduling into work plan for March 2024  | On Agenda |
| Aug 23 - 2 |               | Nov 23 meeting      |                              | Enterprise Risk 6            | Further information was requested for the November 2023 meeting on Risk 6   | This action is intended to be addressed through a briefing. Item will be closed when briefing has occurred. | Ongoing   |
| Nov 23 – 1 | DM Immink     | Before next meeting | CFO & GM Business Partnering | Debt recovery item           | To be included within the Council Risk Management Register (Accounts receivable non-rates debt recovery procedures) | Actioned in March 24 Committee Report – Enterprise Risk Report  | On Agenda |
| Nov 23 - 2 | Member Lucioi | Before next meeting | CFO & GM Business Partnering | Risk Management - timeframes | Timeframes within the Monitoring and Review section of Risk Management Policy to be added.                          | Actioned in March 24 Committee Report – Policy Review Risk Management Policy                                | On Agenda |
| Nov 23 - 4 |               | March 2024 meeting  | CFO & GM Business Partnering | Airport Annual Report        | A report was requested for the next meeting; Airport Annual Report update   | Deferred to May 2024 Committee Meeting  | Ongoing   |
| Mar 24 - 1 | DM Immink     | Before next meeting | CFO & GM Business Partnering | Debt management graphs       | Debt management graphs to be circulated, and to be reinstated in future reporting.                                  |   |           |

## 7 Reports - *Ngā Pūrongo*

### 7 Reports - *Ngā Pūrongo*

#### 7.1 Audit Plan 2023-24



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To: **Risk and Assurance Committee**  
Date: **Friday, 17 May 2024**  
Author: **Gary Connolly / CFO and GM Business Partnering**  
Authoriser: **Steph O'Sullivan / Chief Executive**  
Reference: **A2666025**

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#### 1. Reason for the report - *Te Take mō tēnei rīpoata*

The purpose of this report is to inform the Committee of the finalised Audit Plan 2023-24 from Audit NZ for the 2024 financial year.

#### 2. Recommendation - *Tohutohu akiaki*

**THAT** the report entitled 'Audit Plan Whakatane District Council For the year ending 30 June 2024' from Audit NZ be received.

#### 3. Subject - *Kaupapa*

One of the terms of reference for the Risk and Assurance Committee is to receive the plan for the audit of the impending financial year (2024) for the Annual Report of Whakatāne District Council each year from the external auditors.

The finalised report 'Audit plan Whakatane District Council For the year ending 30 June 2024' which is now tabled to be received in this meeting of the committee.

#### 4. Background - *He tirohanga whakamuri*

Every year, prior to the completion of the Annual Report, our external auditors, Audit NZ, issue a report outlining their approach to the audit for the impending Annual Report. This report is presented to the Risk and Assurance Committee to inform on matters that Audit NZ intend to put emphasis on and the various processes and protocols that will be used.

The Audit Plan is broken down into five main topics:

##### 1. Audit Risks and Issues- Focus Areas

Based on the planning work and discussions completed by Audit NZ, they set out a table of significant focus areas. This year they are:

### 7.1 Audit Plan 2023-24(Cont.)

- The risk of management override of internal controls
  - Fair value assessment of infrastructure, property, plant and equipment
  - Capitalisation of Work in Progress
  - Non-current assets held for sale
  - Investment in Boat Harbour entity
  - Valuation of investment property
  - “Local Water Well Done” Programme
  - Drinking water quality performance measure
  - Fraud Risk
2. Audit Process
- Materiality thresholds
  - Professional judgement and professional scepticism
  - Consideration of compliance with laws and regulations
  - Wider public considerations
3. Reporting Protocols
- Communication with management and the Council
  - Reports to the Council
4. Audit Logistics
- The team members that will work on the audit
  - The proposed timetable
  - The Audit Dashboard
  - Working remotely
5. Expectations

### 5. Options analysis - *Ngā Kōwhiringa*

There are no options attached to this report. This is an Audit Plan for Councils reference.

### 6. Significance and Engagement Assessment - *Aromatawai Pāhekoheko*

#### 6.1. Assessment of Significance

This report is assessed to be of low significance in accordance with the Council’s Significance and Engagement Policy.

#### 6.2. Engagement and community views

Due to the low significance of the matters of this report, public participation is not required to inform decision-making, as set out in Section 6.1(a) of the Council’s Significance and Engagement Policy.

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”**

7. Considerations - *Whai Whakaaro*

**7.1. Financial/budget considerations**

There are no budget considerations attached to the tabled report. The plan is a standard report issued each year by Audit NZ

**7.2. Strategic alignment**

No inconsistencies with any of the Council’s policies or plans have been identified in relation to this report

**7.3. Climate change assessment**

Based on this climate change assessment, the decisions and matters of this report are assessed to have low/moderate/high climate change implications and considerations, in accordance with the Council’s Climate Change Principles

**7.4. Risks**

There are no risks to be noted resulting from the tabling of this Audit Plan.

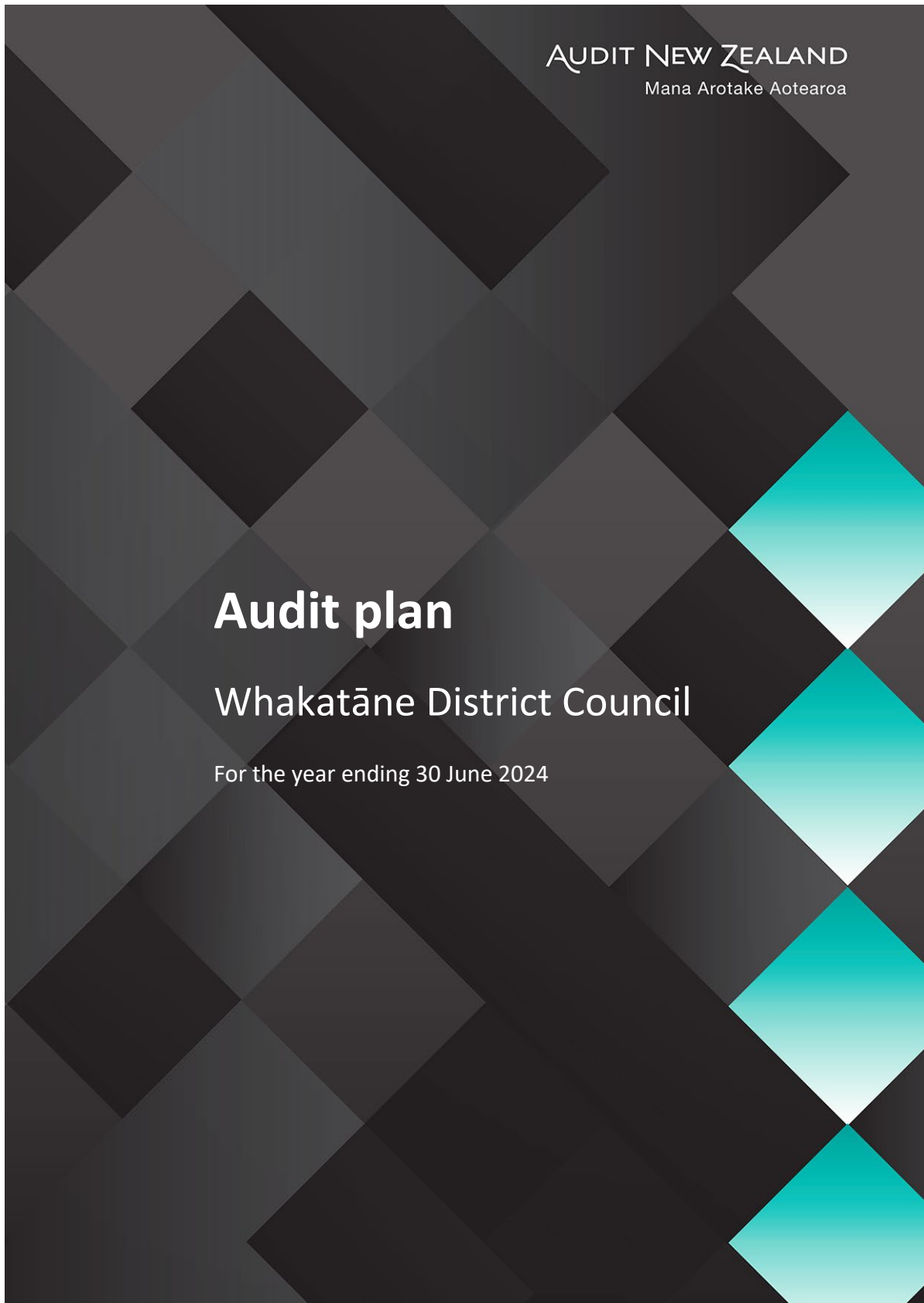
**Attached to this report:**

- Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”**



**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**



**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

## Audit plan

I am pleased to present our audit plan for the audit of Whakatāne District Council for the year ending 30 June 2024. The purpose of this audit plan is to discuss:

|                              |    |
|------------------------------|----|
| Audit risks and issues ..... | 2  |
| Our audit process .....      | 10 |
| Reporting protocols .....    | 15 |
| Audit logistics .....        | 16 |
| Expectations .....           | 18 |

The contents of this plan should provide a good basis for discussion when we meet with you.

We will be happy to elaborate further on the matters raised in this plan.

Our work improves the performance of, and the public’s trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Nāku noa, nā



Clarence Susan  
Appointed Auditor  
13 May 2024

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

**Audit risks and issues**

**Focus areas - significant audit risks**



Based on the planning work and discussions that we have completed to date, we set out in the table below the significant audit risks and issues. These will be the main focus areas during the audit.

| Audit risk/issue   | Our audit response   |
|--|--|
| <b>The risk of management override of internal controls</b>  |  |
| <p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.</p>  | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• testing the appropriateness of selected journal entries;</li> <li>• reviewing accounting estimates for indications of bias; and</li> <li>• evaluating any unusual or one-off transactions, including those with related parties.</li> </ul>  |
| <b>Fair value assessment of infrastructure (Roding Network) property, plant and equipment (non-revaluation year)</b>   |  |
| <p>The District Council periodically revalues its infrastructure assets. PBE IPSAS 17, <i>Property, Plant and Equipment</i> requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The Council last revalued its Roding Network in 2022. For these assets the council will be performing a fair value assessment to determine whether there is significant difference between the fair value and the carrying value. Where the estimated difference is significant a full revaluation may be necessary.</p> <p>An assessment should:</p> <ul style="list-style-type: none"> <li>• factor in local cost information;</li> <li>• utilise relevant and reliable price movement indicators; and</li> <li>• involve consulting with valuers, if necessary.</li> </ul> <p>The Council will be engaging external valuers, WSP New Zealand, to assist in preparing a fair value assessment.</p> | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• we will review management’s fair value assessment report including the appropriateness of the key assumptions used in the assessment;</li> <li>• we will also assess the competence and experience of the person(s) completing the fair value assessment and whether the requirements of PBE IPAS 17 Property, Plant and Equipment (including the appropriateness of the fair value assessment) have been met;</li> <li>• review the reasonableness and completeness of the data used; and</li> <li>• assess the presentation and disclosure of information related to the final carrying values in the financial statements.</li> </ul> |

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

**Focus areas - areas of audit focus**



Based on the planning work and discussions that we have completed to date, we set out in the table below the areas of audit focus.

| Audit risk/issue   | Our audit response   |
|--|--|
| <b>Fair Value Assessment of Property Plant &amp; Equipment (Non revaluation year)</b>  |  |
| <p>The District Council periodically revalues its operational assets. PBE IPSAS 17, <i>Property, Plant and Equipment</i> requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>During the current year, (2023/24) the below mentioned assets will be fair valued:</p> <ul style="list-style-type: none"> <li>• Land (Operational &amp; Restricted assets).</li> <li>• Building (Operational &amp; Restricted assets).</li> <li>• Harbour &amp; Park Assets.</li> </ul> <p>An assessment should:</p> <ul style="list-style-type: none"> <li>• factor in local cost information; and</li> <li>• utilise relevant and reliable price movement indicators; and involve consulting with valuers, if necessary.</li> </ul> <p>The council will be engaging external valuers, AON NZ to assist in preparing a fair value assessment.</p> <p><b>Impairment</b></p> <p>At each reporting date management must assess whether there is any indication that assets may be impaired. If management identifies any indication of impairment, then they must estimate the recoverable service amount of the asset.</p> <p>This is to ensure the carrying amount of an asset does not differ materially from its recoverable amount.</p> <p>The judgemental nature of asset revaluations, fair value assessments, and impairment assessments creates a risk of bias or error in the assumptions and inputs used. Due to the value of the asset classes in question, any bias or errors in the inputs used or calculations performed could result in a material misstatement of the District Council’s financial statements.</p> | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• we will review management’s fair value assessment report including the appropriateness of the key assumptions used in the assessment;</li> <li>• we will also assess the competence and experience of the person completing the fair value assessment and whether the requirements of PBE IPAS 17 <i>Property, Plant and Equipment</i> (including the appropriateness of the fair value assessment) have been met;</li> <li>• review the reasonableness and completeness of the data used;</li> <li>• assess the presentation and disclosure of information related to the final valuation in the financial statements;</li> <li>• Review of management’s impairment assessments and evaluating the reasonableness of significant assumptions used in the assessments; and</li> <li>• Evaluate how management has addressed estimation uncertainty and reperform any calculations made by management.</li> </ul> |

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

| Audit risk/issue   | Our audit response  |
|--|---|
| <b>Fair value assessment of infrastructure (3 Waters) property, plant and equipment (non-revaluation year)</b>   |   |
| <p>The District Council periodically revalues its property, plant and equipment. PBE IPSAS 17, <i>Property, Plant and Equipment</i> requires that valuations are carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value.</p> <p>The Council last revalued its three waters assets (Wastewater, Stormwater and Water supply) as at 30 June 2023 and has engaged external specialist - AON NZ to perform a fair value assessment to determine whether there is a significant difference between the fair value and carrying value. Where the estimated difference is significant a full revaluation may be necessary.</p> <p>An assessment should:</p> <ul style="list-style-type: none"> <li>• factor in local cost information;</li> <li>• utilise relevant and reliable price movement indicators; and</li> <li>• involve consulting with valuers, if necessary.</li> </ul> <p>The Council will be engaging external valuers, Aon NZ, to assist in preparing a fair value assessment of the 3 Waters.</p> | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• we will review management’s fair value assessment report including the appropriateness of the key assumptions used in the assessment;</li> <li>• we will also assess the competence and experience of the person completing the fair value assessment and whether the requirements of PBE IPAS 17 <i>Property, Plant and Equipment</i> (including the appropriateness of the valuation basis) have been met;</li> <li>• review the reasonableness of the data and key assumptions used; and</li> <li>• assess the presentation and disclosure of information related to the valuation in the financial statements.</li> </ul> |
| <b>Capitalisation of Work in Progress</b>  |   |
| <p>The District Council continues to have a significant ongoing capital programme.</p> <p>Accounting for capital projects, whether completed during the year or in progress at balance date, requires assumptions and judgements to be made that can have a significant impact on the financial statements.</p> <p>Management and the Council are responsible for managing the financial statement risks associated with capital projects. To help Council conclude on the matters below we expect Council to prepare a “year-on-year” three-year age analysis.</p> <p>Council need to ensure that:</p> <ul style="list-style-type: none"> <li>• project costs are appropriately classified as capital or operational in nature;</li> </ul>  | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• testing a sample of work in progress additions to ensure project costs are appropriately classified as capital or operational;</li> <li>• reviewing Council’s assessment over work in progress (WIP) balances;</li> <li>• reviewing Council’s impairment assessment over work in progress;</li> <li>• reviewing Council have expenses costs no longer meeting criteria for recognition; and</li> <li>• ensuring that asset components are identified at an appropriate level, and appropriate useful lives are assigned.</li> </ul>   |

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

| Audit risk/issue   | Our audit response   |
|--|--|
| <ul style="list-style-type: none"> <li>work in progress balances are reviewed for assets available for use and appropriately capitalised and depreciated accordingly;</li> <li>work in progress on projects are assessed regularly for impairment;</li> <li>costs no longer meeting criteria for recognition as an asset should be expensed in a timely manner; and</li> <li>asset are identified at appropriate components and useful lives are assigned at a component level.</li> </ul>   |  |
| <b>Non-Current Asset held for Sale - 77 Bunyan Road</b>  |  |
| <p>The Council entered into an agreement to Sale land (77 Bunyan Road, Coastlands) which was finalised with an unconditional sale and purchase agreement which remains valid.</p> <p>The sale was piecemeal and as each stage of development was completed, funds were to be released. The Title was to transfer to the purchaser before the next stage of development and after the purchase price for that stage is paid.</p> <p>No block titles have been passed to date and no further funds have been received from the developer during FY 2023 and hence, this was classified as the sale as a Non-Current Asset Held For Sale with a split between current and non-current in FY 2023.</p> <p>Fair value assessments need to be completed for this property as PBE IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> do not apply to non-current assets accounted for by the fair value model in IPSAS 16 <i>Investment Property</i>.</p> <p>An assessment should be prepared over any changes in the assumptions and facts on which previous accounting treatment conclusions have been reached.</p> | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>Assess whether the valuations have been performed in accordance with PBE IPSAS 16: Investment Property detailed in the below area of focus “valuation of Investment Property”.</li> <li>Ensure the provision for onerous contract is correctly accounted for.</li> <li>review changes to assumptions and facts on which previous accounting treatment conclusions have been reached.</li> <li>ensure that the appropriate disclosures have been made in the financial statements.</li> </ul> |

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

| Audit risk/issue   | Our audit response   |
|--|--|
| <b>Investment in Boat Harbour entity</b>   |  |
| <p>During 2021/22 Council signed the transformational partnership between the Crown, Te Rāhui Lands Trust, Ngāti Awa Group Holdings Limited and Council to create Te Rāhui Herenga Waka Whakatāne 2021 Limited Partnership for the Whakatāne Boat Harbour Development.</p> <p>Two applications were submitted to the Provincial Growth Fund (PGF) in September 2019. An announcement made on 13 March 2020 confirmed all three applications were successful, securing \$19.6 million for a boat harbour development, \$9.6 million for the riverfront revitalisation project and \$7.8 million for Ngāti Awa’s Kāinga development at the Whakatāne Army Hall.</p> <p>Council have made payment of \$5.5 million during the FY 2022/23 with further commitment of \$4 million in 2023/24, this has been accounted for as a financial asset.</p> | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• Obtain an update on the progress of the boat harbour development from council and review accounting treatment of investments made in the Boat Harbour Entity.</li> <li>• Review associated disclosures ensure that these have been made appropriately in the financial statements.</li> </ul>  |
| <b>Valuation of investment property</b>  |  |
| <p>PBE IPSAS 16: <i>Investment Property</i> requires investment properties to be revalued on an annual basis.</p> <p>There are some aspects to the valuation of investment properties that require particular use of judgement in determining their fair value.</p> <p>We understand the District Council has engaged an external valuer to revalue investment properties during the financial year.</p>   | <p>Our audit response to this risk includes:</p> <p>We will assess whether the valuations have been performed in accordance with PBE IPSAS 16: <i>Investment Property</i>. In particular, we will:</p> <ul style="list-style-type: none"> <li>• assess the competence and objectivity of the valuer(s) used;</li> <li>• ensure the valuation approach was in accordance with professional valuation standards and suitable for determining the fair value;</li> <li>• review key assumptions including assessing whether evidence used by the valuer is based on market evidence and applicable industry data;</li> <li>• ensure the valuation movement was correctly accounted for within the respective assets; and</li> <li>• use of an auditor expert where required.</li> </ul> |

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

| Audit risk/issue  | Our audit response   |
|---|--|
| <b>“Local Water Done Well” Programme</b>  |  |
| <p>In February 2024, the Government passed legislation that repealed the affordable waters reform legislation passed into law by the previous Government.</p> <p>The Government intends implementing its “Local Water Done Well” programme through the passing of two further bills through Parliament.</p> <p>The first bill will set out provisions relating to council service delivery plans and transitional economic regulation. It will also provide for streamlining the establishment of Council Controlled Organisations to deliver water should councils desire to do so.</p> <p>A second bill will set out provisions relating to long-term requirements for financial sustainability, provide for a complete economic regulation regime, and a new range of structural and financing tools, including a new type of financially independent council-controlled organisation.</p> <p>The first and second bills are expected to be passed by mid-2024 and mid-2025 respectively.</p> <p>Until the content of the bills is known the impact on the council and on the 30 June 2024 annual report is unclear.</p> <p>The Council should ensure the annual report includes sufficient disclosure about the impact of the programme (to the extent that the impact is known).</p> | <ul style="list-style-type: none"> <li>• Our audit response to this risk includes:</li> <li>• reviewing the Council’s assessment of the impact of the legislative change on the annual report to ensure any accounting or disclosure implications are considered;</li> <li>• considering whether we may include information in our audit report to draw a reader’s attention to Council’s disclosure about the programme.</li> </ul> |
| <b>Drinking water quality performance measure</b>   |  |
| <p>Providing safe drinking water is a core function of the council and reporting how Council has performed in respect of this function in the annual report is important performance information.</p> <p>The regulatory regime in place over the safety of drinking water has transitioned in the current year from the Drinking Water Quality Standards (DWS) to the new Drinking Water Quality Assurance Rules (DWQARs) which came into effect on 14 November 2022.</p>   | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> <li>• We will update our knowledge of the systems and controls in place and perform appropriate testing to determine if we can rely on those controls.</li> <li>• We will work with council to review the performance information related to Drinking Water Quality and audit the results reported against the agreed measures.</li> </ul>       |



**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

| Audit risk/issue  | Our audit response   |
|---|--|
| <p>Performance measures about compliance with the DWS are currently mandated by the Department of Internal Affairs who have issued mandatory performance measures that are required to be reported against in Council’s annual report.</p> <p>There are currently no similar performance measures with respect to the new DWQARs. Despite this it is important that the Council includes appropriate performance information about their compliance with the new DWQARs. This performance information will be subject to audit and therefore it is important that Council is able to support the performance results that they report.</p> <p>Taumata Arowai does not currently have an equivalent system in place and does not use independent drinking water assessors.</p> | <p>We may also carry out additional audit procedures to obtain sufficient appropriate audit evidence for the performance measures or engage an auditor’s expert to carry out the procedures for Council.</p> |

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

**Fraud risk**

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant - misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the , with assistance from management. In this regard, we will discuss the following questions with you:

- What role does the Council play in relation to fraud? How do you monitor management’s exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management’s investigation been reported to the Council? Has appropriate action been taken on any lessons learned?

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

***Our responsibility***

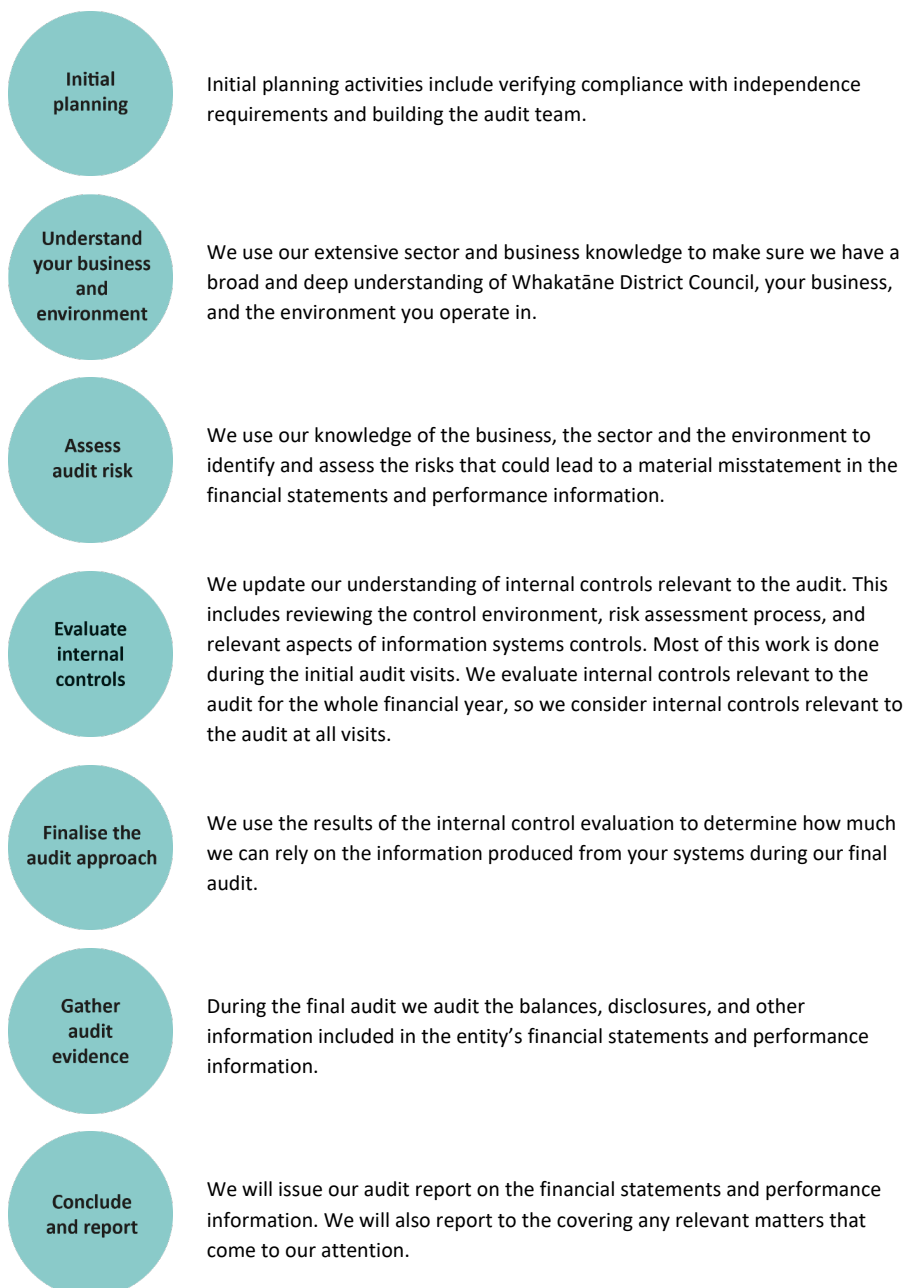
Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at [oag.parliament.nz/reports/fraud-reports](https://oag.parliament.nz/reports/fraud-reports).

### 7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)

## Our audit process



### 7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)

#### Materiality

In performing our audit, we apply materiality. In the public sector, materiality refers to information that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers’ overall understanding of the financial statements and service performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

It is a matter of judgement whether information is material. We consider the nature (qualitative) and amount (quantitative) of each item judged in the surrounding circumstances and its impact. In the public sector qualitative considerations are of equal significance as quantitative considerations. Qualitative considerations are of primary importance in our assessment of materiality in the context of disclosures for transparency and accountability reasons, and in evaluating any non-compliance with laws and regulations.

The Council and management need to consider materiality in preparing the financial statements and service performance information and make their own assessment of materiality from a preparer’s perspective. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer’s perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities. Management and the Council should not rely on our materiality assessment as a basis for owning and making judgements about the integrity of the financial statements and service performance information.

#### Financial statements materiality

For planning purposes, we have set **overall materiality** for the financial statements at \$105,900,000 based on the annual plan for 2023- 24 (Property plant & equipment). This is subject to change once the actual results for the current year are available. For this audit we are only applying this overall materiality to the fair value of property, plant and equipment.

|                           |               |
|---------------------------|---------------|
| Overall materiality       | \$105,900,000 |
| Specific materiality      | \$2,650,000   |
| Clearly trivial threshold | \$132,500     |

For this audit we have set a lower, **specific materiality** of \$2,650,000 for all items not related to the fair value of property, plant and equipment. A lower specific materiality is also determined separately for some items due to their sensitive nature. For example, a lower specific materiality is determined and applied for related party and key management personnel disclosures.

We design our audit procedures to detect misstatements at a lower level than overall materiality. This takes account of the risk of cumulative misstatements and provides a safety net against the risk of undetected misstatements.

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

We will report all uncorrected misstatements to the other than those that are **clearly trivial**. We consider misstatements of less than \$132,500 to be clearly trivial unless there are qualitative considerations that heighten its significance. We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement, we will seek written representations from management and the on the reasons why the corrections will not be made.

Overall financial statement materiality does not apply to any matters of effectiveness and efficiency, waste, or a lack of probity or financial prudence.

**Materiality for service performance information**

At an overall level, we assess whether the service performance information is suitable, given your purpose and the nature of your activities, and whether the reporting allows for an informed assessment of the District Council’s performance. In doing this we consider whether the information is relevant, complete, reliable, neutral, and understandable.

We set materiality for service performance information at an individual measure level based on what we expect would influence readers’ overall understanding, decision making, or assessment of the District Council’s performance. We consider a variety of factors including the level of public interest and potential public risk. Because of the variety of measurement bases applied, we normally express this materiality as a percentage of the reported result.

We have identified the following measures as material and assessed materiality for planning purposes. We will reassess this during the audit.

**Misstatements**  
 Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader’s overall understanding of your financial statements and service performance information. The effects of any detected and uncorrected misstatements, individually and in aggregate, are assessed against overall materiality and qualitative considerations.

| Material measure  | Materiality                |
|---|----------------------------|
| <b>Water supply</b>   |                            |
| <p><b>Safety of Drinking Water</b></p> <p>The extent to which the local authority’s drinking water supply complies with:</p> <p>(a) part 4 of the drinking-water standards (bacteria compliance criteria), and</p> <p>(b) part 5 of the drinking-water standards (protozoal compliance criteria).</p> | 0%                         |
| <p><b>Water supply – Customer Satisfaction</b></p> <p>The total number of complaints received by the local authority about any of the following:</p> <p>(a) drinking water clarity</p> <p>(b) drinking water taste</p> <p>(c) drinking water odour</p>  | 5% of the reported result. |

### 7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)

| Material measure   | Materiality                |
|--|----------------------------|
| (d) drinking water pressure or flow<br>(e) continuity of supply, and<br>(f) the local authority’s response to any of these issues<br>expressed per 1000 connections to the local authority’s networked reticulation system.  |                            |
| <b>Wastewater</b>  |                            |
| <b>The total number of complaints received by the TA about any of the following:</b><br>Compliance with the territorial authority’s resource consents for discharge from its sewerage system measured by the number of:<br>(a) sewage odour<br>(b) sewerage system faults<br>(c) sewerage system blockages, and<br>(d) the TA’s response to issues with its sewerage system, expressed per 1000 connections to the TA’s sewerage system. | 5%                         |
| <b>Dry weather sewerage overflows (System Adequacy)</b><br>The number of dry weather sewerage overflows from the territorial authority’s sewerage system, expressed per 1000 sewerage connections to that sewerage system.   | 8% of the reported result. |
| <b>Stormwater drainage</b>   |                            |
| <b>Stormwater flooding - system adequacy</b><br>(a) The number of flooding events that occur in a TA district.<br>(b) For each flooding event, the number of habitable floors affected.<br>(Expressed per 1000 properties connected to the TA’s stormwater system.)  | 8%                         |
| <b>Transport connections</b>   |                            |
| <b>Roading - Renewal of assets</b><br>The percentage of the sealed local road network that is resurfaced.  | 8% of the reported result. |
| <b>Roading asset quality - road condition</b><br>The average quality of ride on a sealed local road network, measured by smooth travel exposure.   | 8% of the reported result. |

### **7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

#### **Professional judgement and professional scepticism**

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term “opinion” reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

#### **How we consider compliance with laws and regulations**

As part of the Auditor-General’s mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

#### **Wider public sector considerations**

A public sector audit also examines whether:

- Whakatāne District Council carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by Whakatāne District Council;
- there is any sign or appearance of a lack of probity as a result of any act or omission by Whakatāne District Council or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by Whakatāne District Council or by one or more of its members, office holders, or employees.

### 7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)

## Reporting protocols

### Communication with management and the Council



We will meet with management and the Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

| Meeting with  | Planned timing   |
|---|--|
| Audit and Risk Committee  | Appointed auditor will attend most meetings and have separate planning and update meetings throughout the audit. |
| Chief Financial Officer and General Manager Business Partnering | Appointed Auditor will have regular phone or face-to-face meetings as necessary.                                 |

### Reports to the Council



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

We will also follow up on your progress in responding to our previous recommendations.



### 7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)

## Audit logistics

### Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise

Our senior audit team members are:

|                   |   |
|-------------------|---|
| Clarence Susan    | Appointed Auditor                               |
| Nishant Mehta     | Audit Manager                                   |
| Ferdinand Dasigao | Information Systems Audit and Assurance Manager |
| Jason Biggins     | Tax Director                                    |

### Timetable



Our proposed timetable is:

|   |                  |
|---|------------------|
| Interim audit begins  | 10 June 2024     |
| Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures | 2 September 2024 |
| Final audit begins  | 9 September 2024 |
| Final financial statements available, incorporating all the amendments agreed to between us                               | TBC              |
| Verbal audit clearance given  | TBC              |
| Audit opinion issued  | TBC              |
| Draft report to the Council issued  | TBC              |

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)****AuditDashboard**

In 2021, we used AuditDashboard, our online portal, to transfer files between your employees and Audit New Zealand. Overall, the use of AuditDashboard. Overall, the use of AuditDashboard had good results, and provided an effective way for us and management to track status of requests, and ensure timely delivery of information.

We will again use AuditDashboard for transferring files as part of the audit.

**Working remotely**

We recognise different organisations are positioned differently to enable off-site audit work. We will be discussing and agreeing off-site working expectations in conjunction with our information requests with you as part of your 2024 audit. This will include our continued use of AuditDashboard to manage our information requests.

## 7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)

### Expectations



For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- your staff will provide us with an appropriate level of assistance;
- where there are technical issues or significant uncertainty, you will bring these to our attention as soon as practical and provide us with technical advice the entity has received;
- all estimates, judgements and critical decisions made by management should be the content of a formal paper and subjected to appropriate levels of quality review;
- your organisation’s annual report and financial statements (including Statements of Service Performance) will be subject to appropriate levels of quality review by you before being submitted to us for audit;
- your organisation’s financial statements will include all relevant disclosures;
- we will review up to two sets of draft annual reports, one printer’s proof copy of the annual report, and one copy of the electronic version of the annual report (for publication on your website);
- there are no significant changes to the structure and/or scale of operations of the entities covered by this proposal (other than as already advised to us);
- there are no significant changes to mandatory accounting standards or the financial reporting framework that require additional work;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit.

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**

**Health and safety**



The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

**7.1.1 Appendix 1 – Audit NZ report “Audit Plan Whakatāne District Council for the year ended 30 June 2024”(Cont.)**



**AUDIT NEW ZEALAND**  
Mana Arotake Aotearoa

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Tauranga 3144  
Phone: 04 496 3099



## 7.2 2024-03 Management Action Plan Update

### 7.2 2024-03 Management Action Plan Update



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To: **Risk and Assurance Committee**  
Date: **Friday, 17 May 2024**  
Author: **Gary Connolly / CFO and GM Business Partnering**  
Authoriser: **Steph O'Sullivan / Chief Executive**  
Reference: **A2664598**

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#### 1. Reason for the report - *Te Take mō tēnei rīpoata*

The purpose of this report is to outline the action plan to address audit findings and drive continuous improvements across financial services, focusing on efficient achievement of 2023/24 end of year external audit process that delivers to expected timelines; as well as delivering wider improvements in financial service support across the organisation.

#### 2. Recommendation - *Tohutohu akiaki*

**THAT** this report *2024-03 Management Action Plan Update* and the supporting detailed action plan in *Appendix 1 : Continuous improvements and 2023 audit findings action plan* be received.

#### 3. Subject - *Kaupapa*

The Risk and Assurance Committee has reviewed a report in it's last meeting that highlighted finding we need to work on following last year's external audit. This paper outlines a detailed plan to tackle these issues. It includes steps to make our end-of-year audit process better, faster, and more compliant with rules.

We plan to focus on improving how we prepare for external audits, analyse data, report financials, and automate processes. The goal is to make our financial services operations smoother, improve our business partnering, get ready for audits more effectively, and keep getting better at what we do.

The appendix includes detailed information, however, is more for management than governance, but we have included it to give you a sense of scale, complexity and approach.

In the report, we list in summery in section 4.1 what we aim to achieve, the main areas we need to improve, the steps we'll take, the resources we'll need, and how long it will take [to be decided]. We also discuss how we'll track our progress, the potential risks, how we plan to handle those risks, and the overall impact of these changes on our strategy.

## 7.2 2024-03 Management Action Plan Update(Cont.)

### 4. Background - *He tirohanga whakamuri*

As legislation and accounting standards applied to local council change, our financial tasks are getting more complex and we need to work more efficiently. We've pinpointed several key areas that need improvement, including getting ready for external audits, better data analysis and insights, more accurate financial reporting, and automating our processes. By focusing on these areas, we'll not only improve how we handle audits but also boost our internal checks, stick better to policies and compliance, and make smarter decisions based on good data.

#### 4.1. Objectives:

Our goal is to deliver on a detailed plan for ongoing improvements in different areas of our Council's financial services function. We want to make external audits more effective and also improve our internal audits, data analysis, process automation, and financial reporting. Here are the key steps and focus areas:

**Improving External Audits:** We will make detailed checklists for audit assurance, standardise our annual financial reports, and improve our specific reporting processes to make external audits better and faster.

**Enhancing Internal Auditing and Compliance:** We will set up more efficient and repeatable data systems for tracking payroll, expenses, and accounts, and start using trend analysis and key management reports to improve data quality and internal checks.

**Increasing Financial Reporting Accuracy:** We aim to better our asset management processes, refine how we value assets, and ensure proper checks on journal entries and system access rights.

**Automating and Standardising Processes:** We will look for ways to automate routine transactions, set up additional reconciliation checklists, and clarify how we allocate funds for activities and overheads.

This project is in line with our strategic goals on enabling service improvements identified in Health Check 2020, business partnering more effectively to support decisions, meeting regulatory standards, and managing risks effectively. By improving how we manage data and making our financial operations more efficient, effective, and compliant, we aim to increase trust from our stakeholders, reduce costs, and support sustainable growth.

#### 4.2. Action plan overview:

A detailed action plan with specific tasks, responsible individuals, and support needs is outlined in Appendix 1, titled "Continuous Improvements and 2023 Audit Findings Action Plan." The actions are grouped by theme for better clarity and effectiveness:

##### Financial Services Strategy:

- Review and develop a strategy for financial services that aligns with organizational goals and best practices, including stakeholder input and analysis of current operations.

## 7.2 2024-03 Management Action Plan Update(Cont.)

### External Audit Preparation:

- Prepare for year-end audits by developing checklists that meet auditors' requirements and integrating them with financial reporting.
- Standardise financial statements to align with industry norms and regulatory guidelines, including fair value assessments for significant assets.

### Data Insights and Automation:

- Set up advanced reporting systems for key financial operations and develop analytical tools for trend analysis and compliance monitoring.

### Process Improvements:

- Enhance processes for asset capitalisation and valuation, including improving documentation and timeliness.
- Automate transactional processes in payroll and accounts management.

### Assurance and Compliance:

- Align policies and establish a robust internal audit function to manage risks and ensure compliance with expenditure policies and local government regulations.
- Regularly review internal processes to ensure adherence to policies and regulations.

### Continuous Improvement:

- Promote a culture of continuous improvement through regular updates, feedback, and training initiatives.

This summary condenses the key points from the detailed action plan provided in the appendix, focusing on strategic objectives, audit preparation, data management, process enhancements, compliance assurance, and ongoing improvement efforts.

### 4.3. Measuring action plan performance:

As a key part of this project is the closing of findings from the external audit we intend to measure performance against the audit findings separately in the standard format normally presented in the Report to Governors. As we introduce findings from additional internal audit reports we will be including these in this reporting framework as well.

The following table reflects the opening position from the 2023 audit together with additional management improvement areas, as we deliver the action plan identified in this report this table will provide a prospective indication of managements expectation of the 2024 audit findings. This will then be reviewed by Audit New Zealand as part of the 2024 external audit to confirm that they have evidenced that the actions have been closed:



**7.2 2024-03 Management Action Plan Update(Cont.)**

| Status                          | Priority  |           |            | Total     |
|---------------------------------|-----------|-----------|------------|-----------|
|                                 | Urgent    | Necessary | Beneficial |           |
| External audit findings         | 6         | 18        | 0          | 24        |
| Functional improvements         | 5         | 8         | 0          | 13        |
| <b>2023 opening findings</b>    | <b>11</b> | <b>26</b> | <b>0</b>   | <b>37</b> |
| External audit findings         | 0         | 0         | 0          | 0         |
| Functional improvements         | 0         | 0         | 0          | 0         |
| <b>Total closed findings</b>    | <b>0</b>  | <b>0</b>  | <b>0</b>   | <b>0</b>  |
| External audit findings         | 6         | 18        | 0          | 24        |
| Functional improvements         | 5         | 8         | 0          | 13        |
| <b>2024-03 opening findings</b> | <b>11</b> | <b>26</b> | <b>0</b>   | <b>37</b> |

In addition to this summary management will be maintaining a more detailed performance report against finding and the individual actions designed to address them.

**5. Options analysis - *Ngā Kōwhiringa***

There are a number of areas reflected in the finding of the Audit New Zealand Report to Governors as attached where management have indicated options on whether or not to implement the findings of Audit NZ, or in the way suggest by Audit New Zealand.

Based on the detailed action plan we are indicating that all of the findings will be addressed, however based on the late completion of the 2023 Audit management expect some findings, though in progress, will not have been fully delivered by completion of the Audit 2024 findings and will likely be carried forward as open items into 2025,

**6. Significance and Engagement Assessment - *Aromatawai Pāhekoheko***

**6.1. Assessment of Significance**

The recommendations of this report are assessed to be of low significance in accordance with the Council's Significance and Engagement Policy.

**6.2. Engagement and community views**

Due to the low significance of the matters of this report, public participation is not required to inform decision-making, as set out in Section 6.1(a) of the Council's Significance and Engagement Policy.

### 7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan

## 7. Considerations - *Whai Whakaaro*

### 7.1. Financial/budget considerations

We had identified in management response to the Report to Governors in committee meeting of 1 March 2024 that the implementation of a number of the findings of Audit NZ are a reflection of compliance with recommended best practice versus the cost base of resourcing to deliver these outcomes. Management have identified additional resources to support the delivery of improvements within budget requests within LTP 2024-34.

### 7.2. Strategic alignment

No inconsistencies with any of the Council's policies or plans have been identified in relation to this report

### 7.3. Climate change assessment

Based on this climate change assessment, the decisions and matters of this report are assessed to have low/moderate/high climate change implications and considerations, in accordance with the Council's Climate Change Principles

### 7.4. Risks

Management has identified the following risks to the delivery of this continuous improvement project and associated mitigations. We do not believe any of the findings represent high or greater risk in accordance with the enterprise risk framework, for which controls are not otherwise already in place.

**Risk: Lack of resources or expertise.**

Mitigation: Provide training and development opportunities. Consider outsourcing certain tasks if necessary.

**Risk: Resistance to change from staff.**

Mitigation: Implement change management strategies, communicate benefits clearly, and involve staff in the process.

**Risk: Technical issues or system failures.**

Mitigation: Ensure Digital Services support is readily available. Have backup plans in place for critical processes.

**Risk: Delays in completing of action plans effective the timeliness of the 2023-24 audit.**

Mitigation: Provide for frequent of committee updates in the standing fortnightly meeting of the CFO and Chair of Risk and Assurance. Maintain attendance of the Chair of Risk and Assurance in Audit review meetings as the 2023-24 audit is delivered.

**Attached to this report:**

- Appendix 1 – Continuous improvements and 2023 audit findings action plan

### 7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan

7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan(Cont.)

**Whakatāne District Council**

Continuous improvements and 2023 audit findings action plan

April 2024

| Sub Actions   | Audit NZ Ref. No. | Action Owner         | Support   | Skills & Resources Needed                        | Timeline | Current Status |
|---|-------------------|----------------------|---|--|----------|----------------|
| <b>1 Year End External Audit Preparation Checklist</b>  |                   |                      |   |  |          |                |
|   | <b>2.6.1</b>      | <b>Urgent</b>        |   |  |          |                |
| 1.1 Establish Audit New Zealand 2023-24 timeline.   |                   | CFO                  | Manager financial accounting, Audit New Zealand           | Calendar, communication channels                 |          |                |
| 1.2 Request audit year-end checklist from other councils for reference.   |                   | Financial accountant | Audit New Zealand   | Communication channels, documentation            |          |                |
| 1.3 Review Audit New Zealand's Client Substantiation File for checklist basis.  |                   | Financial accountant | Audit New Zealand   | Access to relevant documents                     |          |                |
| 1.4 Review 2022-23 Audit New Zealand dashboard for required deliverables.   |                   | Financial accountant |   | Access to dashboard, data analysis tools         |          |                |
| 1.5 Develop topic-based categorisation of checklist deliverables.   |                   | Financial accountant |   | Organisation tools, categorisation methods       |          |                |
| 1.6 Draft initial timelines and accountability for deliverables.  |                   | Financial accountant |   | Project management tools, scheduling expertise   |          |                |
| 1.7 Review precedence and dependency phasing of deliverables.   |                   | Financial accountant |   | Critical path analysis tools                     |          |                |
| 1.8 Review preparation checklist with financial service team leadership.  |                   | Financial accountant | Financial services team                                   | Collaboration tools, leadership input            |          |                |
| 1.9 Review relevant sections with other organisational contributors for clarity.  |                   | Financial accountant | Activity managers, Project managers, Activity admin staff | Collaboration tools, communication channels      |          |                |
| 1.10 Establish checklist tracking process and reporting.  |                   | Financial accountant | Finance superuser smartsheet.com                          | Tracking tools, reporting mechanisms             |          |                |
| 1.11 Load WDC reference checklist identifier against each dashboard item.   |                   | Financial accountant |   | Data entry tools, dashboard access               |          |                |
| 1.12 Review Audit Dashboard for potential duplicated or completed requests.   |                   | Financial accountant |   | Data analysis tools, dashboard access            |          |                |
| <b>2 Standardising Annual Report Financial Statements</b>   |                   |                      |   |  |          |                |
|   |                   | <b>Urgent</b>        |   |  |          |                |
| 2.1 Review current annual report financial statement against Audit New Zealand's guide.   |                   | Financial accountant | Audit New Zealand   | Financial data, Audit NZ guide                   |          |                |
| 2.2 Develop a revised draft based on 2022-23 for CFO approval.  |                   | Financial accountant | CFO, Manager financial accountinf                         | Collaboration tools, drafting expertise          |          |                |
| <b>3 Year-end Financial Report Model</b>  |                   |                      |   |  |          |                |
|   |                   | <b>Urgent</b>        |   |  |          |                |
| 3.1 Establish trial balance load and modeling in Excel.   |                   | Financial accountant | Senior management accountant, Systems accountant          | Excel proficiency, financial data                |          |                |
| 3.2 Investigate applicability and time to stand up PWC's Valuefinancials software used by other councils to produce consolidate financial statements. |                   | Financial accountant | Systems accountant, Digital Services                      | Accounting standards proficiency, financial data |          |                |
| 3.3 Establish year-end financial report model in Excel for copy-pasting into Word.  |                   | Financial accountant |   | Excel and Word proficiency, financial data       |          |                |
| 3.4 Establish non-trial balance load and modeling for financial statement notes.  |                   | Financial accountant |   | Excel proficiency, financial data                |          |                |
| 3.5 Establish financial statement note models for efficient copy-pasting.   |                   | Financial accountant |   | Excel and Word proficiency, financial data       |          |                |
| 3.6 Develop process for capturing misstatement adjustments.   |                   | Financial accountant |   | Excel proficiency, auditing knowledge            |          |                |
| 3.7 Establish assurance validation testing within the model.  |                   | Financial accountant |   | Testing tools, auditing knowledge                |          |                |
| 3.8 Document the year-end financial report model.   |                   | Financial accountant |   | Documentation tools, expertise                   |          |                |
| 3.9 Have the model externally reviewed for integrity assurance.   |                   | Financial accountant | Quality assurance provider                                | External reviewers, model expertise              |          |                |

7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan(Cont.)

**Whakatāne District Council**

Continuous improvements and 2023 audit findings action plan

April 2024

| Sub Actions   | Audit NZ Ref. No. | Action Owner                      | Support  | Skills & Resources Needed                      | Timeline | Current Status |
|---|-------------------|-----------------------------------|--|--|----------|----------------|
| <b>4 Whakatāne Airport – Fair Value Accounting of Assets</b>  |                   |                                   |  |  |          |                |
| <b>N2022-13</b>   |                   |                                   |  |  |          |                |
| 4.1 Review 2022-23 financials and establish accounting entries for airport assets.                    |                   | Financial accountant              | Manager financial accounting   | Financial data, accounting expertise           |          |                |
| 4.2 Complete Whakatāne Airport asset valuation for June 2024.   |                   | Financial accountant              |  | Valuation expertise, appraisal resources       |          |                |
| 4.3 Account for airport assets at revalued amounts in June 2024 financial statements.                 |                   | Financial accountant              | Manager financial accounting   | Accounting expertise, financial data           |          |                |
| <b>5 Whakatāne Airport Elimination Accounting</b>   |                   |                                   |  |  |          |                |
| <b>4.3</b>  |                   |                                   |  |  |          |                |
| <b>Urgent</b>   |                   |                                   |  |  |          |                |
| 5.1 Review 2023 financials and establish opening 2022 and 2023 Whakatāne Airport elimination entries. |                   | Financial accountant              | Manager financial accounting   | Financial data, accounting expertise           |          |                |
| 5.2 Develop model to isolate 2023-24 Whakatāne Airport entries for elimination.                       |                   | Financial accountant              | CFO, Manager financial accounting  | Modeling tools, accounting expertise           |          |                |
| 5.3 Establish ledger cost center and accounts for elimination entries.                                |                   | Financial accountant              | Systems accountant   | Accounting software, expertise                 |          |                |
| 5.4 Develop extraction to be uploaded into core year-end financial model for elimination.             |                   | Financial accountant              | Systems accountant   | IT support, financial data                     |          |                |
| <b>6 Associate Equity Accounting</b>  |                   |                                   |  |  |          |                |
| 6.1 Review 2023 financials and information from CCOs and associates.                                  |                   | Financial accountant              | CFO, Manager financial accounting  | Financial data, communication channels         |          |                |
| 6.2 Develop model to capture core CCO and associate's information for equity accounting.              |                   | Financial accountant              | CFO, Manager financial accounting  | Modeling tools, financial data                 |          |                |
| 6.3 Develop extraction to be uploaded into core year-end financial model for reporting.               |                   | Financial accountant              | Systems accountant   | IT support, financial data                     |          |                |
| <b>7 CCO Reporting for Whakatāne Airport</b>  |                   |                                   |  |  |          |                |
| 7.1 Develop Statement of Intent and 10-year plan for Whakatāne Airport.                               |                   | Financial accountant              | GM Infrastructure, Airport activity manager                                  | Planning tools, stakeholder collaboration      |          |                |
| 7.2 Review plans with Risk and Assurance Committee.   |                   | Financial accountant              | GM Infrastructure, CFO, Manager financial accounting                         | Meeting scheduling, stakeholder engagement     |          |                |
| 7.3 Establish formal meeting and minute procedures for Whakatāne Airport.                             |                   | GM Infrastructure                 | Manager financial accounting   | Documentation tools, process establishment     |          |                |
| 7.4 Complete and adopt 2019 Whakatāne Airport annual report including audited accounts.               |                   | Financial accountant              | Manager financial accounting, Audit New Zealand                              | Auditing resources, financial data             |          |                |
| 7.5 Complete and adopt 2020-2024 Whakatāne Airport annual reports including audited accounts.         |                   | Financial accountant              | Manager financial accounting, Auditors Haines Norton                         | Auditing resources, financial data             |          |                |
| 7.6 Present audited accounts to Ministry of Transport for equity contribution.                        |                   | CFO                               | GM Infrastructure, Manager financial accounting                              | Presentation materials, stakeholder engagement |          |                |
| <b>8 Quality Assurance throughout External Audit Process</b>  |                   |                                   |  |  |          |                |
| <b>Urgent</b>   |                   |                                   |  |  |          |                |
| 8.1 Document audit completion workflow.   |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant)  | Documentation tools, auditing expertise        |          |                |
| 8.2 Identify key quality assurance focus areas.   |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant)  | Audit expertise, documentation tools           |          |                |
| 8.3 Identify focus areas process owners.  |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant)  | Collaboration tools, auditing expertise        |          |                |
| 8.4 Identify focus areas QA reviewers.  |                   | Finance business analyst (vacant) | Financial services team members, Continuous imprv mgr (vacant), Others (TBD) | Collaboration tools, auditing expertise        |          |                |

7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan(Cont.)

**Whakatāne District Council**

Continuous improvements and 2023 audit findings action plan

April 2024

| Sub Actions   | Audit NZ Ref. No. | Action Owner                      | Support  | Skills & Resources Needed                                | Timeline | Current Status |
|---|-------------------|-----------------------------------|--|--|----------|----------------|
| <b>9 Reporting and Insights over Payroll</b>                                      |                   |                                   |  |  |          |                |
| 9.1 Document conceptual data scheme and outputs.                                  |                   | CFO                               | Digital services, Payroll officer  | Documentation tools, payroll system expertise            |          |                |
| 9.2 Extract and transform core data from payroll system.                          |                   | Digital services                  | Payroll solutions provider   | IT support, data extraction tools                        |          |                |
| 9.3 Establish agreed cost center and account hierarchies.                         |                   | CFO                               | Digital services, Systems accountant   | Accounting expertise, organisational structure knowledge |          |                |
| 9.4 Develop data reporting and visualisation schema.                              |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant)  | Reporting tools, visualisation expertise                 |          |                |
| 9.5 Develop core reporting and visualisation decks.                               |                   | Digital services                  | Finance business analyst (vacant), Continuous imprv mgr (vacant)                                 | Reporting tools, visualisation expertise                 |          |                |
| 9.6 Review reporting capabilities with ELT.                                       |                   | Continuous imprv mgr (vacant),    | CFO, ELT   | Collaboration tools, stakeholder engagement              |          |                |
| <b>10 Audit Process Payroll</b>   |                   |                                   |  |  |          |                |
| 10.1 Develop necessary personnel reconciliations and sampling for year-end audit. |                   | Digital services                  | Finance business analyst (vacant), Continuous imprv mgr (vacant), Payroll officer                | Auditing expertise, reconciliation tools                 |          |                |
| <b>11 Reporting and Insights over Expense Reimbursements</b>                      |                   |                                   |  |  |          |                |
| 11.1 Document conceptual data scheme and outputs.                                 |                   | CFO                               | Digital services, Systems accountant, Payroll officer, Transactional services manager            | Documentation tools, expense reimbursement expertise     |          |                |
| 11.2 Extract and transform core data from ERP systems.                            |                   | Digital services                  | Systems accountant, Finance business analyst (vacant)  | IT support, data extraction tools                        |          |                |
| 11.3 Establish agreed cost center and account hierarchies.                        |                   | CFO                               | Digital services, Finance business analyst (vacant)  | Accounting expertise, organisational structure knowledge |          |                |
| 11.4 Develop data reporting and visualisation schema.                             |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant)  | Reporting tools, visualisation expertise                 |          |                |
| 11.5 Develop core reporting and visualisation decks.                              |                   | Digital services                  | Finance business analyst (vacant), Continuous imprv mgr (vacant), Transactional services manager | Reporting tools, visualisation expertise                 |          |                |
| 11.6 Review reporting capabilities with ELT.                                      |                   | Continuous imprv mgr (vacant)     | CFO, ELT   | Collaboration tools, stakeholder engagement              |          |                |
| <b>12 Reporting and Insights over Accounts Payable</b>                            |                   |                                   |  |  |          |                |
| 12.1 Document conceptual data scheme and outputs.                                 |                   | CFO                               | Digital services, Systems accountant, Transactional services manager                             | Documentation tools, accounts payable expertise          |          |                |
| 12.2 Extract and transform core data from ERP systems.                            |                   | Digital services                  | Systems accountant, Finance business analyst (vacant)  | IT support, data extraction tools                        |          |                |
| 12.3 Establish agreed cost center and account hierarchies.                        |                   | CFO                               | Digital services, Finance business analyst (vacant)  | Accounting expertise, organisational structure knowledge |          |                |
| 12.4 Develop data reporting and visualisation schema.                             |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant)  | Reporting tools, visualisation expertise                 |          |                |
| 12.5 Develop core reporting and visualisation decks.                              |                   | Digital services                  | Finance business analyst (vacant), Continuous imprv mgr (vacant), Transactional services manager | Reporting tools, visualisation expertise                 |          |                |
| 12.6 Review reporting capabilities with ELT and Activity Managers.                |                   | Continuous imprv mgr (vacant)     | CFO, ELT, Activity managers  | Collaboration tools, stakeholder engagement              |          |                |

7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan(Cont.)

**Whakatāne District Council**

Continuous improvements and 2023 audit findings action plan

April 2024

| Sub Actions  | Audit NZ Ref. No. | Action Owner                      | Support   | Skills & Resources Needed                                | Timeline | Current Status |
|--|-------------------|-----------------------------------|---|--|----------|----------------|
| <b>13 Internal Audit – Process Compliance</b>  |                   |                                   |   |  |          |                |
| <b>2019-N08</b>  |                   |                                   |   |  |          |                |
| 13.1 Document conceptual data scheme and outputs.  |                   | CFO                               | Finance business analyst (vacant), Continuous imprv mgr (vacant), Transactional services manager                                | Documentation tools, auditing expertise                  |          |                |
| 13.2 Validate data sources for payroll expense claims and accounts payable.  |                   | CFO                               |   | Data validation tools, auditing expertise                |          |                |
| 13.3 Develop data reporting and visualisation schema.  |                   | Finance business analyst (vacant) | Risk and procurement manager, Continuous imprv mgr (vacant)   | Reporting tools, visualisation expertise                 |          |                |
| 13.4 Develop core reporting and visualisation decks.   |                   | Digital services                  | Finance business analyst (vacant), Continuous imprv mgr (vacant), Transactional services manager, Risk and procurement manager, | Reporting tools, visualisation expertise                 |          |                |
| 13.5 Establish and implement a 2024-25 audit program of work.  |                   | Risk and procurement manager      | CFO, Transactional services manager, CEO  | Project management tools, auditing expertise             |          |                |
| <b>14 Payroll Local Government Determination Compliance</b>  |                   |                                   |   |  |          |                |
| <b>4.4</b>   |                   |                                   |   |  |          |                |
| 14.1 Establish a reporting and review process for compliance with Local Government Members Determination.            |                   | Finance business analyst (vacant) | Digital services, Systems accountant, Payroll officer, Transactional services manager   | Compliance expertise, reporting tools                    |          |                |
| 14.2 Review all 2023-24 activity to ensure process effectiveness and year-end compliance.                            |                   | Transactional services manager    | Governance  | Compliance expertise, auditing resources                 |          |                |
| <b>15 Reporting and Insights over Accounts Receivable – Non-rates</b>  |                   |                                   |   |  |          |                |
| 15.1 Document conceptual data scheme and outputs.  |                   | CFO                               | Financial accountant, Finance business analyst (vacant), Continuous imprv mgr (vacant), Transactional services manager          | Documentation tools, accounts receivable expertise       |          |                |
| 15.2 Extract and transform core data from ERP system.  |                   | Digital services                  | Systems accountant, Finance business analyst (vacant)   | IT support, data extraction tools                        |          |                |
| 15.3 Establish agreed cost center and account hierarchies.   |                   | CFO                               | Digital services, Finance business analyst (vacant)   | Accounting expertise, organisational structure knowledge |          |                |
| 15.4 Develop data reporting and visualisation schema.  |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant)   | Reporting tools, visualisation expertise                 |          |                |
| 15.5 Develop core reporting and visualisation decks.   |                   | Digital services                  | Finance business analyst (vacant), Continuous imprv mgr (vacant), Transactional services manager                                | Reporting tools, visualisation expertise                 |          |                |
| 15.6 Establish documentation for accounts receivables – non-rates collection and write-off policy and procedures.    |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant), Transactional services manager   | Documentation tools, policy expertise                    |          |                |
| 15.7 Consult with ELT on documented accounts receivables – non-rates collection and write-off policy and procedures. |                   | Continuous imprv mgr (vacant)     | CFO, ELT  | Stakeholder engagement, collaboration tools              |          |                |
| 15.8 Develop exception reporting for debt collection and write-off processes.  |                   | Digital services                  | Finance business analyst (vacant), Continuous imprv mgr (vacant), CFO, Transactional services manager                           | Reporting tools, policy expertise                        |          |                |
| 15.9 Develop calculation models and reporting for year-end audit doubtful debt provisioning.                         |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant), CFO, Transactional services manager  | Financial modeling tools, auditing expertise             |          |                |

7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan(Cont.)

**Whakatāne District Council**

Continuous improvements and 2023 audit findings action plan

April 2024

| Sub Actions   | Audit NZ Ref. No. | Action Owner                      | Support  | Skills & Resources Needed                                | Timeline | Current Status |
|---|-------------------|-----------------------------------|--|--|----------|----------------|
| <b>16 Reporting and Insights over Accounts Receivable – Rates</b>   |                   |                                   |  |  |          |                |
| 16.1 Review existing data cube schema for potential gaps.   |                   | CFO                               | Rates manager, Finance business analyst (vacant)   | Data analysis tools, accounts receivable expertise       |          |                |
| 16.2 Document conceptual data scheme and outputs to address identified gaps.  |                   | CFO                               | Rates manager, Finance business analyst (vacant)   | Documentation tools, accounts receivable expertise       |          |                |
| 16.3 Enhance extraction and transformation from ERP and other analytical data layers.                                       |                   | Digital services                  | Rates manager, Finance business analyst (vacant), Systems accountant   | IT support, data extraction tools                        |          |                |
| 16.4 Modify data reporting and visualisation schema.  |                   | Finance business analyst (vacant) | Continuous imprv mgr (vacant), Rates manager   | Reporting tools, visualisation expertise                 |          |                |
| 16.5 Modify core reporting and visualisation decks.   |                   | Digital services                  | Finance business analyst (vacant), Continuous imprv mgr (vacant), CFO, Rates manager   | Reporting tools, visualisation expertise                 |          |                |
| <b>17 Audit Process Accounts Receivable – Rates Liability Modelling</b>   |                   |                                   |  |  |          |                |
| 17.1 Review and document data sources and modeling from existing 2022-23 rates liability provision audit.                   |                   | Finance business analyst (vacant) | CFO  | Documentation tools, auditing expertise                  |          |                |
| 17.2 Document data scheme and outputs for rates liability provision modeling.   |                   | Finance business analyst (vacant) | CFO  | Documentation tools, financial modeling expertise        |          |                |
| 17.3 Identify extraction and transformation from data cube over AR rates.   |                   | Digital services                  | Finance business analyst (vacant), CFO, Systems accountant   | IT support, data extraction tools                        |          |                |
| 17.4 Develop rates liability calculation model for audit reporting reconciliation and sampling.                             |                   | Digital services                  | Finance business analyst (vacant), Rates manager   | Financial modeling tools, auditing expertise             |          |                |
| <b>18 Reporting and Insights over General Ledger Balances</b>   |                   |                                   |  |  |          |                |
| 18.1 Document conceptual data scheme and outputs.   |                   | CFO                               | Finance business analyst (vacant)  | Documentation tools, general ledger expertise            |          |                |
| 18.2 Extract and transform core data from ERP system.   |                   | Digital services                  | Senior management accountant, Finance business analyst (vacant), Systems accountant  | IT support, data extraction tools                        |          |                |
| 18.3 Establish agreed cost center and account hierarchies.  |                   | CFO                               | Digital services, Finance business analyst (vacant)  | Accounting expertise, organisational structure knowledge |          |                |
| 18.4 Develop data reporting and visualisation schema.   |                   | Finance business analyst (vacant) | Senior management accountant, Systems accountant   | Reporting tools, visualisation expertise                 |          |                |
| 18.5 Develop core reporting and visualisation decks.  |                   | Digital services                  | Senior management accountant, Finance business analyst (vacant), Systems accountant, CFO                                     | Reporting tools, visualisation expertise                 |          |                |
| <b>19 Fixed Assets Capitalisation – Register Reconciliation 4.2.2</b>   |                   |                                   |  |  |          |                |
| 19.1 Review existing processes and identify improvements for fixed assets work in progress analysis.                        |                   | Finance business analyst (vacant) | Accounts payable officer, Transactional services manager, Systems accountant, Manager financial accounting,                  | Process improvement tools, fixed assets expertise        |          |                |
| 19.2 Establish processes for consistency between ERP Fixed Asset Register and supporting Infrastructure Management Systems. |                   | Finance business analyst (vacant) | Transactional services manager, Systems accountant, Manager financial accounting,  | Process documentation tools, IT support                  |          |                |
| <b>20 Fixed Assets Capitalisation – Timeliness of Capitalisation 4.2.3 / 2022-N11</b>                                       |                   |                                   |  |  |          |                |
| 20.1 Improve PPE work in progress and capitalisation processes for more timely capitalisation.                              |                   | Finance business analyst (vacant) | Accounts payable officer, Transactional services manager, Systems accountant, Manager financial accounting, Digital services | Process improvement tools, capitalisation expertise      |          |                |
| <b>21 Fixed Assets Capitalisation – Segregation of Duties 4.2.4</b>   |                   |                                   |  |  |          |                |
| 21.1 Improve PPE work in progress and capitalisation processes to ensure segregation of duties.                             |                   | Finance business analyst (vacant) | Transactional services manager, Manager financial accounting   | Process documentation tools, segregation expertise       |          |                |

7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan(Cont.)

**Whakatāne District Council**

Continuous improvements and 2023 audit findings action plan

April 2024

| Sub Actions   | Audit NZ Ref. No. | Action Owner                      | Support  | Skills & Resources Needed                             | Timeline | Current Status |
|---|-------------------|-----------------------------------|--|---|----------|----------------|
| <b>22 Fixed Assets Capitalisation – Supporting Documentation</b>  |                   |                                   |  |   |          |                |
| <b>4.2.5</b>  |                   |                                   |  |   |          |                |
| 22.1 Review existing processes and document targeted improvements for supporting documentation.                           |                   | Finance business analyst (vacant) | Transactional services manager, Systems accountant, Manager financial accounting   | Process improvement tools, documentation expertise    |          |                |
| 22.2 Establish repository for audit trial for capitalisation authorisation audit reporting, reconciliation, and sampling. |                   | Finance business analyst (vacant) | Transactional services manager, Manager financial accounting, Senior management accountant, Finance superuser smartsheet.com | Documentation tools, IT support                       |          |                |
| <b>23 Landfill After Care Provision</b>   |                   |                                   |  |   |          |                |
| <b>4.5</b>  |                   |                                   |  |   |          |                |
| 23.1 Review existing model for the provisioning of future landfill maintenance costs.                                     |                   | Finance business analyst (vacant) | Manager financial accounting   | Modeling tools, landfill management expertise         |          |                |
| 23.2 Document clear procedures for appropriate support to assumptions, such as regular independent reviews.               |                   | Finance business analyst (vacant) | Manager financial accounting, Manager solid waste  | Documentation tools, policy expertise                 |          |                |
| 23.3 Undertake engineers' independent assessment for the 2023/24 audit cycle.   |                   | Manager solid waste               | Manager financial accounting   | Engineering expertise, audit coordination             |          |                |
| <b>24 Year-end Asset Valuation Processes</b>  |                   |                                   |  |   |          |                |
| <b>2017-N09</b>   |                   |                                   |  |   |          |                |
| 24.1 Review existing procedures for assets valuation cycles.  |                   | Finance business analyst (vacant) | Manager financial accounting   | Process improvement tools, valuation expertise        |          |                |
| 24.2 Develop documentation to address audit management points over concerns in fixed asset management.                    |                   | Finance business analyst (vacant) | Manager financial accounting   | Documentation tools, auditing expertise               |          |                |
| <b>25 Three Waters Assets Management Valuation Improvements</b>   |                   |                                   |  |   |          |                |
| <b>4.2.1</b>  |                   |                                   |  |   |          |                |
| 25.1 Review existing and implement additional systems procedures and controls for three waters asset management system.   |                   | Finance business analyst (vacant) | GM Infrastructure, Activity managers, Manager financial accounting   | Process improvement tools, asset management expertise |          |                |
| 25.2 Discuss and investigate with WDC other assets that may exist in other registers or be recorded in RAMM.              |                   | Finance business analyst (vacant) | GM Infrastructure, Activity managers, Manager financial accounting   | Collaboration tools, asset management expertise       |          |                |
| 25.3 Validate the accuracy of confidence grading for the quantity of assets.  |                   | Infrastructure analyst (TBD)      | Finance business analyst (vacant), GM Infrastructure, Activity managers, Manager financial accounting                        | Validation tools, asset management expertise          |          |                |
| 25.4 Undertake a full review of certain bridges captured in this valuation.   |                   | Infrastructure analyst (TBD)      | Finance business analyst (vacant), GM Infrastructure, Activity managers, Manager financial accounting                        | Engineering expertise, audit coordination             |          |                |
| 25.5 Assess the value of splitting out headwalls and wingwalls from the drainage table.                                   |                   | Infrastructure analyst (TBD)      | Finance business analyst (vacant), GM Infrastructure, Activity managers, Manager financial accounting                        | Valuation expertise, asset management coordination    |          |                |
| <b>26 Funding Impact Statement – Rates Information</b>  |                   |                                   |  |   |          |                |
| <b>4.1</b>  |                   |                                   |  |   |          |                |
| 26.1 Develop evidence of compliance with the legislative 30% Uniform Charge requirement.                                  |                   | Systems accountant                | CFO  | Legislative compliance, financial analysis            |          |                |
| 26.2 Implement improvements in the development of Revenue and Financing policy and Funding Impact Statement.              |                   | CFO                               | Systems accountant   | Policy development, financial analysis                |          |                |



7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan(Cont.)

**Whakatāne District Council**

Continuous improvements and 2023 audit findings action plan

April 2024

| Sub Actions  | Audit NZ Ref. No. | Action Owner                      | Support   | Skills & Resources Needed               | Timeline | Current Status |
|--|-------------------|-----------------------------------|---|---|----------|----------------|
| <b>27 Water Supply RFS identification 4.6</b>  |                   |                                   |   |   |          |                |
| 27.1 Review existing non-compliant process and develop a revised process for future compliance.                              |                   | CFO                               | Strategic policy analyst, Project manager – Three Waters, Manager Three Waters, Manager customer services                   | Process improvement, compliance         |          |                |
| 27.2 Develop proposal for implementation of revised Water Supply RFS complaints identification.                              |                   | CFO                               | Strategic policy analyst, Project manager – Three Waters, Manager Three Waters, Manager customer services                   | Proposal development, compliance        |          |                |
| 27.3 Implement revised Water Supply RFS complaints identification process.   |                   | Finance business analyst (vacant) | Digital services, Strategic policy analyst, Project manager – Three Waters, Manager Three Waters, Manager customer services | Process implementation, documentation   |          |                |
| 27.4 Complete compliance testing of revised Water Supply RFS complaints identification process.                              |                   | Finance business analyst (vacant) | Strategic policy analyst, Project manager – Three Waters, Manager Three Waters, Manager customer services                   | Compliance testing, auditing            |          |                |
| 27.5 Ensure PNCC have completed necessary process changes to After Hours Call Centre Water Supply complaints identification. |                   | Strategic policy analyst          | Finance business analyst (vacant), Manager customer services  | Process coordination, compliance        |          |                |
| <b>28 General Ledger Journal Authorisation – Segregation of Duties 2020-N01</b>  |                   |                                   |   |   |          |                |
| 28.1 Complete documentation of procedures for recording journals with appropriate supporting documentation.                  |                   | Finance business analyst (vacant) | Transactional services manager, Management accounting team  | Documentation, internal controls        |          |                |
| 28.2 Develop a quarterly audit process to ensure application of segregation of duties.                                       |                   | Finance business analyst (vacant) | Transactional services manager, Management accounting team  | Audit process, internal controls        |          |                |
| <b>29 ERP Access Rights Review 2020-N02</b>  |                   |                                   |   |   |          |                |
| 29.1 Complete documentation of procedures for ERP access rights assignment and management.                                   |                   | Digital services                  | CFO   | Documentation, access management        |          |                |
| 29.2 Develop and implement process for quarterly review including evidence and sampling.                                     |                   | Finance business analyst (vacant) | Digital services, CFO   | Process development, audit preparation  |          |                |
| 29.3 Undertake review of existing rights to test process and identification of appropriate baseline.                         |                   | Finance business analyst (vacant) | Digital services, CFO   | Review process, baseline identification |          |                |
| <b>30 Network and ERP Inactive Accounts 2017-N03</b>   |                   |                                   |   |   |          |                |
| 30.1 Develop and implement process for identification and review of Network, Microsoft, and ERP inactive accounts.           |                   | Digital services                  | Manager digital services, CFO   | Process development, account management |          |                |
| 30.2 Undertake review of existing inactive accounts rights to test process and identification of appropriate baseline.       |                   | Finance business analyst (vacant) | Digital services, Manager digital services, CFO   | Review process, baseline identification |          |                |
| <b>31 General Ledger Reconciliations 2018-N04</b>  |                   |                                   |   |   |          |                |
| 31.1 Develop a monthly and quarterly reconciliation checklist.   |                   | Finance business analyst (vacant) | Manager financial accounting, Transactional services manager, Senior management accountant                                  | Process development, reconciliation     |          |                |

7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan(Cont.)

**Whakatāne District Council**

Continuous improvements and 2023 audit findings action plan

April 2024

| Sub Actions  | Audit NZ Ref. No. | Action Owner                      | Support   | Skills & Resources Needed                       | Timeline | Current Status |
|--|-------------------|-----------------------------------|---|---|----------|----------------|
| <b>32 Sensitive Expenditure Policy Review</b>  |                   |                                   |   |   |          |                |
| <b>2019-N05</b>  |                   |                                   |   |   |          |                |
| 32.1 Review Sensitive Expenditure Policy against AOG Guidelines to identify any gaps.                        |                   | Finance business analyst (vacant) | CFO   | Policy analysis, compliance                     |          |                |
| 32.2 Review Sensitive Expenditure Policy against other councils policies to identify any good-practice gaps. |                   | Finance business analyst (vacant) | CFO   | Policy analysis, benchmarking                   |          |                |
| 32.3 Review Sensitive Expenditure Policy against Council's Remuneration policies for inconsistencies.        |                   | Finance business analyst (vacant) | CFO, Governance   | Policy analysis, alignment                      |          |                |
| 32.4 Redraft Sensitive Expenditure Policy to address identified gaps.  |                   | Finance business analyst (vacant) | CFO, GM People and Capability   | Policy drafting, compliance                     |          |                |
| 32.5 Ensure policy readability and reduction in jargon using a common language AI tool.                      |                   | Finance business analyst (vacant) | Strategic policy analyst  | Language processing, policy drafting            |          |                |
| 32.6 Review Draft Sensitive Expenditure Policy with relevant staff to ensure practicality.                   |                   | Finance business analyst (vacant) | CFO, Manager People and Capability, Governance, Transactional services manager, Payroll officer, Accounts payable officer | Policy implementation, stakeholder consultation |          |                |
| 32.7 Submit Draft Sensitive Expenditure Policy to ELT for consultation.                                      |                   | CFO                               | ELT   | Policy approval, consultation                   |          |                |
| 32.8 Submit Draft Sensitive Expenditure Policy to XXXX Committee for adoption.                               |                   | CFO                               | Committee [TBD]   | Policy adoption, committee approval             |          |                |
| 32.9 Publish policy with appropriate change management communications.                                       |                   | Finance business analyst (vacant) | Strategic policy analyst, Communications business partner   | Policy implementation, communication            |          |                |
| <b>33 Establishment of Structured Internal Audit Function</b>  |                   |                                   |   |   |          |                |
| <b>2015-N06</b>  |                   |                                   |   |   |          |                |
| 33.1 Establish approach to internal audit agreed with Risk and Assurance Committee.                          |                   | CFO                               | Risk and assurance committee  | Internal audit, risk management                 |          | Completed      |
| 33.2 Establish and resource an Internal Audit Champion.  |                   | CFO                               | People and Capability business partner  | Team leadership, resource management            |          | Completed      |
| 33.3 Establish approach to resource internal audit activities between internal and external capacity.        |                   | Procurement and risk manager      | CFO, Risk and assurance committee   | Resource allocation, collaboration              |          | Completed      |
| 33.4 Establish Internal Audit Workplan covering 2-3 years endorsed by ELT and Risk and Assurance Committee.  |                   | Procurement and risk manager      | ELT, Risk and assurance committee   | Strategic planning, stakeholder alignment       |          | Completed      |
| 33.5 Establish Internal Audit budget within LTP 2033.  |                   | Audit and Risk Team               | CFO   | Financial planning, budgeting                   |          | In progress    |
| 33.6 Procurement of internal audit activity providers.   |                   | Procurement and risk manager      |   | Procurement, vendor management                  |          | In progress    |
| 33.7 Commencement of Internal Audit workplan, with IA Scope of engagement and reporting back.                |                   | Procurement and risk manager      | TBD - Activity managers and functional staff for IA focus areas   | Audit execution, reporting                      |          |                |
| 33.8 Development and documentation of audit actions management register.                                     |                   | Procurement and risk manager      | Finance superuser smartsheet.com  | Documentation, action management                |          |                |

7.2.1 Appendix 1 – Continuous improvements and 2023 audit findings action plan(Cont.)

**Whakatāne District Council**

Continuous improvements and 2023 audit findings action plan

April 2024

| Sub Actions   | Audit NZ Ref. No. | Action Owner                      | Support   | Skills & Resources Needed                    | Timeline | Current Status |
|---|-------------------|-----------------------------------|---|--|----------|----------------|
| <b>34 Activity Funding Impact Statements – Overhead Allocations</b>   |                   |                                   |   |  |          |                |
| <b>2021-N10</b>   |                   |                                   |   |  |          |                |
| 34.1 Review existing allocation basis.  |                   | Financial Analyst (contractor)    | Senior management accountant, Systems accountant, CFO | Financial analysis, allocation methods       |          | Completed      |
| 34.2 Establish clear allocation rules for enabling and service activities.  |                   | Financial Analyst (contractor)    | Senior management accountant, Systems accountant, CFO | Policy development, financial analysis       |          | In progress    |
| 34.3 Develop a driver-based allocations model recommendation.   |                   | Financial Analyst (contractor)    | Senior management accountant, Systems accountant, CFO | Model development, financial analysis        |          | In progress    |
| 34.4 Review draft allocations model with CFO.   |                   | Financial Analyst (contractor)    | Senior management accountant, Systems accountant, CFO | Stakeholder consultation, financial analysis |          |                |
| 34.5 Incorporate final draft allocation model within LTP2034.   |                   | Systems accountant                | Senior management accountant, CFO                     | Policy implementation, financial planning    |          |                |
| 34.6 Document allocation methodologies, drivers, and outcomes for consultation with ELT.                          |                   | CFO                               | ELT   | Documentation, stakeholder consultation      |          |                |
| 34.7 Publish summary documentation of allocation methodologies, drivers, and outcomes.                            |                   | Finance business analyst (vacant) | Senior management accountant, Systems accountant, CFO | Communication, policy implementation         |          |                |
| 34.8 Establish revised models for in-year and end-of-year allocations processes.                                  |                   | Finance business analyst (vacant) | Senior management accountant, Systems accountant, CFO | Process improvement, financial analysis      |          |                |
| <b>35 LGA Compliance – Publication of CCO Statements of Intent and Annual Reports</b>                             |                   |                                   |   |  |          |                |
| <b>2020-N11</b>   |                   |                                   |   |  |          |                |
| 35.1 Review gaps in compliance for publishing CCO reports.  |                   | CFO                               | Website Administrator/Designer                        | Compliance analysis, reporting               |          | Completed      |
| 35.2 Establish process for regular and consistent reporting of CCOs through Finance and Performance Committee.    |                   | CFO                               |   | Process development, reporting               |          | In progress    |
| 35.3 Document process for publishing CCOs documents post Finance and Performance Committee reporting.             |                   | Finance business analyst (vacant) | Website Administrator/Designer                        | Documentation, compliance                    |          |                |
| <b>36 Related Parties – Register of Interest Declarations</b>   |                   |                                   |   |  |          |                |
| <b>2022-N12</b>   |                   |                                   |   |  |          |                |
| 36.1 Review process to identify additional changes required to reduce likelihood of incompleteness in the future. |                   | Finance business analyst (vacant) | Governance Team                                       | Process improvement, compliance              |          |                |
| 36.2 Implement proposed changes with council governance procedures.   |                   | Governance Team                   |   | Policy implementation, compliance            |          |                |
| 36.3 Implement a quarterly 2nd line review to ensure completeness of information.                                 |                   | Finance business analyst (vacant) | Governance Team                                       | Review process, compliance                   |          |                |

### 7.3 Enterprise Risk Report

## 7.3 Enterprise Risk Report



To: **Risk and Assurance Committee**

Date: **Friday, 17 May 2024**

Author: **G Connolly / CFO and General Manager Business Partnering**

Authoriser: **S O'Sullivan / Chief Executive**

Reference: **A2665750**

### 1. Reason for the report - *Te Take mō tēnei rīpoata*

The Quarterly Enterprise risk paper provides:

- A review of the current External and Internal Risk Environment highlighting the major factors impacting or likely to impact on our risk environment, whether existing and volatile, or emerging (Section 4).
- A summary of any changes in our risk assessments, potential due to changes in the risk environment (Section 5).
- A summary of our current enterprise risk assessment (Figure 2).
- A report on our enterprise risks providing assessment of the risk and our action to treat and control the risk as aligned with our business plan (Figure 3).

### 2. Recommendations/Actions - *Tohutohu akiaki*

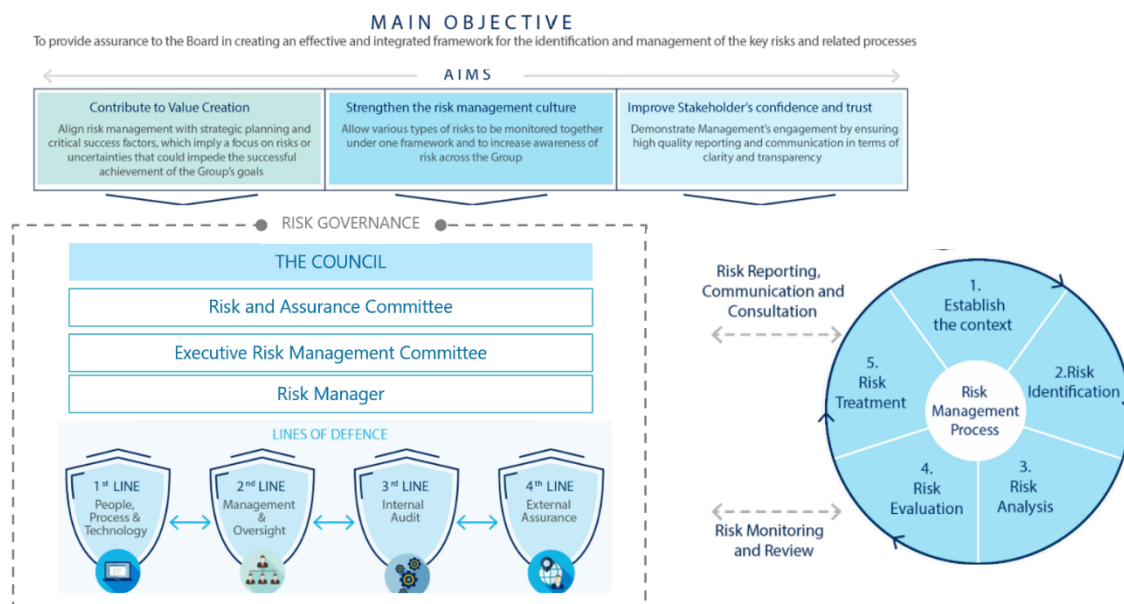
1. **THAT** the Enterprise Risk report dated May 2024 be approved and;
2. **THAT** changes in the risk assessment identified in Section 5 *Changes in Risk Rating* are agreed and;
3. **THAT** the Risk and Assurance Committee review and provide guidance on our Enterprise Risks and responses to these risks including:
  1. Key and Emerging Risk review.
  2. Residual Risk Rating (Figure 1).
  3. Risk Direction (Figure 2).
  4. Actions to treat and control s enterprise risks and the status updates (Figures 2 and 3).

### 3. Background - *He tirohanga whakamuri*

The Council has made significant improvement in its Enterprise Risk Management Framework based on the oversight of the committee and management of executive. The current risk report framework was last reviewed with changes agreed in September 2022.

**7.3 Enterprise Risk Report(Cont.)**

The Council have agreed to follow a good practice approach to the Enterprise Risk Framework largely based upon ISO Standard 31000:2009 Risk Management. This framework can largely be represented in summary form as follows:



The full current Council undertook a training workshop in December 2022 on Enterprise Risk Management Framework good practice in alignment with the current ISO standard.

**Recent Risk Management Activities:**

**Health & Safety reset**

As part of our reset of the Health & Safety activity we have begun an audit of the Health & Safety activity including policies, procedures and performance measures. The Executive Team workshopped the audit on the 16 April. The aim of the audit will be to provide us with a clear idea of what areas need to be focussed on and a plan to improve the Health & Safety activity. This will include priorities and activities leading us to a Health & Safety Strategy for Council. We are expecting an update on the audit before the next Risk & Assurance meeting.

**4. Risk Environment Discussion - *Taiao mōrearea***

The below highlights some significant factors currently impacting our risk environment as assessed by management. Many of these are largely unchanged but evolving from what was presented in February:

**4.1. Major economic / financial or social shock**

- **Inflation: [Stabilising]** Annual inflation has eased to its lowest level in nearly three years. Stats NZ figures showed consumer prices rose 0.6 percent in the three months ended March, taking the annual rate down to 4.0 percent, the lowest since June 2021. The numbers were in line with economists' expectations but ahead of the Reserve Bank's [RBNZ] forecast of a 0.4 percent quarterly rise and an annual rate of 3.8 percent. However, it was confident it would be back in

**7.3 Enterprise Risk Report(Cont.)**

the 1-3 percent target band by the end of the year. [Source: RNZ “Inflation drops to 4 percent, lowest rate in nearly three years” 17 April 2024]

- **Interest Rates: [Stabilising]** The last few years have been an interest rate rollercoaster. They were at their lowest point in history in late 2021 - then by 2023 rates climbed to a 15+ year high. TradeMe in April gathered NZ interest rate predictions for 2024 and 2025 from leading economists and government agencies.  
 1 year fixed rate forecasts & OCR

|           | 2024                  | 2025                 | 2026          |
|-----------|-----------------------|----------------------|---------------|
| ANZ       | Start to decrease     | 6.4% (June)          | 6.0% (June)   |
| ASB       | Largely unchanged     | 7%                   | 6%            |
| CoreLogic | -                     | Start decreasing     | 5.5%          |
| Squirrel  | Below 6% (late 2024)  | Below 5% (late 2025) | Below 5%      |
| Opes      | Gradual decrease      | 6.50% (March)        | 5.50% (March) |
| OCR       | 5.5% (might decrease) | Decreasing           | 3.0%          |

\*sources below

**Wage Rates: [Stabilising]** After averaging 2-3% pa from 2008-2017, minimum wage increases have averaged 7-8% pa since through April 2023, combined with pay equity settlements this reflects ongoing risk of compression driving future increase up the scale. Based on current market feedback projections are anticipated at 3-5% for FY24-25. RBNZ Survey of expectations released on 13 February 2024 indicated “Expectations for annual wage changes have decreased to 3.73% one year ahead and to 2.99% two years ahead”. A significant factor is the expectation that unemployment would raise to 4.7% in 2 years, although last quarter data was no as negative as previously expected.

**Insurance Coverage and Cost: [Increasing]** As the Committee will be aware the international reinsurance market's fluctuating capacity and pricing directly impact New Zealand organisations and appears to be leading to higher insurance premiums and stricter coverage terms particularly due to the country's exposure to natural disasters and the global insurers' risk appetite. Given the nature of Councils responsibilities and infrastructure exposed to natural events this is particularly the pertinent for councils across Aotearoa New Zealand

From an economic impact perspective, the 2023-24 annual plan reflected the following economic sensitivities:

Personnel Costs assumption 5% (+/- 1% - \$255k)

Payments to Suppliers assumption 4.2% (+/- 1% - \$393k)

Payments to Capital Programmes 5% (+/- 1% \$840)k

The above perspectives have been factored into interim LTP 2024-2034 financial assumptions.

**We have undertaken a sensitivity analysis as related to the Consultation Document of the Long Term Plan as part of our quality assurance work, this is provided in Appendix 6.**

### 7.3.1 Appendix 1 - Figure 1 - Risk Heatmap

#### 4.2. Political changes impact on council direction and delivery

**[Increasing]** The increased frequency and volatility of weather [Likelihood/Consequence] impacting the ongoing supply of services of council, short term impact on infrastructure supply, longer term impact on infrastructure reinstatement and maintenance, impact focus on events reducing capacity to address / prioritise other organisation plans.

#### 4.3. Lack of infrastructure resilience

**[Increasing]** The increased frequency and volatility of weather [Likelihood/Consequence] impacting the ongoing supply of services of council, short term impact on infrastructure supply, longer term impact on infrastructure reinstatement and maintenance, impact focus on events reducing capacity to address / prioritise other organisation plans.

#### 4.4. Image and Reputation

**[Increasing]** The potential for significant rates increase coming from many councils [80% indicating 10-20% increases and 10% at 20%+], is likely to have a significant impact of image and reputation with increased volume and concern raised at the direction councils are heading and how they are being managed. This has been reflected through submissions and hearing through the Long Term Plan Consultation process.

All in all, it continues to be a time of heightened potential for increases in the risk environment. In that regard, and the importance of taking action to attempt to mitigate these potential impacts remains a key focus (Figure 3).

### 5. Changes in Risk Rating - *Inenga morearea*

With executive capacity significantly impacted by commitments to the Long Term Plan process no substantive changes in risk rating have been identified within the Council Risk Register in Appendix 3.

#### Attached to this report:

- Appendix 1 - Figure 1 - Risk Heatmap
- Appendix 2 - Figure 2 - Risk Summary
- Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status
- Appendix 4 – Council Consequence of Risk
- Appendix 5 – Council Likelihood of Risk
- Appendix 6 – Long Term Plan Sensitivity Analysis

### 7.3.1 Appendix 1 - Figure 1 - Risk Heatmap

7.3.1 Appendix 1 - Figure 1 - Risk Heatmap(Cont.)

**Figure 1 - Council Risk Management Report as of March 2024**  
**Risk Heatmap - Assessed (Residual) Risk**

|  |                      |   |   |   |   |   |   |
|--|----------------------|---|---|---|---|---|---|
| <b>Risk Consequence</b><br><i>(See appendix 4)</i> | <b>4Catastrophic</b> | 2   |   |   |   |   | <b>Strategic Risk</b><br>1. Not achieving effective delivery<br>2. Health and Safety breach<br>3. Inability to attract, sustain, engage, and develop our staff capability.<br>4. Impaired Māori relationships<br>5. Lack of infrastructure resilience (community)<br>6. Loss of organisational effective systems and infrastructure for council operation including cyber-attack.<br>7. Non-compliance with legal and regulatory requirements.<br>8. Political changes impact on council direction and delivery.<br>9. Natural disaster management and mitigation including climate change<br>10.Lack of Community Support<br>11.Major economic / financial or social shock |
|  | <b>Major</b>         |   | 5   | 9<br>11                                       |   |   |   |
|  | <b>Moderate</b>      |   |   | 7<br>10                                       | 6<br>8                                      | 1<br>3<br>4   |   |
|  | <b>Minor</b>         |   |   |   |   |   |   |
|  | <b>Insignificant</b> |   |   |   |   |   |   |
|  |                      | <b>Remote</b><br>Expected 1 out of 30 years | <b>Unlikely</b><br>Expected 1 out of 10 years | <b>Possible</b><br>Expected 3 out of 10 years | <b>Likely</b><br>Expected 7 out of 10 years | <b>Almost Certain</b><br>Expected 9 out of 10 years |   |
| <b>Risk Likelihood</b><br><i>(See appendix 5)</i>  |                      |   |   |   |   |   |   |



**7.3.2 Appendix 2 - Figure 2 - Risk Summary**

**7.3.2 Appendix 2 - Figure 2 - Risk Summary**

7.3.2 Appendix 2 - Figure 2 - Risk Summary(Cont.)

**Figure 2 - Council Risk Management Report - Risk Summary as of March 2024**

| Risk Name<br>Risk definition   | Potential Risk Impact  | Inherent Risk | Inherent Risk Direction          | Treatment and Control Status | Residual Risk | Residual Risk Direction | Target Risk |
|--|--|---------------|----------------------------------|------------------------------|---------------|-------------------------|-------------|
| <p><b>1. Not achieving effective delivery</b></p> <p>Risk that Council does not to meet its goals for the district including compliance with legislation, resulting from failure to implement change in strategic planning due to insufficient monitoring and decision-making processes</p>  | <p>Unanticipated costs \$1m+</p> <p>Failure to achieve multiple community outcomes. Deterioration in multiple KPI 30%</p> <p>A range of assets, some critical are rendered unusable for more than a month</p>  | Extreme       | ←                                | ●                            | High          | ←                       | Medium      |
| <p><b>2. Health and Safety</b></p> <p>Risk that serious harm or death of Council staff or other people at Council's workplaces occurs.</p>   | Death of one or many staff/ Public   | High          | ←                                | ●                            | Medium        | ←                       | Low         |
| <p><b>3. Inability to attract, sustain, engage, and develop our staff capability</b></p> <p>Risk that Council fails to maintain the necessary staff capacity and or capability to deliver the objectives of the organisation</p>   | Contribute to 1 above  | High          | ←                                | ●                            | High          | ←                       | Medium      |
| <p><b>4. Impaired Māori Relations</b></p> <p>Risk that failure to effectively engage with strong Iwi and Māori relations impedes that ability to deliver the Councils goals for success across economic, cultural, environmental, and social outcomes. This risk also includes failure to meet both legislative and moral responsibilities to build, maintain and nurture sound and trusted relationships with Māori partners.</p> | Contribution to 1 above  | High          | ←                                | ●                            | High          | ←                       | Low         |
| <p><b>5. Lack of Infrastructure resilience (Community)</b></p> <p>Risk that infrastructure used by the community fails to an extent that it has a significant impact on residents in our community, along with businesses who are unable to function, if council infrastructure fails.</p>   | Key services are not available to a large proportion of the community for more than a month.   | Extreme       | ←                                | ●                            | Medium        | ←                       | Medium      |
| <p><b>6. Loss of organisational effective systems and infrastructure for council operation including cyber attack</b></p> <p>Risk that infrastructure, both physical and digital, used by Council to support the delivery of services to the community fails as an event, or through being unfit for purpose, to an extent that it has a significant impact continuity of services.</p>  | Loss of organisational effective systems and infrastructure for council operation including cyber-attack resulting in operational systems not being available for more than one month.   | High          | ↙<br>As approved in last meeting | ●                            | High          | ←                       | Medium      |
| <p><b>7. Non-compliance with legal and regulatory requirements</b></p> <p>Risk that changes to the rules and regulations we operate under occur to an extent or at a pace resulting in to keep up with these changes and ensuring ongoing compliance with existing legislation and frameworks exposes WDC to unplanned liability for non-compliance and cost.</p>  | <p>Breaches result in legal action being taken against officers of council.</p> <p>Compliance failures result in substantial restrictions being placed on core council activities</p> <p>Loss of confidence in council's capabilities lasting several months</p> | High          | ←                                | ●                            | Medium        | ←                       | Low         |

7.3.2 Appendix 2 - Figure 2 - Risk Summary(Cont.)

|  |  |                |          |          |               |          |               |
|--|--|----------------|----------|----------|---------------|----------|---------------|
| <p><b>8. Political changes impact council direction and delivery</b></p> <p>Risk that changes in political direction from local or central government can occur to a scale or speed which has a significant impact on the ability of the Council to deliver upon it stated goals for the community.</p>  | <p>Unanticipated losses of over \$5m.<br/>Prolonged public dissatisfaction with policies or actions of Council.</p>  | <p>Extreme</p> | <p>←</p> | <p>●</p> | <p>High</p>   | <p>←</p> | <p>Medium</p> |
| <p><b>9. Natural disaster management and mitigation including climate change</b></p> <p>Risk that natural disasters, as one off or recurring events, along with ongoing continuous change in our natural environment, including but not limited to impacts of climate change, can have significant impact on Council business continuity, community infrastructure, and social and economic impacts.</p> | <p>Significant assets are destroyed or rendered useless for several months.<br/>Key services are not available to the community for several weeks.<br/>Long term severe health impact to a significant number of people.</p> | <p>Extreme</p> | <p>←</p> | <p>●</p> | <p>High</p>   | <p>←</p> | <p>High</p>   |
| <p><b>10. Lack of community support</b></p> <p>Risk that there is an insufficient level of support from our communities that has a significant impact on the ability of the Council to deliver upon it stated service levels and goals for the community</p>   | <p>Prolonged public dissatisfaction with the policies or actions of Council.</p>   | <p>High</p>    | <p>←</p> | <p>●</p> | <p>Medium</p> | <p>←</p> | <p>Medium</p> |
| <p><b>11. Major economic/ financial or social shock</b></p> <p>Risk of unpredictable shifts in the global or domestic economies that would significantly impact on the ability of the Council to deliver upon it stated service levels and goals for the community.</p>  | <p>Unanticipated costs of more than \$5m.<br/>Overspend of Annual Plan OPEX by 5%.</p>   | <p>Extreme</p> | <p>←</p> | <p>●</p> | <p>High</p>   | <p>←</p> | <p>Medium</p> |

**Assessment of Treatments and Controls to manage risk**

- Exceed requirement – the risk management processes have been over-engineered for the level of risk involved
- Meet requirement – the risk management processes are appropriate for the level of risk identified
- Need strengthening (minor) – minor improvements in the risk management processes are necessary to reach “meet requirements”
- Need strengthening (important) – risk management processes need to be strengthened in important ways to reach “meet requirements”
- Need strengthening (critical) – risk management processes are clearly deficient in critical ways
- Unestablished – risk management processes have not yet been established. This will most likely be the situation in the case of a new business initiative

**Definitions of risk directions:**

- ← No change in risk direction
- ↙ Risk is decreasing
- ↖ Risk is increasing

**Emerging Risks**

Reflects risk that are either developing, or for which a risk assessment has not yet been undertaken, but it is likely this area will meet the standard of an Enterprise Risk in future

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|  |
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**7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status**

**7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status**

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

## Figure 3 – Council Risk Management Report - Register incorporating Management Action Status Report as of March 2024

For items showing as an inherent risk of **High** or above within the risk management report

| Key to Status   | [T-E] Treatment - effective | [T-PE] Treatment – partly effective | [C-E] Control - effective | [C-PE] Control – partly effective |
|---|-----------------------------|-------------------------------------|---------------------------|-----------------------------------|
| <b>What’s the distinction between a Treatment and a Control? [shades of grey]</b>   |                             |                                     |                           |                                   |
| <p><b>A Treatment</b> is something that reduces the inherent risk either in consequence or likelihood to avoid it from occurring or reducing its consequence if it does occur <i>[example: an alarm that sounds or alerts someone when a door is left unlocked reduces the likelihood of doors being unlocked for any length of time]</i></p> <p><b>A Control</b> is something that improves the environment to reduce the residual risk of the consequence or likelihood <i>[example: a policy that lets all staff know that doors are to be locked]</i></p> <p>Both Treatments and Controls require ongoing monitoring to be effective.</p> |                             |                                     |                           |                                   |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| <b>RISK 01. Not Achieving Effective Delivery</b>   |                                 |  |  |
|--|---------------------------------|--|--|
| <p><b>Risk definition</b></p> <p><b>There is a risk that Council does not to meet its goals for the district including compliance with legislation, resulting from failure to implement change in strategic planning due to insufficient monitoring and decision-making processes</b> (choosing the right projects, given financial constraints, and delivering them on time and on budget).</p> <p>The risk exists because there is a view the underpinning practices to support changes in strategic decision making are not as strong as they should be, specifically</p> <ul style="list-style-type: none"> <li>• Business processes including decision making, reporting, project management (including whole of project life financials, asset management and procurement).</li> <li>• Staff capability and capacity to ensure consistent and focused delivery</li> <li>• Improved financial and infrastructure strategies that guide decision making</li> </ul> | Potential Risk Impacts          | <ul style="list-style-type: none"> <li>○ Unanticipated costs \$1m+ Failure to achieve multiple community outcomes.</li> <li>○ Deterioration in multiple KPI 30%</li> <li>○ A range of assets, some critical are rendered unusable for more than a month</li> </ul> |  |
|  | Inherent Risk                   | <b>Extreme</b> ←   |  |
|  | Residual Risk                   | <b>High</b> ←  |  |
|  | Target Risk                     | <b>Medium</b> ←  |  |
|  | Risk Reduction General Approach | Establishing an effective LTP that commits to develop robust decision making, project management process, tools, and capability at council to strengthen Councils long term sustainability and delivery of outcomes  |  |

| <b>Control and Treatments by Focus Areas:</b>  |  |   |  |
|--|--|---|--|
|  | Existing Controls / Treatments Delivered   | New Controls / Treatments Delivered   | Future Controls / Treatments Planned   |
| <b>1.1 Strategy and Policy [S. Perdia]</b>   |  |   |  |
| 2.01 - Corporate planning - long term plan, annual plan, annual business plan<br><br>2.03 - Review and develop council performance framework | <ul style="list-style-type: none"> <li>• WDC Long Term Plan 2021-2030 [Jul.21]</li> <li>• LTP Steering Group established to oversee work programme [Mar 23]</li> <li>• The Organisational Performance Report (OPR) is reported to Committee each quarter [Dec. 22]</li> <li>• Annual Planning process complete and rates set. [June.23]</li> <li>• Business Plan 23-24 complete [Aug 23]</li> </ul>  |   | <ul style="list-style-type: none"> <li>• Complete LTP 2024-2034 [Jun. 24].</li> <li>• Review of the Organisational Performance Report, based on feedback from the Committee to improve the effectiveness of this control [Aug. 24].</li> <li>• Business Plan 24-25 to include the LTP 24-24 work programme [Aug 24]</li> </ul> |
| <b>1.2 Strategy and Transformation [S. Perdia]</b>   |  |   |  |
| 2.29 - Establish PMO and strengthen project discipline   | <ul style="list-style-type: none"> <li>• Key projects (e.g. Matata Wastewater) are reported to Council Committees. [Feb. 23]</li> <li>• Smartsheet approved as the Online Enterprise project tracking tool. [Dec. 22]</li> <li>• Established a Project Culture Work Group [Jul 23]</li> <li>• Project overview reporting to ELT and Governance in place [Aug 23]</li> <li>• Updated EPMO Project Plan with a vision statement developed by the Project Working Group and approved by Finance and Performance Committee [Nov 23]</li> <li>• Established a Working Group to develop an Infrastructure (Transport &amp; Waters) PMO [Dec 23]</li> </ul> | <ul style="list-style-type: none"> <li>• Recruiting for EPMO Manager to commence [Feb 24]</li> <li>• Smartsheet Control Centre purchased and development team assembled [Feb 24]</li> </ul> | <ul style="list-style-type: none"> <li>• A 'Key Projects' reporting template for consistent reporting to Council [Sept. 24]</li> <li>• Infrastructure (Transport &amp; Waters) PMO in place [Dec 24]</li> </ul>  |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 02. Health and Safety   |                                 |  |   |
|--|---------------------------------|--|---|
| <p><b>Risk definition</b></p> <p><b>There is a risk that serious harm or death of Council staff or other people at Council's workplaces occurs.</b></p> <p>The risk exists because of the nature of work undertaken by our staff, and our contractors et al, in the delivery of services on behalf of the Council. Inherent Risk reflects the existing Health and Safety framework and treatments being assessed as effective.</p> | Potential Risk Impacts          | o Death of one or many staff/ Public   |   |
|  | Inherent Risk                   | High   | ← |
|  | Residual Risk                   | Medium   | ← |
|  | Target Risk                     | Low  | ← |
|  | Risk Reduction General Approach | <p>Council must ensure all reasonable steps are taken to ensure the health and safety of Council staff and people at Council workplaces.</p> <p>Establishing an effective health and safety framework including multiple aspects such as strategy, policy and procedures, reporting, training, and resources to reduce the likely occurrence of such an event or the severity of impact if such an event occurs.</p> |   |

| Control and Treatments by Focus Areas:      |   |  |   |
|---|---|--|---|
|   | Existing Controls / Treatments Delivered  | New Controls / Treatments Delivered  | Future Controls / Treatments Planned  |
| <b>2.1 People and Capability [E. Hatch]</b> |   |  |   |
| 8.03 - Manage health and safety             | <p>Event management – system provided for reporting and managing accidents, incidents and near miss events.</p> <p>Worker engagement – systems for including workers in health &amp; safety decisions including an active Health &amp; Safety Committee and Wellbeing Committee.</p> <p>Risk management – Vault software is used to capture and manage our risks. Critical risks are managed via Risk Control Groups of a cross section of staff working with that particular risk.</p> <p>Policy &amp; process – policy and processes developed as required to support good health &amp; safety practices/</p> <p>Contractor management -</p> <p>Staff training – H&amp;S training has been identified for all roles and loaded against the role in Vault. Training, including refresher training, is scheduled by the H&amp;S team.</p> <p>Health monitoring – roles where staff are exposed to health risks receive annual health monitoring through our provider Proactive.</p> | <ul style="list-style-type: none"> <li>For this period (Dec 2023 – March 2024) training has been coordinated and delivered in Wheels, Tracks &amp; Rollers, STMS Refresher, SpotGen Devices, TMO Worker, Situational Safety, HSW Induction, First Aid Level 2, Fire Warden, Fire Extinguisher and Work at Heights. Training covers multiple different teams and staff.</li> <li>Executive Due Diligence activities continued during the period – these included: Bomb Threat (Customer Services).</li> <li>Critical Operational Risks were workshopped by staff groups (worker participation) on Confined Space.</li> <li>Health Monitoring activities continued incl. respirator fit testing.</li> <li>Executive engaged a consultant to assist in H&amp;S reset and conduct an audit.</li> </ul> | <ul style="list-style-type: none"> <li>Fire Evacuation scheme for the Civic centre has been returned from FENZ and requires work to separate other emergency info that is not related specifically to fire.</li> <li>Continuation of our Critical Risk review programme.</li> <li>Continuation of our Due Diligence programme for both Exec and Elected Members</li> <li>Continue work on CBP documents and review of existing policies on Whoogle H&amp;S portal.</li> </ul> |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 03. Inability to attract, sustain, engage, and develop our staff capability  |                                 |   |   |
|---|---------------------------------|---|---|
| <p><b>Risk definition</b></p> <p><b>There is a risk that we fail to maintain the necessary staff capacity and or capability to deliver the objectives of the organisation.</b></p> <p>The risk exists because the New Zealand labour market is extremely tight and furthermore WDC operates in a relatively small regional economy making it often challenging to attract high calibre candidates. Challenges can include ability to remunerate at levels, expected opportunity for personal development, jobs for partners, schooling, and housing availability.</p> <p>Additionally due to scale, succession planning is also challenging. Like many regions we have areas of the business (e.g., 3 waters) where our staff demographic is aged which increases our exposure.</p> | Potential Risk Impacts          | <ul style="list-style-type: none"> <li>○ Unanticipated costs \$1m+ Failure to achieve multiple community outcomes.</li> <li>○ Deterioration in multiple KPI 30%</li> <li>○ A range of assets, some critical are rendered unusable for more than a month</li> </ul>  |   |
|   | Inherent Risk                   | High  | ← |
|   | Residual Risk                   | High  | ← |
|   | Target Risk                     | Medium  | ← |
|   | Risk Reduction General Approach | <p>People and culture programme in place and monitored via Org Performance.</p> <p>Mitigation includes making a value proposition for Whakatāne being a great place to live and work along with effective staff engagement, an attractive and modern workplace, and a commitment to staff professional development.</p> <p>WDC has utilised contractor or consultants often where recruitment has not been successful or where the need is short term and highly skilled.</p> |   |

| Control and Treatments by Focus Areas:   |   |   |  |
|--|---|---|--|
|  | Existing Controls / Treatments Delivered  | New Controls / Treatments Delivered   | Future Controls / Treatments Planned   |
| <b>3.1 People and Capability [E. Hatch]</b>  |   |   |  |
| <p>8.02 - Enhance recruitment systems and processes</p> <p>8.04 - Develop and implement - people first project - organisation vision and values</p> <p>8.05 – Implement staff wellbeing strategies and policies</p> <p>8.07 - Develop workforce plan</p> | <ul style="list-style-type: none"> <li>• Our Vision &amp; Values have contributed to the development of our Employee Value Proposition (EVP) which ensures we utilise the right language in all documentation to attract top talent (including adverts, positions descriptions, interview questions etc).</li> <li>• Our recruitment processes allow increased flexibility in People Leaders thinking creatively about other benefits to attract great staff, including flexible workplaces and a focus on personal development.</li> <li>• Council attained Accredited Employer status with Immigration NZ and can now attract and recruit technical skills from overseas, and support migrants into our communities.</li> <li>• Council’s wellbeing group regularly meet and actively coordinate wellbeing events and initiatives for all staff.</li> <li>• Council staff are working closely with the EBOP Chamber of Commerce Young Professionals Group ‘The Ladder’ to support the development of young professionals in the region.</li> <li>• Hybrid Working Guidelines developed and presented to staff to support people working in a combination of in the office and at home, as appropriate.</li> </ul> | <ul style="list-style-type: none"> <li>• Recruitment processes continue to be adaptive with a focus on targeting advertisements in locations relevant to specific roles. With the reduction in public service roles in central government, we are seeing an increase in applications from highly skilled and experienced candidates. Our challenge comes in aligning salaries budgets to expectations of candidates.</li> <li>• The P&amp;C Team’s HRIS system is in place and the team are quickly seeing the benefits of an automated Onboarding process for new employees.</li> <li>• Council’s Performance Development process, My Performance, is being revised to align with staff and Exec feedback. My Plan, the goal setting component of this system, will commence in August/September 2024. The timing has been adjusted to align with the new Business Plan. There will be an increased focus on goal setting aligning to the strategic priorities within the business plan.</li> <li>• Several members of the P&amp;C team are now accredited to facilitate 4Characters Personality Workshops.</li> <li>• Leadership Development - Growing Greatness and Leading our People workshops commenced in February and are progressing well. A team is entered into the Taituara Australasian Management Challenge on 1 May 2024.</li> </ul> | <ul style="list-style-type: none"> <li>• Work continues on Council’s Learning &amp; Development Framework. Whakapiri Winter 2024 will run in July 2024 with a combination of ISL facilitated training and collaboration and information sharing across the Senior Leadership Group.</li> <li>• The focus with People Leaders for the next six months will be on developing and implementing action plans in response to the Staff Engagement Survey results in order to increase retention, and reviewing resourcing requirements across each activity to ensure fit for purpose.</li> </ul> |



7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 04. Impaired Māori Relations   |                                 |   |  |
|---|---------------------------------|---|--|
| <p><b>Risk definition</b></p> <p><b>There is a risk that failure to effectively engage with strong Iwi and Māori relations impedes that ability to deliver the Councils goals for success across economic, cultural, environmental, and social outcomes. This risk also includes failure to meet both legislative and moral responsibilities to build, maintain and nurture sound and trusted relationships with Māori partners.</b></p> <p>The risk exists because strong Iwi and Māori relations are a key pillar to the districts strategic plans reflecting that Whakatāne District has a substantial Māori population of near 48%.</p> <p>Impaired relationships have multiple negative outcomes associated with them and impacts on other relationships (e.g., central government) and our ability to ensure strong resilient, connected communities across the district.</p> | Potential Risk Impacts          | <ul style="list-style-type: none"> <li>○ Unanticipated costs \$1m+ Failure to achieve multiple community outcomes.</li> <li>○ Deterioration in multiple KPI 30%</li> <li>○ A range of assets, some critical are rendered unusable for more than a month</li> </ul>  |  |
|   | Inherent Risk                   | High ←  |  |
|   | Residual Risk                   | High ←  |  |
|   | Target Risk                     | Low ←   |  |
|   | Risk Reduction General Approach | <p>Ensure we have an effective Māori Partnership plan in place. Guiding the Council is the Māori Relationship Strategy which is focussed at WDC being better and building our capacity and capability to engage effectively, aswell as shared business planning, adding structure, consistency and investing time to the relationships.</p> <p>Due to the diversity of Council business, it is important to hold key relationships across a spectrum of Iwi/Māori partners including iwi, hapū and whānau, land holding entities, Māori education, health, and social service providers, ratepayers, and many others.</p> |  |

| Control and Treatments by Focus Areas:                                  |  |                                     |  |
|---|--|-------------------------------------|--|
|   | Existing Controls / Treatments Delivered   | New Controls / Treatments Delivered | Future Controls / Treatments Planned   |
| <b>4.1 Local Governance [E. Hatch]</b>                                  |  |                                     |  |
| 1.03 - Undertake representation review and establishment of Māori wards | <ul style="list-style-type: none"> <li>• 3 Māori Ward councillors added to governance structure from 2022 elections [Oct. 22]</li> </ul> |                                     | <ul style="list-style-type: none"> <li>• New Gov signalled LG to revisit Mandatory Maori Wards – WDC to submit</li> <li>• Coalition government’s statement on Maori representation (pending): “Restore the right to local referendum on the establishment or ongoing use of Maori wards, including requiring a referendum on any wards established without referendum at the next Local Body elections”. Potential outcomes would see local authorities having to conduct a poll prior to LGE 25.</li> <li>• Councils that have established Māori wards/constituencies in 2023 for the 2025 local elections will be required to either hold a poll on the establishment of their Māori wards in their 2025 election or if councils do not wish to hold a poll, those councils will be given the opportunity to reverse or rescind their decision to disestablish those wards later this year. If Councils do hold a poll its outcome will be binding for the 2028 and 2031 local elections.</li> </ul> |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| 4.2 Māori Partnership [P. Warbrick]  |   |  |   |
|--|---|--|---|
| <p>1.06 – Develop cultural responsiveness strategy</p> <p>1.07 - Implement cultural responsiveness strategy</p> <p>1.08 - Deliver cultural competency programme</p> <p>1.09 - Develop coordinated partnership work programme with iwi partners</p> <p>1.10 - Provide cultural advice and guidance to elected members and staff</p> | <ul style="list-style-type: none"> <li>• Te Kahupapa – Organisation’s Cultural Competency training programme: Treaty of Waitangi Training completed in December 2021.Councillor and Executive team monthly workshop.Te reo Training.</li> <li>• Increased oversight of WDC BAU and accuracy of Engagement. Including shared learning opportunities between WDC and Iwi Entities</li> <li>• BOF funding approved for IHW Participation and Town master planning lead by IWI. Progress to appoint Iwi Policy Hub Manager</li> <li>• Regular Executive hui between WDC and Iwi</li> <li>• Increased Organisational Awareness of Govt Maori Policy and impacts.</li> <li>• Relationship Excellence – Relationship leads in place to co ordinate and nurture relaiaionships between Ngati Whare and Ngati Manawa.</li> <li>• FTE Manager Toi Kotuia recruited and supporting MRS and BAU outcomes</li> </ul> | <ul style="list-style-type: none"> <li>• MRS year 2 Outcomes to further advance WDC delivery of our Relationship and Legislative responsibilities.</li> <li>• Organisational Cultural Competency Training continues with Te Reo Lessons and Noho Marae completed for FY.</li> <li>• Treaty Settlement and MACA Impacts; WDC including relationship protocols.</li> <li>• Review of He Kahupapa WDC Cultural Competency Framework (drafted)</li> <li>• Relationship and Engagement Advice continuous (BAU) across multiple Activities.</li> <li>• Shared Business planning Iwi and WDC - to date Ngati Awa and Ngati Rangitahi.</li> <li>• Relationship Lead for Ngati Whare and Ngati Manawa in place with significant success.</li> <li>• Ngati Awa / WDC Reo rua Strategy and Outcomes underway. (Project Co Ord expediting this effort)</li> <li>• Interim Guidelines / Policy developed for Internal procedures.</li> <li>• MRS Implementation and Training</li> <li>• Arts and Culture activities; Te Koputu and Taketake.</li> </ul> | <ul style="list-style-type: none"> <li>• Partnerships: Matatā Wastewater, Tourism Product, MSD Cadetships, Boat Harbour, and Tourism Opportunities discussions. Social Procurement Engagement with IWI CEO to inform Council Policy underway. Signage Protocols, Cycle Ways.</li> <li>• Year 2 MRS outcomes underway, which covers focus areas of Leadership, Identity, Empowered Organization, relationships, Monitoring and design. (some paused for LTP)</li> <li>• Continued progress with IHW across all WDC business, with relationship workshops to better understand and support each other.</li> <li>• Ngati Awa / WDC Reo rua Outcomes</li> <li>• Maori Policy intel to future inform WDC approach</li> <li>• Te Reo Policy – Linked to Reo rua and MRS outcomes</li> <li>• Shared Iwi / WDC Business Planning</li> <li>• BOF Iwi Policy Hub – resourcing iwi participation (spatial planning and Town Master Planning)</li> <li>• System and Tools - support relationship Excellence</li> <li>• Oversight of Policy and Submissions WDC Maori lens.</li> </ul> |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 05. Lack of Infrastructure resilience (Community) |   |                                 |  |
|--|---|---------------------------------|--|
| Risk definition  | <p><b>There is a risk that infrastructure used by the community fails to an extent that it has a significant impact on residents in our community, along with businesses who are unable to function, if council infrastructure fails.</b></p> <p>The risk exists due to the significant scale upon which the delivery of services of the Council is dependent on a diverse, distributed and complex infrastructure base, and due the to the underlying age of much of the infrastructure.</p> | Potential Risk Impacts          | <ul style="list-style-type: none"> <li>Key services are not available to a large proportion of the community for more than a month.</li> </ul>   |
|  |   | Inherent Risk                   | <b>Extreme</b> ←   |
|  |   | Residual Risk                   | <b>Medium</b> ←  |
|  |   | Target Risk                     | <b>Medium</b> ←  |
|  |   | Risk Reduction General Approach | <p>An excellent understanding of the state of our infrastructure, the demand on them along with appropriate maintenance and replacement plans will be critical in managing this risk.</p> <p>Risk reduction will also consider infrastructure readiness for planned growth and the potential impact of unplanned growth.</p> |

| Control and Treatments by Focus Areas:  |   |   |   |
|---|---|---|---|
|   | Existing Controls / Treatments Delivered  | New Controls / Treatments Delivered   | Future Controls / Treatments Planned  |
| <b>5.1 Strategy and Policy [D. Bewley]</b>  |   |   |   |
| <p>2.08 - Develop housing strategy</p> <p>2.10 - Spatial plan engagement and development</p> <p>2.11 - Future development strategy review (zoning)</p> <p>2.12 – Preparing resource consents for council key projects</p> | <ul style="list-style-type: none"> <li>Spatial Plan Leadership Group established, with representation from Kawerau, Whakatāne District Councils and BOPRC, and Waka Kotahi, MHUD and Kāinga Ora. Ōpōtiki Districts Council is now a partner. Iwi Leaders have joined the meetings.</li> <li>Leadership Group approved modified Project Plan to recognise scope change with Opotiki District Council joining the Project. [May 2023]. Original Project Plan was adopted [Sep. 22].</li> <li>Governance Group to meet quarterly commencing in June 2023.</li> <li>Spatial Plan funding secured through Annual Plan [July 2023]</li> <li>Minginui and Murupara Master Plans under way through BOF [complete June 2025]</li> <li>Housing Strategy to be brought forward to inform Spatial Plan work [2024/25].</li> <li>Resourcing available in-house to prepare resource consents for Council Infrastructure projects</li> </ul> | <ul style="list-style-type: none"> <li>Permanent Chairman of Governance Group appointed</li> <li>Spatial Plan Project Plan to be reviewed against revised delivery model – secondment of internal staff from partners.</li> <li>Iwi engagement occurring through Iwi Policy Hub</li> <li>Funding of Spatial Plan to be secured through LTP [2024] - all Councils</li> <li>LTP to include funding for District Plan Review commencing in 2025</li> </ul> | <ul style="list-style-type: none"> <li>Future growth strategy to be completed once Spatial Plan further advanced.</li> <li>District Plan Review</li> </ul>  |
| <b>5.2 Economic Development &amp; Regeneration [S. Perdia]</b>  |   |   |   |
| <p>2.21 - Develop investment strategy</p> <p>2.22 - Reset town centre riverfront project (Te Ara Hou)</p>   | <ul style="list-style-type: none"> <li>A property stocktake of all property that Council owns in the district [May 22].</li> <li>GIS mapping of Council properties and property categories [May 22]</li> <li>Workshop with Council covering Town Centre projects, iwi engagement and impacts of Floodwall on planning process [Dec 22]</li> </ul>   | <ul style="list-style-type: none"> <li>Request made to Kanoa jointly with Ngāti Awa to investigate if reallocation of part of Te Ara Hou funding into the Boat Harbour is an option [May 23]</li> <li>Floodwall height increase Stage 1 underway [Feb 24]</li> <li>Floodwall Stage 2 Iwi and public engagement with BoPRC commenced [April 24]</li> </ul>   | <ul style="list-style-type: none"> <li>CCTO and Commercial Investment feasibility phase completed [June 24]</li> <li>If CCTO proceeds then develop a commercial investment strategy [Oct 24]</li> </ul> |

**7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)**

|  |  |  |   |
|--|--|--|---|
| <p>2.23 - Review town vision 2008<br/>2.24 - Develop property strategy</p>   | <ul style="list-style-type: none"> <li>• CE Steering Group (WDC, BoPRC, Ngāti Awa) called Future Whakatāne established to co-ordinate floodwall improvements, river front development and Councils promenade area [May 23].</li> <li>• Property Policy adopted by Council which sets out Property Categories (including commercial property) and strategic approach to planning and decision making at a property category level. [June 23]</li> <li>• CCTO and Commercial Investment strategy next steps workshop with Council [Jun. 23]</li> <li>• Council reviewed and approved a project plan for CCTO feasibility phase [Oct 23]</li> </ul>   |  |   |
| <p><b>5.4 Three Waters [B. Gray]</b></p>   |  |  |   |
| <p>4.02 - Maintain network and reticulation renewals<br/>4.07 - Develop three waters strategy to meet increased standards and growth requirements<br/>4.09 – Plan and develop new assets for growth<br/>4.10 - Investigate and plan for new water source for Whakatāne-Ōhope scheme<br/>4.11 - Deliver Matatā wastewater project</p> | <ul style="list-style-type: none"> <li>• We have invested through the stimulus funding from Central Government in CCTV'ing our underground assets to understand the condition of these assets. This information will be useful for developing maintenance programmes for the reticulation network.</li> <li>• The new water source investigation project is complete and will form a valuable input into the water strategy project.</li> <li>• Matatā Wastewater Co-governance Group established with iwi/hapu and Council representation. Projects and Services Committee receive regular seven weekly updates. Wānanga held with project team and iwi at Rangiaohia Marae (Ngāti Rangithi Marae) on 1 and 2 July 2022. Project to start to look at options for sites, with further discussion to occur on “non-negotiables” and criteria. Looking to start engagement with community and stakeholders.</li> <li>• Project plans have been developed for the renewal of all wastewater and water consents in 2026. Engagement on these renewals will start shortly. A timeline has been prepared with inputs from key projects such as the Spatial Plan identified. This was presented to the June 2022 Projects and Services Committee Meeting</li> <li>• Conversations with iwi have begun in relation to co-design of consent renewal plans.</li> </ul> | <ul style="list-style-type: none"> <li>• Work started to develop an Infrastructure PMO to program and manage infrastructure projects.</li> <li>• Work to bring three waters back into the LTP and Infrastructure Strategy completed.</li> <li>• Specific growth projects have been identified in the LTP for the provision of appropriate infrastructure, this aligns with the review of the development contribution policy.</li> </ul> | <ul style="list-style-type: none"> <li>• The Spatial Plan timeline has been pushed out. We will continue to ensure flexibility in our systems and processes to enable growth.</li> <li>• A dedicated team for the consent renewals has been requested through the LTP budgeting process.</li> <li>• Engagement in the developing water strategy will continue.</li> <li>• Further work to consider land-based discharge options for Matata, and assessment of costs and affordability.</li> </ul> |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 06. Loss of organisational effective systems and infrastructure for council operation including cyber attack  |  |                                 |   |
|--|--|---------------------------------|---|
| <p><b>Risk definition</b></p> <p><b>There is a risk that infrastructure, both physical and digital, used by Council to support the delivery of services to the community fails as an event, or through being unfit for purpose, to an extent that it has a significant impact on continuity of services.</b></p> <p>The risk to physical infrastructure predominately exists mostly as being unfit for purpose due to the diverse, distributed and complex infrastructure base, and due to the underlying age of much of the infrastructure.</p> <p>The risk to digital exists partly from being unfit for purpose due to the to the increasingly diverse and complex nature of the organisational demands but also due to exposure to cyber-attack compromising or eliminating access to the infrastructure. Councils are increasingly the focus of cyber-attack as part of the global wide issue, and as a ‘front door’ to Central Government we face particular risk.</p> | <p>Potential Risk Impacts</p> <ul style="list-style-type: none"> <li>Loss of organisational effective systems and infrastructure for council operation including cyber-attack resulting in operational systems not being available for more than one month.</li> </ul> | Inherent Risk                   | High ←  |
|  |  | Residual Risk                   | High ←  |
|  |  | Target Risk                     | Medium ←  |
|  |  | Risk Reduction General Approach | Mitigation of the risk includes ensuring both our physical infrastructure and digital infrastructure are fit for purpose to meet the demands of the organisation and have appropriate levels of monitoring and security to protect them from substantial damage from physical or electronic attack. Risk management will include ensuring an effective Information Systems plan is developed and being delivered. |
|  |  |                                 |   |

| Control and Treatments by Focus Areas:   |   |                                     |   |
|--|---|-------------------------------------|---|
|  | Existing Controls / Treatments Delivered  | New Controls / Treatments Delivered | Future Controls / Treatments Planned  |
| <b>6.1 Corporate Information [G. Connolly]</b>   |   |                                     |   |
| <p>8.23 - IT readiness for civic centre transition and upgrade</p> <p>8.24 - Develop IT governance and roadmap to prioritise organisation requirements</p> <p>8.25 - Refresh and implement cyber security plan</p> <p>8.27 - Investigate and replace enterprise resource planning (ERP) solution</p> | <ul style="list-style-type: none"> <li>Executive Information Services Governance Group has been re-established and meets monthly in line with ToR [May 22]</li> <li>Microsoft 365 and Teams has been rolled out to all staff to allow them to work effectively from any location. [Nov. 21]</li> <li>Technology was decanted from Civic Centre with staff operating effectively from a mixed model [Nov. 21]</li> <li>To date progress in the technology delivery plans for Civic Centre rebuild remain on track as reported in the project status reports</li> <li>Information Systems strategy has been presented and approved by Council. [May 23]</li> <li>Establishment of an effective operating model incorporating resourcing will provide clarity for the ERP replacement project and wider applications and systems roadmap. [May 23]</li> <li>Completion of the technology infrastructure and re-establishment of staffing in the Civic Centre [Jun. 23]</li> <li>Development of a project plan as part of the wider ERP project has commenced and will be reviewed by Council [Jun. 23]</li> <li>Operational Model change with most recruitment completed [Nov. 23]</li> <li>ERP project manager and change manager have been recruited, final stage of project team recruitment of Bas anticipated in November. [Nov. 23]</li> </ul> |                                     | <ul style="list-style-type: none"> <li>ERP project team have undertaken workshops and received over a dozen responses to RFI, now undertaking panel review prior to RFP [Apr.24]</li> <li>ERP project team have complete RFI evaluation process and are proceeding through ERP RFP assessments in anticipation of presentation of business case to Council [Aug.24]</li> <li>Development of an applications roadmap based on the ERP project plan will create a clear line of treatment of the wider application layer of the council being fit for purpose. [Nov.24]</li> <li>Delivery of the ERP replacement project will significantly reduce risk in technology not being fit for purpose and create foundation for roadmap associated with other applications throughout the council. [Sep. 25]</li> </ul> |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 07. Non-compliance with legal and regulatory requirements  |                                 |  |  |
|---|---------------------------------|--|--|
| <p>Risk definition</p> <p><b>There is a risk that changes to the rules and regulations we operate under occur to an extent or at a pace resulting in to keep up with these changes and ensuring ongoing compliance with existing legislation and frameworks exposes WDC to unplanned liability for non-compliance and cost.</b></p> <p>This risk exists and is ongoing in nature due to the continuity of change within the legislative and compliance environment.</p> | Potential Risk Impacts          | <ul style="list-style-type: none"> <li>Breaches result in legal action being taken against officers of council.</li> <li>Compliance failures result in substantial restrictions being placed on core council activities</li> <li>Loss of confidence in council’s capabilities lasting several months</li> </ul>  |  |
|   | Inherent Risk                   | High ←   |  |
|   | Residual Risk                   | Medium ←   |  |
|   | Target Risk                     | Low ←  |  |
|   | Risk Reduction General Approach | Mitigation of the risk will be based on establishing champion of legal / internal audit / risk which will include independent oversight through regular connection through Chair of the Risk and Assurance. This role will then champion and support the implementation of stronger and more consistent tools, techniques and register of oversight on compliance. |  |

| Control and Treatments by Focus Areas:               |   |  |  |
|--|---|--|--|
|  | Existing Controls / Treatments Delivered  | New Controls / Treatments Delivered  | Future Controls / Treatments Planned   |
| 7.1 Corporate Information [G. Connolly]              |   |  |  |
| 8.18 – Develop legal regulatory compliance framework | <ul style="list-style-type: none"> <li>Risk reporting framework presented to Risk and Assurance Committee in September completed and will evolve with use. [Sep.21]</li> <li>Taken insurance advice from AON in renewals 2023 [Nov.22] [on agenda]</li> <li>Risk Framework training manual developed and workshopped with new Council and Committee in new Triennium [Jan.23]</li> <li>BCA Accreditation maintained [December 2023]</li> <li>Procurement and Risk Manager [Legal Champion] appointment [Oct. 23]</li> <li>Risk Management Framework Training induction for tier 3 manager group developed and commenced presentation [Oct. 23]</li> <li>Legal Issues Register developed based on current open issues with principle advisor, included in Risk and Assurance report [Nov. 23]</li> </ul> | <ul style="list-style-type: none"> <li>Continue improvements to Legal Issues Risk register incorporating legal costs / insurance / recovery expectations, as well as extension to include all open issues include other advisors [Mar. 24]</li> <li>Food Premises Quality Management System (QSM) audit [Mar. 2024]</li> </ul> | <ul style="list-style-type: none"> <li>Emerging Risk and Risk appetite to be workshopped with Council/Committee [Mar. May 24]</li> <li>We are current developing, with consultation of ELT, an action plan for the reestablishment of on effective Procurement function to support the delivery of our Social Procurement Framework [Dec, 23]</li> <li>Development of a Register of Legal Opinions based on available historic opinions received [Jun. 24]</li> <li>Delegations Register to be reviewed [2024/2025]</li> </ul> |

**7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)**

| 7.2 People and Capability [E. Hatch]  |   |  |   |
|---|---|--|---|
| 8.06 – Develop and implement leadership, learning and development programme | <ul style="list-style-type: none"> <li>• Complete Leadership, Learning &amp; Development programme in place.</li> <li>• Annual Performance Development programme in place.</li> </ul> | <ul style="list-style-type: none"> <li>• Our approach to My Performance has shifted slightly. We are now working towards a full, revised My Performance cycle commencing in August/September to align with the new Business Plan. My Performance 2.0 is being revised to take on feedback from staff, have goals more closely related to Business Plan priorities and a portion for leadership competency. The project team will engage with People Leaders on the revised process.</li> <li>• Taituara Australasian Management Challenge 2024 team has spent the last couple of months working hard to prepare for the challenge which is scheduled for 1 May 2024.</li> <li>• Growing Greatness and Leading our People programmes are both progressing well with excellent feedback so far. Growing Greatness concludes in June with Leading our People ending in August.</li> </ul> | <ul style="list-style-type: none"> <li>• A Learning &amp; Development Framework is in development to ensure all training and development of staff aligns to strategic outcomes. This is anticipated to be completed by Q4 FY2024. The P&amp;C team are continuing to work on key projects including the HRIS project, policy reviews, and a review of all internal people processes.</li> <li>• The focus with People Leaders for the next six months will be on developing and implementing action plans in response to the Staff Engagement Survey results in order to increase retention, and reviewing resourcing requirements across each activity to ensure fit for purpose.</li> </ul> |



7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 08. Political changes impact council direction and delivery   |  |   |  |
|--|--|---|--|
| <p><b>Risk definition</b></p> <p><b>There is a risk that changes in political direction from local or central government can occur to a scale or speed which has a significant impact on the ability of the Council to deliver upon it stated goals for the community.</b></p> <p>This risk exists generally due to the three-year political cycle impacting the environment in which Council operates. The potential risk is currently higher however, as of 2020, as there is currently substantial potential change in the local government space being led by Central Government. This includes:</p> <ul style="list-style-type: none"> <li>• Three Waters Reform</li> <li>• Local Government Reform; and</li> <li>• RMA Reform</li> </ul> | <p><b>Potential Risk Impacts</b></p> <ul style="list-style-type: none"> <li>○ Unanticipated losses of over \$5m.</li> <li>○ Prolonged public dissatisfaction with policies or actions of Council.</li> </ul> |   |  |
|  | <p><b>Inherent Risk</b></p>  | <p><b>Extreme</b> ←</p>   |  |
|  | <p><b>Residual Risk</b></p>  | <p><b>High</b> ←</p>  |  |
|  | <p><b>Target Risk</b></p>  | <p><b>Medium</b> ←</p>  |  |
|  | <p><b>Risk Reduction General Approach</b></p>  | <p>WDC is staying well connected into the sector, ensuring we have the internal systems and capability to respond as best as possible and planning to be fit for purpose. By doing so Council reduces risk by staying connected, informed, or ready to adapt.</p> |  |

| Control and Treatments by Focus Areas:  |   |  |  |
|---|---|--|--|
|   | Existing Controls / Treatments Delivered  | New Controls / Treatments Delivered  | Future Controls / Treatments Planned   |
| <b>8.1 Local Governance [E. Hatch]</b>  |   |  |  |
| <p>1.05 - Governance arrangements and induction for new triennium (includes ongoing programme of ensuring governance awareness and understanding of legislation and policy and other business impacts).</p> | <ul style="list-style-type: none"> <li>• All committees and council meetings have occurred as advertised. Regular workshops are held with Council to discuss matters, receive briefings and provide guidance to staff.</li> <li>• Council has successfully run hybrid council and committee meetings since May 2022 that allows people to attend meetings either on-line or in-person. This new way of working has evolved into a standard meeting practice that has proved a hugely successful way to keep people safe (as we experience a surge of COVID-19 and other winter illnesses) and maintain business continuity and decision making.</li> <li>• Ongoing programme of governance awareness and understanding of legislation and policy and other business impacts is underway. This included 2 x Council business away days and a workshop programme that is underway.</li> </ul> | <ul style="list-style-type: none"> <li>• Training with Meeting and Governance Solutions Limited (Steve McDowell and Vern Walsh) has been scheduled (4 December 2023) to assist Elected Members in leading and participating in effective meetings. This is to create confidence within our Councillors as we focus on the Live Streaming of Council meetings (Project underway).</li> <li>• As part of the review into workshop practices conducted by the Chief Ombudsman Elected Members were briefed on the changes Council needs to make expected to see in this space.</li> </ul> | <ul style="list-style-type: none"> <li>• Ongoing programme of governance awareness will continue.</li> <li>• Combined Community Board meetings are in place, providing our four community boards to collaborate, network, and receive relevant training/inductions (such as media training, LTP workshops, and strategic plan development) to enable a proactive approach to their involvement in their respective wards.</li> <li>• We are reviewing and planning to deliver further Stellar training sessions to our Elected Members over the new financial year 2023/24.</li> <li>• Community Board Strategic Planning workshops in place for 2024/25 to support the development of board strategic focuses and aspirations for their communities</li> <li>• Elected Member mid triennium survey to gain feedback on what's working well, and where training / support is needed to enable members to be effective in their roles as Elected Members</li> </ul> |



**7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)**

| 8.2 Strategy and Policy [S. Perdia]                  |  |  |  |
|--|--|--|--|
| 2.04 - Navigating reforms - local government futures | <ul style="list-style-type: none"> <li>• Project Manager appointed for the 3 Reforms oversight. [Sept 21]</li> <li>• Internal Reforms Steering Group meets monthly. [Nov. 21]</li> <li>• Reporting framework for ELT, Council and public. [Feb 22]</li> <li>• Submission processes met FFLG [Feb 23]</li> <li>• New government elected, this work stream has been dissolved until further direction issued from central government [Feb 24]</li> </ul> |  |  |

**7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)**

| 8.3 Resource Management Policy [D. Bewley]   |   |   |   |
|--|---|---|---|
| 2.13 - Navigating reforms – Resource Management Act                                  | <ul style="list-style-type: none"> <li>Natural and Built Environment Act and Spatial Planning Act repealed in December 2023.</li> <li>Monitoring changes to Government policy around amendments and review of RMA.</li> <li>Submit on relevant proposals – e.g. Fast Track Approvals Bill</li> </ul>  |   | <ul style="list-style-type: none"> <li>Impact of RMA Reform on staff to be assessed.</li> </ul>   |
| 8.4 Three Waters [B. Gray]   |   |   |   |
| 4.01 - Navigating reforms - three waters<br>4.01 - Navigating reforms - three waters | <ul style="list-style-type: none"> <li>Effective participation in Entity B Leadership Transition Team on a weekly basis. Participation in appropriate reference groups and workstreams.</li> <li>We have an established internal steering group and a dedicated Programme Manager overseeing this work.</li> <li>The Steering Group has a work programme schedule, and all milestones are being met across the 3Reforms. There is also an Executive, Council and website based public reporting and updates system in place.</li> <li>A collaboration agreement between WDC and TCC was developed to utilise shared resources in programme management, change management, and communications. This will be transition focussed only, and will report to a Programme Steering Group made up of WDC executives.</li> <li>Government has signalled a new direction change for three waters. Ownership will remain with Councils and we will be required to include three waters into our LTP's and Infrastructure Strategies. Planning for this is well underway as it was an expected scenario that was modelled anyway.</li> </ul> | <ul style="list-style-type: none"> <li>Water Services Acts Repeal Act 2024 enacted [Feb. 24]</li> <li>Continued engagement at a staff and Elected Member level with neighbouring Councils in considering a regional approach to managing three waters.</li> </ul> | <ul style="list-style-type: none"> <li>Local Waters Done Well Bill expected to be tabled - legislation change proposal [Jun / Jul 24]</li> <li>Local Waters Done Well Legislation long term plan expected to be enacted [Dec.24]</li> <li>Will continue to engage with neighbouring councils and investigate options for regional delivery models.</li> </ul> |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 09. Natural disaster management and mitigation including climate change   |                                 |   |  |
|--|---------------------------------|---|--|
| <p><b>Risk definition</b></p> <p>There is a risk that natural disasters, as one off or recurring events, along with ongoing continuous change in our natural environment, including but not limited to impacts of climate change, can have significant impact on Council business continuity, community infrastructure, and social and economic impacts.</p> <p>The risk exists due to the nature of change in the natural environment but is increased due to scale and speed of change noted at present.</p> <p>The Whakatāne District is particularly exposed to this risk due to its geography. It has a history of significant natural disasters including landslides, debris flows, volcanic eruptions, earthquakes, flooding, and coastal storms.</p> | Potential Risk Impacts          | <ul style="list-style-type: none"> <li>○ Significant assets are destroyed or rendered useless for several months.</li> <li>○ Key services are not available to the community for several weeks.</li> <li>○ Long term severe health impact to a significant number of people.</li> </ul>   |  |
|  | Inherent Risk                   | Extreme ←   |  |
|  | Residual Risk                   | High ←  |  |
|  | Target Risk                     | High ←  |  |
|  | Risk Reduction General Approach | Risk reduction is based on the 4R's of Emergency Management – Reduction, Readiness, Response and Recovery. This recognises that we can reduce the risk of impacts from natural hazard events (and climate change) through adaptation of our land use, informed land use planning into the future, and preparedness for events through building community resilience and coordination of emergency and other agencies. |  |

| Control and Treatments by Focus Areas:  |   |   |   |
|---|---|---|---|
|   | Existing Controls / Treatments Delivered  | New Controls / Treatments Delivered   | Future Controls / Treatments Planned  |
| <b>9.1 Strategy and Policy [S. Perdia]</b>  |   |   |   |
| <p>2.06 - Develop climate change adaptation plan</p> <p>2.07 - Coordinate implementation of climate change strategy incl. energy management programme</p> | <ul style="list-style-type: none"> <li>• Climate Change Strategy review completed [December 2023]</li> <li>• Council approval of Climate Change Adaptation Project Plan</li> </ul>  | <ul style="list-style-type: none"> <li>• Climate Change Strategy document for consultation in parallel with the LTP [Feb 24]</li> </ul>           | <ul style="list-style-type: none"> <li>• Final Climate Change Strategy (mitigation &amp; adaption) adopted by Council [June 24]</li> </ul>  |
| <b>9.2 Resource Management Policy [D. Bewley]</b>   |   |   |   |
| <p>2.09 - Natural hazard risk investigations (EQ, tsunami, landslide, coastal hazards)</p>  | <ul style="list-style-type: none"> <li>• Monitoring Government policy response to previous legislative changes – e.g. Climate Adaptation Bill (unlikely to proceed), Proposed CDEM legislation not proceeding in current form.</li> <li>• Monitoring outcomes of reviews from Cyclone Gabrielle response – will lead to changes in CDEM policy responses</li> <li>• Monitoring progress and participating in BOPRC led response to coastal hazards and tsunami investigations.</li> <li>• CDEM Group Plan review completed [February 2024].</li> <li>• Climate Change Adaptation project commenced March 2024.</li> </ul> | <ul style="list-style-type: none"> <li>• Evacuation Plans for Tsunami and breach or overtopping of Whakatane River commencing May 2024</li> </ul> | <ul style="list-style-type: none"> <li>• Plan Changes to the District Plan, and other emergency management readiness activities [2024/2025]</li> <li>• Further evidence-based investigation of local hazards risks is underway, including liquefaction, tsunami, coastal inundation and landslide risk, and in relation to EQPB. Investigations to be completed during 2024 and 2025 financial years</li> </ul> |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| 9.3 Waste Management & Minimisation [B. Gray]   |  |   |  |
|---|--|---|--|
| <p>5.04 - Implement (new) waste management and minimisation plan (WMMP)</p> <p>5.08 - Implement local organic waste processing plant - 3-year project</p> <p>5.10 - Implement resource recovery park model at Murupara refuse transfer station</p> <p>5.11 - Implement construction and demolition waste diversion project in collaboration with crew – dependant on funding (pending)</p> <p>5.12 - Work with whānau, hapū and iwi on waste minimisation initiatives</p> <p>5.13 - Consultation and implementation of regulatory changes – waste minimisation act, NZ waste strategy, litter act</p> | <ul style="list-style-type: none"> <li>• MFE approved waste diversion project with Crew, implementation started in May.</li> <li>• Legislated reporting through to MFE started, WDC were already well positioned with data and reporting requirements.</li> <li>• We have needed to review and revise the delivery plan outlined in this LTP due to some legislation changes coming from Central Government. It will no longer be appropriate to implement local organic waste processing plants ahead of food waste collection changes. We will defer this and incorporate into the implementation of that collection service.</li> <li>• Composting and worm farm scheme successfully run at the end of 2022.</li> <li>• Review of food waste collection started in collaboration with ODC and KDC, and will ultimately end in S17A review process.</li> <li>• Collection contract renewed [Oct.23]</li> </ul> | <ul style="list-style-type: none"> <li>• Planning for service delivery changes included into the LTP.</li> <li>• Consultation items being prepared for options for the LTP.</li> <li>• Collaboration options considered across the Eastern Bay of Plenty. Eunomia report prepared.</li> </ul> | <ul style="list-style-type: none"> <li>• Waiting to understand if there are any changes proposed from the new government. Waste Minister is not part of cabinet, so changes may take some time to come through.</li> <li>• Continued investigation into collaboration opportunities with neighbouring councils.</li> </ul> |
| 9.4 Civic Defence Emergency Management [D. Bewley]  |  |   |  |
| <p>6.08 - Manage programme for emergency management and EOC responsibilities</p> <p>6.09 - Support community readiness programmes</p>   | <ul style="list-style-type: none"> <li>• EOC rosters are maintained, and training needs are continually being assessed. Training is being provided along with EMBOP.</li> <li>• WDC is an active member of the Group at Joint Committee, CEG and Sub-Committee levels. Maintaining Annual Plan requirements across the Group.</li> <li>• Development of Community Response Plans are progressing and are on-going. T.</li> <li>• Better Off Funding to support resilience building [2024/25], including alternative EOC.</li> <li>• Maintain EOC functionality in Civic Centre [July 2023]</li> <li>• Participated in Exercises e.g. Shakeout [October 2023]</li> </ul>  | <ul style="list-style-type: none"> <li>• CDEM Group Assurance Framework being developed [Feb. 2024]</li> <li>• Additional resource in place (January 2024)</li> </ul>   | <ul style="list-style-type: none"> <li>• Linking Climate Change Adaptation work with Emergency Management Planning internally [July 2004]</li> </ul>   |

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 10. Lack of community support   |                                 |   |  |
|--|---------------------------------|---|--|
| <p><b>Risk definition</b></p> <p><b>There is a risk that there is an insufficient level of support from our communities that has a significant impact on the ability of the Council to deliver upon it stated service levels and goals for the community.</b></p> <p>This risk exists due to the diverse, distributed and complex nature of the communities in which deliver the services of Council, and the extent of implementation of change and improvement reflected in Council plans, along with the increasing demand on people’s time and ability to engage in local service unless it has a direct impact on them.</p> | Potential Risk Impacts          | <ul style="list-style-type: none"> <li>○ Prolonged public dissatisfaction with the policies or actions of Council.</li> </ul> |  |
|  | Inherent Risk                   | High ←  |  |
|  | Residual Risk                   | Medium ←  |  |
|  | Target Risk                     | Medium ←  |  |
|  | Risk Reduction General Approach | <p>Effective communication to, and consultation with, our communities will be critical to managing this risk.</p>             |  |

| Control and Treatments by Focus Areas:  |   |   |   |
|---|---|---|---|
|   | Existing Controls / Treatments Delivered  | New Controls / Treatments Delivered                 | Future Controls / Treatments Planned  |
| <b>10.1 Local Governance [E. Hatch]</b>   |   |   |   |
| <p>1.05 Governance arrangements and induction for new triennium (includes ongoing programme of training, support, and development for elected members).</p>             | <ul style="list-style-type: none"> <li>• Pre-Election Report Issued</li> <li>• Briefing for Incoming Council completed [Nov. 22]</li> <li>• Governance Solutions delivered Councillor Training [Nov. 22]:                             <ul style="list-style-type: none"> <li>○ LGS</li> <li>○ Wellbeing’s</li> <li>○ Being an elected Member</li> <li>○ Decision Tree and Meeting Know how</li> <li>○ Standing Orders</li> </ul> </li> <li>• Fortnightly Council workshops being utilised in addition to BAU as methodology to provide induction to new councillors on specific issues [Nov. 22 – Jun. 23]</li> </ul> |   | <ul style="list-style-type: none"> <li>• Fortnightly Council workshops will continue to be utilised, in addition to covering BAU, as methodology to provide induction to new councillors on specific issues, including particularly through Annual Plan 2023-34 and LTTP 2024-2034 [Jun. – Sept. 23]</li> <li>• Consideration to upskill additional (2) Elected Members with RMA certification via the Making Good Decisions Programme through Ministry of the Environment within the current triennium, both panel and chair certification. (Expected to occur in FY 2024/25)</li> </ul> |
| <b>10.2 Communications &amp; Engagement [E. Hatch]</b>  |   |   |   |
| <p>1.11 - Manage media relationship and deliver external communications</p> <p>1.12 - Support internal communications</p> <p>1.13 - Manage digital and social media</p> | <p>Long Term Plan consultation</p> <p>Climate Change consultation</p> <p>Development Contribution Policy</p> <p>Water monitoring – recreational water results Dog control media queriers</p> <p>Plan Change 8</p> <p>Three Waters BAU communication – watermain renewals</p> <p>Murupara water</p> <p>Braemar Water Treatment Plant opening</p>   | <ul style="list-style-type: none"> <li>•</li> </ul> | <ul style="list-style-type: none"> <li>• Te Kōputu &amp; Te Whare Taonga rebrand underway.</li> </ul>   |

**7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)**

|   |   |  |  |
|---|---|--|--|
| <p>1.14 - Provide corporate design and publications support</p> | <p>Wharfside and Mitchell Park<br/>                 Matatā Wastewater<br/>                 Edgecumbe to Thornton Cycleway<br/>                 Ferry Road wastewater pumpstation<br/>                 Project Future Proof<br/>                 District Plan ePlan<br/>                 Cruise ship communication<br/>                 NZ Best Beach award communication<br/>                 Backflow devices<br/>                 LTP translations (and all the docs that go with it)<br/>                 LTP lwi engagement assistance<br/>                 LTP social media<br/>                 Climate Change reo<br/>                 District Plan translations<br/>                 Reorua online info<br/>                 Reorua funding process assistance<br/>                 Ko Konei (Jan/Feb/March)<br/>                 Murupara CB Newsletter<br/>                 Rangitāiki CB Newsletter<br/>                 River access translations<br/>                 Taituarā award application video<br/>                 Taituarā award application reo<br/>                 Te Kōputu programme reo<br/>                 Mimiha Bridge LWFF design collateral<br/>                 Tourism events collateral<br/>                 Most beautiful town collateral<br/>                 Tourism brochures<br/>                 Taituarā award application document designs ( Hybrid working and Te Toi Waka Whakarei entry)<br/>                 Holiday park rebranding and branding guide<br/>                 School holiday programme collateral<br/>                 Exhibitions: Moemoea by Nigel Borell, MMCA, FOOTNOTE<br/>                 Public holiday signage and collateral<br/>                 Live streaming collateral<br/>                 Community funding campaign<br/>                 NZ recycling standardisation campaign<br/>                 Youth council Campaign<br/>                 Annual Report 2022/23 summary<br/>                 Civil defence collateral<br/>                 Matatā Community Plan graphics</p> |  |  |
| <p>10.3 Community Development [E. Hatch]</p>                    |   |  |  |

**7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)**

|   |   |   |  |
|---|---|---|--|
| <p>1.17 - Support development and implementation of community plans</p> | <ul style="list-style-type: none"> <li>• Community planning activities have been taking place in Edgcumbe, Murupara and Awatapu / Otamakaokao.</li> <li>• The Edgcumbe Community Plan and Awatapu Community Plan have been finalised and have now moved into delivery phase.</li> <li>• Planning and engagement for the Murupara Community Plan is well underway, with community consultation having taken place.</li> <li>• Discussions are taking place on the potential for community plans for other communities within the District. Support for these will be dependent on available resourcing.</li> </ul> | <ul style="list-style-type: none"> <li>• A first draft of the Matata Community Plan is being completed.</li> <li>• Coastlands and Taneatua communities are exploring the possibility of creating community plans.</li> <li>• The Community Funding Coordinator will assist communities with completed plans to try access external funding / funding partners.</li> </ul> | <ul style="list-style-type: none"> <li>• The Community Partnerships Team will continue to support planning processes in each of these communities as required.</li> <li>• This includes community-led hui, workshops, events and engagement activities linked to these community planning processes.</li> <li>• Communities undertaking community plans have submitted to the LTP for projects and initiatives linked to their plans.</li> </ul> |
|---|---|---|--|

7.3.3 Appendix 3 - Figure 3 - Risk Register incorporating Management Action Status(Cont.)

| RISK 11. Major economic/ financial or social shock  |                                 |   |  |
|---|---------------------------------|---|--|
| <p><b>Risk definition</b></p> <p><b>There is a risk of unpredictable shifts in the global or domestic economies that would significantly impact on the ability of the Council to deliver upon it stated service levels and goals for the community.</b></p> <p>The risk exists and is ongoing due to the nature of market shifts and cycles, however, is higher at present due to increased volatility and speed of change within inflation / interest rate, labour cost and supply chain economics. The change is exacerbated by political drivers especially the Russian/Ukraine war.</p> | Potential Risk Impacts          | <ul style="list-style-type: none"> <li>○ Unanticipated costs of more than \$5m.</li> <li>○ Overspend of Annual Plan OPEX by 5%.</li> </ul>  |  |
|   | Inherent Risk                   | <b>Extreme</b> ↖  |  |
|   | Residual Risk                   | <b>High</b> ↖   |  |
|   | Target Risk                     | <b>Medium</b> ←   |  |
|   | Risk Reduction General Approach | <p>Maintenance of a strong financial reporting and planning framework to ensure the delivery of regular, business context informed, transparent insight to Council's financial performance to support effective executive management and decision making by Elected Members.</p> <p>WDC also reduces risk in this area by being relatively well positioned with lower debt levels compared to many councils giving us debt financing as a method to manage some shocks, though itself needs an effective treasury planning to itself be effective as a risk mitigation.</p> |  |

| Control and Treatments by Focus Areas:   |   |   |   |
|--|---|---|---|
|  | Existing Controls / Treatments Delivered  | New Controls / Treatments Delivered   | Future Controls / Treatments Planned  |
| <b>11.1 Finance (G Connolly)</b>   |   |   |   |
| <p>8.13 - Review treasury policy</p> <p>8.14 – Review financial management reporting</p> <p>8.15 - Review/develop financial strategy and policies (DCP and FCS) to fund infrastructure for growth</p> <p><b>Additional focus areas:</b></p> <p>Effective Accounts Receivable Management Practices impacting on collections and Councils Bad Debt</p> | <ul style="list-style-type: none"> <li>• Reporting framework redeveloped based on modified FIS to ensure it is effective for provide clear performance measurement, transparent insights on a quarterly basis to guide decision making across executive and council to demonstrate clear control of the risk [Dec. 22]</li> <li>• Projects reforecast methodology implemented as a temporary placeholder to improve 2023-34 and ahead of systemic EMPO improvement for 2024-25; improving phasing identification and borrowing requirements. With 24-25 reforecast presented including basis of methodology to Finance and Performance Committee. [Dec. 23]</li> <li>• Sensitivities on interest rate shifts - Finance team developed a quick sensitivities model that enables faster assessment of LCI (wage) / PPI (operating cost) / OCR (interest cost) sensitivity within the forecast framework and included in report to Risk and Assurance [Oct. 23]</li> <li>• Fraud Policy reviewed and adopted [Nov.23]</li> </ul> | <ul style="list-style-type: none"> <li>• Completed invoicing of all share of Joint Venture losses to Ministry of Transport [Dec.23]</li> <li>• Risk and Assurance Committee reviewed and presented to committee for adoption [Mar.23]</li> <li>• Treasury Policy covering Investment Policy and Liability Management Policy developed to presented to committee for adoption [Mar.24]</li> <li>• Q2 2024-25 Forecast completed demonstrating limited risk in achievement of financial outcomes for 24-25 year, and advantage of identifying \$32m in key project phasing into 2024-25 [Feb.24]</li> </ul> | <ul style="list-style-type: none"> <li>• Proposed we investigate LGFA credit rating in increase availability and optionality around borrowings capacity for the LTP2034 period [Mar. 24]</li> <li>• Financial Strategy being developed within LTP2034 [Jun.24]</li> <li>• Revenue and Financing Policy being redrafted as part of legislative requirement for LTP2034 incorporate desktop review finding for LG consultant and good practice identified in Taituara Guides and aligned with other councils including Funding Needs Analysis [Jun. 24]</li> <li>• Sensitive Expenditure Policy developed to presented to committee / council for adoption [Mar.24]</li> <li>• Commenced scoping for Account Receivable sundry debtor reporting, tracking, insights and management tool to ensure more effective and proactive management and response to debtor issues. [Aug.24]</li> <li>• Develop accounts receivable debt management policy [Aug.24]</li> </ul> |



**7.3.4 Appendix 4 - Council Consequence of Risk**

**7.3.4 Appendix 4 - Council Consequence of Risk**

7.3.4 Appendix 4 - Council Consequence of Risk(Cont.)

APPENDIX 4: Council Consequence of Risk

| Scale                | Score    | Financial  | Health and safety  | Legislative and regulatory   | Operational and service delivery  | Image and reputation  |
|----------------------|----------|--|--|--|---|---|
| <b>Catastrophic</b>  | <b>5</b> | A Capex overspend of >15% or an Opex overspend of >5% of the annual plan.<br>Rates increase of >2pp above the limit on rate increase from the financial strategy in the LTP/Annual plan.<br>Unanticipated costs or losses of over \$5 Million. | An incident resulting in multiple fatalities.<br>Long term severe health impact on significant numbers of people.    | Breaches result in severe penalties for Officers of the Council.<br>Compliance failures result in severe restrictions placed upon all areas of the core Council business.                | Key services not available to a large proportion of the community for one week or more. Severe service degradation for one month or more.<br>Failure to achieve multiple community outcomes. Deterioration in majority of KPI >30%<br>The majority of the critical assets are destroyed or rendered unusable for several months                                       | National adverse political or media comment for more than one week. Requirement for (televised) public apology or defence<br>A consistent and long term public outcry against policies or actions of the Council<br>A long term irreconcilable loss of confidence in the Council's capabilities and standing    |
| <b>Major</b>         | <b>4</b> | A Capex overspend of >10% or an Opex overspend of >3% of the annual plan.<br>Rates increase above the limit on rate increase from the financial strategy in the LTP/Annual plan.<br>Unanticipated costs or losses of \$1M ~ \$5M.              | An incident resulting in a single fatality.<br>Long term severe health effects on multiple people.                   | Breaches result in legal action being taken against officers of the Council.<br>Compliance failures result in substantial restrictions placed on several areas of core Council business. | Key service not available to a significant portion of the community for two days or more. Continued severe service degradation for one week or more.<br>Failure to achieve a specific community outcome. Deterioration in multiple KPI of 15 ~ 30%.<br>Majority of critical assets are destroyed or rendered unusable for several weeks.                              | National adverse political or media comment for more than two days. Regional adverse political or media comment for more than one week<br>Prolonged public disaffection with the policies or actions of the Council<br>Loss of confidence in the Council's capabilities and standing lasting for several months |
| <b>Moderate</b>      | <b>3</b> | A Capex overspend of >5% or an Opex overspend of >1% of the annual plan.<br>Rates increase close to the limit on rate increase from the financial strategy in the LTP/Annual plan.<br>Unanticipated costs or losses of \$500K ~ \$1M.          | A severe injury or multiple casualties requiring hospitalisation.<br>Long term health effects on one or more people. | Breaches require significant attention or corrective actions<br>Compliance failures result in restrictions placed upon limited areas of core Council business                            | Key service not available to some of the community for ten hours or more. Continued service degradation for two days or more.<br>Significant difficulty introduced to achievement of community outcomes. Deterioration in some KPI of 5 ~ 15%.<br>A range of assets, some critical, are destroyed or rendered unusable for a week.                                    | Regional adverse political or media comment for more than two days<br>Public disaffection with the Council's policies or actions lasting from days to weeks<br>Loss of confidence in the organisation's capabilities lasting for several weeks  |
| <b>Minor</b>         | <b>2</b> | A Capex overspend of >2% or an Opex overspend of >0.5% of the annual plan.<br>Rates increase considerably above the forecast from the financial strategy in the LTP/Annual plan.<br>Unanticipated costs or losses of \$50K ~ \$500K            | Injuries requiring medical attention.<br>Short term negative health effects.   | Breaches require attention or corrective action<br>Compliance failures result in minor restrictions placed upon core Council business  | Reduced service delivery that does not compromise the community's health and wellbeing. Service degradation at times during a week.<br>Inconvenience or delay in achieving community outcomes. Deterioration in top key performance indicators of 1 ~ 5%.<br>A number of assets are destroyed or rendered unusable, but can be replaced within acceptable timeframes. | Regional adverse political or media comment for one or two days<br>Public disaffection with the Council's policies or actions is limited to a few days<br>Short term loss in confidence regarding the Council's capabilities and or standing lasting for several days   |
| <b>Insignificant</b> | <b>1</b> | An Opex or Capex overspend of the annual plan.<br>Rates increase slightly above the forecast from the financial strategy in the LTP /Annual plan.<br>Unanticipated costs or losses of \$10K ~ \$50K  | Incident requiring simple first aid only.<br>Momentary or limited health impact.                                     | Breaches are insignificant in nature with no disruption to performance of duties<br>Compliance failures result in negligible restrictions placed upon core Council business              | Short-term reduction in service delivery which is easily restored and does not compromise the community's health and wellbeing.<br>There are minimal effects on the achievement of community outcomes.<br>Assets receive little or minimal damage, or are only temporarily unavailable for use.   | Short-term 'letters to the editor' (or online equivalent) commentary<br>There is limited public disaffection with the policies and actions of the Council<br>Public confidence in the council remains largely unaffected  |

### 7.3.5 Appendix 5 – Council Likelihood of Risk

### 7.3.5 Appendix 5 – Council Likelihood of Risk

**Council Likelihood of Risk**

| Likelihood     | Score | Descriptor   |
|----------------|-------|--|
| Almost certain | 5     | <ul style="list-style-type: none"><li>• &gt;90% chance of occurring in next 12 months.</li><li>• It is expected to occur in 9 of the next 10 years.</li></ul>        |
| Likely         | 4     | <ul style="list-style-type: none"><li>• 70% - 90% chance of occurring in next 12 months.</li><li>• It is expected to occur in 7 of the next 10 years.</li></ul>      |
| Possible       | 3     | <ul style="list-style-type: none"><li>• 30% - 70% chance of occurring in next 12 months.</li><li>• It is expected to occur in 3 of the next 10 years.</li></ul>      |
| Unlikely       | 2     | <ul style="list-style-type: none"><li>• 5% - 30% chance of occurring in next 12 months.</li><li>• It is expected to occur once in the next 10 years.</li></ul>       |
| Rare           | 1     | <ul style="list-style-type: none"><li>• &lt;5% chance of occurring in next 12 months.</li><li>• It is expected to occur once in the next 30 years or more.</li></ul> |

### 7.3.6 Appendix 6 – Long Term Plan Sensitivity Analysis

7.3.6 Appendix 6 – Long Term Plan Sensitivity Analysis(Cont.)

APPENDIX 6 : LONG TERM PLAN 2034 SENSITIVITY ANALYSIS

| Nature                                     | type        | measure | 2025   |         |        |                     | 3 years (avg pa) |         |        |           | 10 years (avg pa) |                     |        |           |  |  |  |
|--|-------------|---------|--------|---------|--------|---------------------|------------------|---------|--------|-----------|-------------------|---------------------|--------|-----------|--|--|--|
|  |             |         | likely | conseq. | impact | impact \$           | likely           | conseq. | impact | impact \$ | likely            | conseq.             | impact | impact \$ |  |  |  |
| <b>Upside</b>                              |             |         |        |         |        |                     |                  |         |        |           |                   |                     |        |           |  |  |  |
| 01 Rates - growth                          | compound    | + 0.2%  | 1      | 2       | 2      | +\$145k             | 3                | 2       | 6      | +\$312k   | 3                 | 3                   | 9      | +\$1.1m   |  |  |  |
| 02 Rates - collection                      | linear      | + 0.5%  | 1      | 2       | 2      | +\$360k             | 3                | 2       | 2      | +\$403k   | 3                 | 2                   | 2      | +\$513k   |  |  |  |
| 03 Subsidies and grants opex - Waka Kotahi | linear      | + 5.0%  | 1      | 2       | 2      | +\$305k             | 1                | 2       | 2      | +\$310k   | 1                 | 2                   | 2      | +\$335k   |  |  |  |
| 04 Fees and charges - inflation            | compound    | + 1.0%  | 1      | 1       | 1      | +\$95k              | 2                | 1       | 2      | +\$198k   | 2                 | 3                   | 6      | +\$617k   |  |  |  |
| 05 Personnel - wage settlements            | compound    | + 1.0%  | 2      | 2       | 4      | +\$295k             | 2                | 3       | 6      | +\$617k   | 2                 | 4                   | 8      | +\$2.0m   |  |  |  |
| 06 Personnel - vacancy factor              | linear      | + 1.0%  | 3      | 2       | 6      | +\$295k             | 4                | 2       | 8      | +\$312k   | 4                 | 2                   | 8      | +\$341k   |  |  |  |
| 07 Operating costs - inflation             | compound    | + 1.0%  | 1      | 3       | 3      | +\$515k             | 2                | 4       | 8      | +\$1.0m   | 2                 | 4                   | 8      | +\$2.7m   |  |  |  |
| 08 Insurance - inflation                   | compound    | + 5.0%  | 3      | 2       | 6      | +\$110k             | 2                | 2       | 4      | +\$227k   | 2                 | 3                   | 6      | +\$558k   |  |  |  |
| 09 Finance costs - interest rate           | linear      | + 0.5%  | 2      | 3       | 6      | +\$910k             | 2                | 3       | 6      | +\$1.1m   | 2                 | 3                   | 6      | +\$1.4m   |  |  |  |
| 10 Gains (losses) in CCOs                  | linear      | + 10.0% | 4      | 1       | 4      | +\$30k              | 4                | 1       | 4      | +\$38k    | 4                 | 1                   | 4      | +\$50k    |  |  |  |
| 11 Capital expenditure - inflation *       | compound pa | + 1.0%  | 2      | 1       | 2      | +\$25k              | 2                | 1       | 2      | +\$58k    | 2                 | 1                   | 2      | +\$163k   |  |  |  |
| 12 Capital expenditure doability *         | linear      | - 5.0%  | 3      | 2       | 6      | +\$130k             | 3                | 2       | 6      | +\$145k   | 3                 | 1                   | 3      | +\$155k   |  |  |  |
| 13 Subsidies and grants capex (excl RMH) * | compound pa | + 2.0%  | 2      | 1       | 2      | +\$10k              | 2                | 1       | 2      | +\$23k    | 2                 | 1                   | 2      | +\$83k    |  |  |  |
| 14 Developer contributions *               | compound pa | -       | -      | -       | -      | -                   | -                | -       | -      | -         | -                 | -                   | -      | -         |  |  |  |
| <b>+\$1 - 2m</b>                           |             |         |        |         |        | <b>+\$2 - 3m pa</b> |                  |         |        |           |                   | <b>+\$2 - 6m pa</b> |        |           |  |  |  |
| <b>Downside</b>                            |             |         |        |         |        |                     |                  |         |        |           |                   |                     |        |           |  |  |  |
| 01 Rates - growth                          | compound    | - 0.2%  | 2      | 2       | 4      | -\$145k             | 3                | 2       | 6      | -\$310k   | 3                 | 3                   | 9      | -\$1.0m   |  |  |  |
| 02 Rates - collection                      | linear      | - 0.5%  | 3      | 2       | 6      | -\$360k             | 3                | 2       | 6      | -\$403k   | 3                 | 2                   | 6      | -\$513k   |  |  |  |
| 03 Subsidies and grants opex - Waka Kotahi | linear      | - 5.0%  | 1      | 2       | 2      | -\$305k             | 2                | 2       | 4      | -\$310k   | 3                 | 2                   | 6      | -\$335k   |  |  |  |
| 04 Fees and charges - inflation            | compound    | - 1.0%  | 1      | 1       | 1      | -\$95k              | 2                | 1       | 2      | -\$195k   | 2                 | 3                   | 6      | -\$518k   |  |  |  |
| 05 Personnel - wage settlements            | compound    | - 1.0%  | 2      | 2       | 4      | -\$295k             | 3                | 3       | 9      | -\$607k   | 3                 | 4                   | 12     | -\$1.7m   |  |  |  |
| 06 Personnel - vacancy factor              | linear      | - 1.0%  | 1      | 2       | 2      | -\$295k             | 2                | 2       | 4      | -\$312k   | 4                 | 2                   | 8      | -\$341k   |  |  |  |
| 07 Operating costs - inflation             | compound    | - 1.0%  | 2      | 3       | 6      | -\$515k             | 3                | 4       | 12     | -\$1.0m   | 3                 | 4                   | 12     | -\$3.2m   |  |  |  |
| 08 Insurance - inflation                   | compound    | - 5.0%  | 2      | 2       | 4      | -\$110k             | 2                | 2       | 4      | -\$245k   | 2                 | 3                   | 6      | -\$1.2m   |  |  |  |
| 09 Finance costs - interest rate           | linear      | - 0.5%  | 2      | 3       | 6      | -\$910k             | 2                | 3       | 6      | -\$1.1m   | 2                 | 3                   | 6      | -\$1.4m   |  |  |  |
| 10 Gains (losses) in CCOs                  | linear      | - 10.0% | 4      | 1       | 4      | -\$30k              | 4                | 1       | 4      | -\$38k    | 4                 | 1                   | 4      | -\$50k    |  |  |  |
| 11 Capital expenditure - inflation *       | compound pa | - 1.0%  | 2      | 1       | 2      | -\$25k              | 2                | 1       | 2      | -\$58k    | 2                 | 1                   | 2      | -\$163k   |  |  |  |
| 12 Capital expenditure doability *         | linear      | -       | -      | -       | -      | -                   | -                | -       | -      | -         | -                 | -                   | -      | -         |  |  |  |
| 13 Subsidies and grants capex (excl RMH) * | compound pa | - 2.0%  | 2      | 1       | 2      | -\$10k              | 2                | 1       | 2      | -\$23k    | 2                 | 1                   | 2      | -\$83k    |  |  |  |
| 14 Developer contributions *               | compound pa | - 5.0%  | 3      | 1       | 3      | -\$5k               | 3                | 1       | 3      | -\$7k     | 3                 | 1                   | 3      | -\$22k    |  |  |  |
| <b>-\$1 - 2m</b>                           |             |         |        |         |        | <b>-\$2 - 4m pa</b> |                  |         |        |           |                   | <b>-\$2 - 7m pa</b> |        |           |  |  |  |

## 7.4 Treasury Management Reporting as at 31 March 2024

### 7.4 Treasury Management Reporting as at 31 March 2024

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To: **Risk and Assurance Committee**

Date: **Friday, 17 May 2024**

Author: **J Caverhill / Manager External Reporting**

Authoriser: **G Connolly / Chief Financial Officer & GM Business Partnering**

**A2665713**

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#### 1. Reason for the report - *Te Take mō tēnei rīpoata*

The purpose of this report is to inform the Risk and Assurance Committee of Treasury Management position as at 31 March 2024.

#### 2. Recommendation - *Tohutohu akiaki*

**THAT** the Treasury Management report as at 31 March 2024 be received.

#### 3. Subject - Kaupapa

##### 3.1. Treasury Management Summary

The balance of the Interchangeable Facility Agreement (IFA) and LGFA funding issued on 31 March 2024 is \$153.5 million (\$143.5 million 31 December 2023). The council borrowed \$10 million from LGFA during the March quarter. This was used for council's ongoing capital funding requirements.

- Council has \$10m of LGFA loans due to be repaid in April 2024. Funds to repay this debt are currently being held on Term Deposit.
- Council has \$16m of LGFA loans due to expire in April 2025. Council will prefund this debt by borrowing at the May 2024 LGFA tender. The funds will then be placed on term deposit until required.

The summary below provides the overview of key Treasury Management insights as of 31 March 2024.

Attached to this report Appendix 1 lists loan facilities, loan drawdowns and the current interest rate swap portfolio.

**7.4 Treasury Management Reporting as at 31 March 2024(Cont.)**

**Summary Highlights of Treasury**

**1 January 2024 - 31 March 2024**

**Movement of loans at a glance**

|      |                              | January<br>(NZD \$M) | February<br>(NZD \$M) | March<br>(NZD \$M) | Total<br>(NZD \$M) |
|------|------------------------------|----------------------|-----------------------|--------------------|--------------------|
|      | Loans at beginning of period | 143.50               | 143.50                | 143.50             | 143.50             |
| plus | Loans drawn down             | 0.00                 | 0.00                  | 10.00              | 10.00              |
| less | Loans repaid                 | 0.00                 | 0.00                  | 0.00               | 0.00               |
|      | <b>Loans end period</b>      | <b>143.50</b>        | <b>143.50</b>         | <b>153.50</b>      | <b>153.50</b>      |

Net Loans for the Quarter

10.00

**Liquidity Ratio:**

**Mar-24**

|  |               |
|--|---------------|
| Net Drawn Loans (net of \$3.5m borrower notes) | \$150m        |
| Committed Facility                             | \$15m         |
| On-call account & Term Deposit                 | \$25m         |
| <b>Total Availabe Funds</b>                    | <b>\$190m</b> |
| Divided by Drawn Loans                         | \$150m        |
| <b>Liquidity Ratio - March 2024</b>            | <b>127%</b>   |

**Net Effective Borrowings:**

|   |               |
|---|---------------|
| Net Drawn Loans (\$153.5m loans less \$3.5m borrower notes) | \$150m        |
| Committed Facility  | \$ -          |
| On-call account   | (\$15 m)      |
| Term Deposit  | (\$10 m)      |
| <b>Net Effective Borrowings - March 2024</b>                | <b>\$125m</b> |

**7.4 Treasury Management Reporting as at 31 March 2024(Cont.)**

**Fixed v Floating Interest % Compliance - Corridor approach**

| Term             | Policy Limits | March Qtr |   |
|------------------|---------------|-----------|---|
| Current - 1 year | 40%-90%       | 51%       | ✓ |
| Year 2           | 40%-90%       | 55%       | ✓ |
| Year 3           | 35%-85%       | 52%       | ✓ |
| Year 4           | 30%-80%       | 46%       | ✓ |
| Year 5           | 25%-75%       | 36%       | ✓ |
| Year 6           | 20%-70%       | 30%       | ✓ |
| Year 7           | 0%-65%        | 19%       | ✓ |
| Year 8           | 0%-60%        | 8%        | ✓ |
| Year 9           | 0%-50%        | 4%        | ✓ |
| Year 10          | 0%-50%        | 4%        | ✓ |

**Liquidity Risk**

**Terms of Loan Compliance**

| Term              | Policy Limits | January | February | March |
|-------------------|---------------|---------|----------|-------|
| Overall Liquidity | >= 110%       | 111%    | 113%     | 127%  |
|                   |               | ✓       | ✓        | ✓     |
| 0-3 years         | 15%-60%       | 42%     | 42%      | 40%   |
|                   |               | ✓       | ✓        | ✓     |
| 3-7 years         | 25%-85%       | 58%     | 58%      | 60%   |
|                   |               | ✓       | ✓        | ✓     |
| 7 years plus      | 0%-60%        | 0%      | 0%       | 0%    |
|                   |               | ✓       | ✓        | ✓     |

**Counterparty credit limits**

| Counterparty | Investments exposure | Investment limit | MtM       | Derivatives exposure | Derivatives limit | Total exposure | Total limit  | Compliant? |
|--------------|----------------------|------------------|-----------|----------------------|-------------------|----------------|--------------|------------|
| ANZ          | \$15,000,000         | \$10,000,000     | \$541,323 | \$7,591,795          | \$10,000,000      | \$22,591,795   | \$20,000,000 | ✗          |
| BNZ          | \$10,000,000         | \$10,000,000     | \$490,769 | \$7,846,940          | \$10,000,000      | \$17,846,940   | \$20,000,000 | ✓          |

It should be noted that the ANZ investments exceeded the limits by \$5,000,000 during the month of March 2024. This was corrected to within the limits during April 2024.

**7.4 Treasury Management Reporting as at 31 March 2024(Cont.)**

**Debenture Trust Deed Compliance (Based on Actual Income Extrapolated)**

| Debenture conditions  |   | January   | February  | March     |
|---|---|-----------|-----------|-----------|
| Foundation Limit  | Council Limit   |           |           |           |
| Net debt as percentage of annual income <b>not to exceed 290%</b>                                       | Net debt as percentage of annual income <b>not to exceed 175%</b>                                       | 148%<br>✓ | 148%<br>✓ | 159%<br>✓ |
| Net interest expense of external borrowing <b>not to exceed 30%</b> of annual rates income (budget)     | Net interest expense of external borrowing <b>not to exceed 12%</b> of annual rates income (budget)     | 10%<br>✓  | 8%<br>✓   | 8%<br>✓   |
| Net interest expense of external borrowing <b>not to exceed 20%</b> of annual operating income (budget) | Net interest expense of external borrowing <b>not to exceed 15%</b> of annual operating income (budget) | 6.3%<br>✓ | 5.5%<br>✓ | 5.4%<br>✓ |

4. Background - *He tirohanga whakamuri*

**Mark to Market Value Interest Rate Swaps:**

As of 31 March 2024, the unrealised loss on Interest Rate Swaps mark to market value is \$1,155,975. The market value of swaps is obtained from banks monthly, and the gain/(loss) is reported in the monthly financial result. This is purely an indication of the current position. An independent valuation is obtained at year end, which is incorporated into the Annual Report and does impact the financial result.

Council's funding maturity profile is compliant. Depending on Council's capital programme (size and timing), and borrowing requirements going forward, the overall funding strategy will be to maintain policy compliance and mitigate refinancing risk.

**LGFA Credit Rating**

Council is progressing work on the credit rating in conjunction with PWC Treasury and an independent consultant. Request for proposals have been sent to the relevant credit agencies and further details are included in a separate report on this agenda.

5. Options analysis - *Ngā Kōwhiringa*

No options have been identified relating to the matters of this report.



#### **7.4.1 Appendix 1 - Loan and Swap Summary March 2024**

### 6. Significance and Engagement Assessment - *Aromatawai Pāhekoheko*

#### **6.1. Assessment of Significance**

The recommendations of this report are assessed to be of low significance in accordance with the Council's Significance and Engagement Policy.

#### **6.2. Engagement and community views**

Due to the low significance of the matters of this report, public participation is not required to inform decision-making, as set out in Section 6.1(a) of the Council's Significance and Engagement Policy.

### 7. Considerations - *Whai Whakaaro*

#### **7.1. Financial/budget considerations**

There are no budget considerations associated with the recommendations of this report.

Further debt forecast scenarios will be input as the LTP 2024-34 is formed to ascertain an adjusted interest strategy so that the council continues to remain compliant and responsive to the impacts of change.

#### **7.2. Strategic alignment**

This report serves to assure council that all loans are within policy limits and required debenture trust deed ratios.

#### **7.3. Climate change assessment**

The matters of this specific report do not have an impact on the District biodiversity and ecology.

Based on this assessment, the decisions and matters of this report are assessed to have low climate change implications and considerations, in accordance with the Council's Climate Change Principles.

#### **7.4. Risks**

The ratios in comparison to policy and debenture trust deed requirements demonstrate that the loan portfolio is low risk and is comfortably within all ratio requirements.

#### **Attached to this report:**

- Appendix 1 - Treasury Report Loan and Swap Summary as at 31 March 2024.

#### **7.4.1 Appendix 1 - Loan and Swap Summary March 2024**

Risk and Assurance Committee - AGENDA

7.4.1 Appendix 1 - Loan and Swap Summary March 2024(Cont.)

TREASURY REPORT

Loan and Swap Summary as at 31 March 2024

Schedule of Cash & Investments

| Account Suffix           | Description            | Rate  | 31-Mar-24 \$  | 29-Feb-24 \$  | 31-Jan-24     |
|--------------------------|------------------------|-------|---------------|---------------|---------------|
| 00/03                    | ANZ Current Account    | 0.00% | 380,043.26    | 784,691.06    | 424,160.02    |
| 023                      | ANZ Investment Account | 3.50% | 15,378,705.31 | 11,837,859.82 | 7,218,132.68  |
| Term Deposit             | BNZ                    | 6.20% | 10,000,000.00 | 10,000,000.00 | 10,000,000.00 |
| Total Cash & Investments |                        |       | 25,758,748.57 | 22,622,550.88 | 7,642,292.70  |

Loan Facilities

| Lender | Expiry Date | Facility Maximum | Loans Drawn Down | Facility Available | Interest Rate | Margin | Line Fee |
|--------|-------------|------------------|------------------|--------------------|---------------|--------|----------|
| ANZ    | 31/07/2025  | 15,000,000       | -                | 15,000,000         | Floating      | 1.00%  | 0.30%    |
| LGFA   | 15/04/2024  | 6,000,000        | 6,000,000        |                    | Floating      | 0.78%  |          |
| LGFA   | 15/04/2024  | 4,000,000        | 4,000,000        |                    | Floating      | 0.70%  |          |
| LGFA   | 15/04/2025  | 4,000,000        | 4,000,000        |                    | Floating      | 0.82%  |          |
| LGFA   | 15/04/2025  | 4,000,000        | 4,000,000        |                    | Floating      | 0.72%  |          |
| LGFA   | 15/04/2026  | 3,000,000        | 3,000,000        |                    | Floating      | 0.72%  |          |
| LGFA   | 15/04/2026  | 5,000,000        | 5,000,000        |                    | Floating      | 0.87%  |          |
| LGFA   | 15/04/2027  | 4,000,000        | 4,000,000        |                    | Floating      | 0.94%  |          |
| LGFA   | 15/04/2027  | 5,000,000        | 5,000,000        |                    | Floating      | 0.86%  |          |
| LGFA   | 15/04/2027  | 2,000,000        | 2,000,000        |                    | Fixed         | 0.40%  |          |
| LGFA   | 15/04/2028  | 5,000,000        | 5,000,000        |                    | Fixed         | 0.40%  |          |
| LGFA   | 20/04/2029  | 5,000,000        | 5,000,000        |                    | Floating      | 1.18%  |          |
| LGFA   | 20/04/2029  | 5,000,000        | 5,000,000        |                    | Floating      | 0.63%  |          |
| LGFA   | 15/04/2026  | 3,000,000        | 3,000,000        |                    | Floating      | 0.72%  |          |
| LGFA   | 15/04/2025  | 3,000,000        | 3,000,000        |                    | Floating      | 0.68%  |          |
| LGFA   | 15/04/2028  | 5,000,000        | 5,000,000        |                    | Fixed         | 0.40%  |          |
| LGFA   | 15/05/2028  | 5,000,000        | 5,000,000        |                    | Fixed         | 0.40%  |          |
| LGFA   | 15/04/2026  | 3,000,000        | 3,000,000        |                    | Floating      | 0.53%  |          |
| LGFA   | 15/04/2027  | 3,000,000        | 3,000,000        |                    | Floating      | 0.57%  |          |
| LGFA   | 20/04/2029  | 3,000,000        | 3,000,000        |                    | Floating      | 0.66%  |          |
| LGFA   | 15/04/2027  | 3,000,000        | 3,000,000        |                    | Floating      | 0.69%  |          |
| LGFA   | 20/04/2029  | 3,000,000        | 3,000,000        |                    | Floating      | 0.78%  |          |
| LGFA   | 15/04/2026  | 3,000,000        | 3,000,000        |                    | Floating      | 0.76%  |          |
| LGFA   | 15/04/2027  | 5,500,000        | 5,500,000        |                    | Floating      | 0.84%  |          |
| LGFA   | 15/04/2025  | 5,000,000        | 5,000,000        |                    | Floating      | 0.62%  |          |
| LGFA   | 15/05/2028  | 2,000,000        | 2,000,000        |                    | Floating      | 0.87%  |          |
| LGFA   | 15/04/2026  | 5,000,000        | 5,000,000        |                    | Floating      | 0.68%  |          |
| LGFA   | 15/04/2027  | 5,000,000        | 5,000,000        |                    | Floating      | 0.76%  |          |
| LGFA   | 15/04/2027  | 5,000,000        | 5,000,000        |                    | Floating      | 0.65%  |          |
| LGFA   | 20/04/2029  | 10,000,000       | 10,000,000       |                    | Fixed         | 0.40%  |          |
| LGFA   | 15/04/2026  | 10,000,000       | 10,000,000       |                    | Floating      | 0.49%  |          |
| LGFA   | 15/05/2028  | 10,000,000       | 10,000,000       |                    | Fixed         | 0.40%  |          |
| LGFA   | 15/05/2028  | 10,000,000       | 10,000,000       |                    | Floating      | 0.89%  |          |
| TOTAL  |             | 168,500,000      | 153,500,000      | 15,000,000         |               |        |          |

Loans Drawn Down

| Lender       | Effective Rate | Period   | Maturity Date | 31-Mar-24 \$ | 29-Feb-24 \$ |
|--------------|----------------|----------|---------------|--------------|--------------|
| ANZ Facility | 6.600%         | -        | 31/07/2025    | -            | -            |
| LGFA         | 6.420%         | 90 days  | 15/04/2024    | 6,000,000    | 6,000,000    |
| LGFA         | 6.340%         | 90 days  | 15/04/2024    | 4,000,000    | 4,000,000    |
| LGFA         | 6.460%         | 90 days  | 15/04/2025    | 4,000,000    | 4,000,000    |
| LGFA         | 6.360%         | 90 days  | 15/04/2025    | 4,000,000    | 4,000,000    |
| LGFA         | 6.363%         | 90 days  | 15/04/2026    | 3,000,000    | 3,000,000    |
| LGFA         | 6.505%         | 90 days  | 15/04/2026    | 5,000,000    | 5,000,000    |
| LGFA         | 6.581%         | 90 days  | 15/04/2027    | 4,000,000    | 4,000,000    |
| LGFA         | 6.500%         | 90 days  | 15/04/2027    | 5,000,000    | 5,000,000    |
| LGFA Fixed   | 2.130%         | 180 days | 15/04/2027    | 2,000,000    | 2,000,000    |
| LGFA Fixed   | 1.060%         | 180 days | 15/04/2028    | 5,000,000    | 5,000,000    |
| LGFA         | 6.825%         | 90 days  | 20/04/2029    | 5,000,000    | 5,000,000    |
| LGFA         | 6.275%         | 90 days  | 20/04/2029    | 5,000,000    | 5,000,000    |
| LGFA         | 6.360%         | 90 days  | 15/04/2026    | 3,000,000    | 3,000,000    |
| LGFA         | 6.320%         | 90 days  | 15/04/2025    | 3,000,000    | 3,000,000    |
| LGFA Fixed   | 2.240%         | 180 days | 15/04/2028    | 5,000,000    | 5,000,000    |

Risk and Assurance Committee - AGENDA

7.4.1 Appendix 1 - Loan and Swap Summary March 2024(Cont.)

**Loans Drawn Down continued**

| Lender       | Effective Rate | Period   | Maturity Date | 31-Mar-24<br>\$    | 29-Feb-24<br>\$    |
|--------------|----------------|----------|---------------|--------------------|--------------------|
| LGFA Fixed   | 2.120%         | 180 days | 15/05/2028    | 5,000,000          | 5,000,000          |
| LGFA         | 6.295%         | 90 days  | 20/04/2029    | 3,000,000          | 3,000,000          |
| LGFA         | 6.170%         | 90 days  | 15/04/2026    | 3,000,000          | 3,000,000          |
| LGFA         | 6.210%         | 90 days  | 15/02/2027    | 3,000,000          | 3,000,000          |
| LGFA         | 6.330%         | 90 days  | 15/04/2027    | 3,000,000          | 3,000,000          |
| LGFA         | 6.430%         | 90 days  | 20/04/2029    | 3,000,000          | 3,000,000          |
| LGFA         | 6.400%         | 90 days  | 15/04/2026    | 3,000,000          | 3,000,000          |
| LGFA         | 6.475%         | 90 days  | 15/04/2027    | 5,500,000          | 5,500,000          |
| LGFA         | 6.610%         | 90 days  | 15/05/2028    | 2,000,000          | 2,000,000          |
| LGFA         | 6.260%         | 90 days  | 15/04/2025    | 5,000,000          | 5,000,000          |
| LGFA         | 6.323%         | 90 days  | 15/04/2026    | 5,000,000          | 5,000,000          |
| LGFA         | 6.400%         | 90 days  | 15/04/2027    | 5,000,000          | 5,000,000          |
| LGFA         | 6.295%         | 90 days  | 15/04/2027    | 5,000,000          | 5,000,000          |
| LGFA Fixed   | 5.661%         | 180 days | 20/04/2029    | 10,000,000         | 10,000,000         |
| LGFA         | 6.130%         | 90 days  | 15/04/2026    | 10,000,000         | 10,000,000         |
| LGFA Fixed   | 5.740%         | 180 days | 15/05/2028    | 10,000,000         | 10,000,000         |
| LGFA         | 6.512%         | 90 days  | 15/05/2028    | 10,000,000         | -                  |
| <b>TOTAL</b> |                |          |               | <b>153,500,000</b> | <b>143,500,000</b> |

**Existing Hedge Portfolio**

|                    | Pay / receive<br>fixed rate | Bank | Deal<br>Date | Start<br>Date | Maturity<br>Date | Principal<br>\$ | Fixed Rate |
|--------------------|-----------------------------|------|--------------|---------------|------------------|-----------------|------------|
| <b>SWAPS</b>       |                             |      |              |               |                  |                 |            |
| Interest Rate Swap | receive                     | BNZ  | 6/04/2016    | 20/04/2016    | 20/04/2024       | 2,500,000       | 4.400%     |
| Interest Rate Swap | receive                     | BNZ  | 28/06/2019   | 22/06/2020    | 24/06/2024       | 2,000,000       | 1.510%     |
| Interest Rate Swap | receive                     | ANZ  | 29/01/2015   | 23/03/2015    | 23/09/2024       | 1,000,000       | 5.000%     |
| Interest Rate Swap | receive                     | ANZ  | 24/06/2014   | 21/12/2015    | 20/12/2024       | 2,000,000       | 4.730%     |
| Interest Rate Swap | receive                     | ANZ  | 20/10/2016   | 30/12/2016    | 31/03/2025       | 2,000,000       | 3.780%     |
| Interest Rate Swap | receive                     | ANZ  | 20/08/2015   | 22/09/2016    | 22/09/2025       | 3,000,000       | 4.800%     |
| Interest Rate Swap | receive                     | BNZ  | 20/10/2016   | 22/01/2021    | 22/07/2026       | 2,500,000       | 3.190%     |
| Interest Rate Swap | receive                     | BNZ  | 20/10/2016   | 23/06/2021    | 23/09/2026       | 1,000,000       | 3.240%     |
| Interest Rate Swap | receive                     | ANZ  | 26/06/2017   | 22/03/2023    | 22/06/2027       | 1,700,000       | 3.750%     |
| Interest Rate Swap | receive                     | ANZ  | 15/04/2021   | 24/01/2023    | 24/01/2028       | 4,000,000       | 1.835%     |
| Interest Rate Swap | receive                     | ANZ  | 15/04/2021   | 20/07/2023    | 20/07/2027       | 2,000,000       | 1.860%     |
| Interest Rate Swap | receive                     | ANZ  | 26/06/2017   | 20/07/2023    | 20/04/2027       | 2,000,000       | 3.760%     |
| Interest Rate Swap | receive                     | ANZ  | 4/04/2018    | 22/03/2024    | 22/03/2028       | 1,000,000       | 3.700%     |
| Interest Rate Swap | receive                     | ANZ  | 16/02/2022   | 25/01/2024    | 15/09/2030       | 2,000,000       | 3.190%     |
| Interest Rate Swap | receive                     | ANZ  | 16/02/2022   | 15/01/2024    | 15/06/2031       | 2,000,000       | 3.198%     |
| Interest Rate Swap | receive                     | ANZ  | 26/09/2023   | 15/03/2024    | 15/03/2030       | 5,000,000       | 5.060%     |
| Interest Rate Swap | receive                     | ANZ  | 26/09/2023   | 15/03/2024    | 15/03/2031       | 5,000,000       | 5.050%     |
| Interest Rate Swap | receive                     | ANZ  | 26/09/2023   | 15/03/2024    | 17/03/2032       | 5,000,000       | 5.050%     |
| Outright New Swap  | pay                         | ANZ  | 4/04/2018    | 20/04/2024    | 20/04/2028       | 2,500,000       | 3.710%     |
| Outright New Swap  | pay                         | ANZ  | 16/02/2022   | 15/03/2025    | 15/03/2030       | 2,000,000       | 3.190%     |
| Outright New Swap  | pay                         | ANZ  | 16/02/2022   | 15/01/2028    | 15/01/2032       | 4,000,000       | 3.177%     |
| Outright New Swap  | pay                         | ANZ  | 16/02/2022   | 15/09/2025    | 15/09/2031       | 3,000,000       | 3.185%     |
| Outright New Swap  | pay                         | BNZ  | 28/07/2022   | 17/04/2028    | 17/04/2035       | 5,000,000       | 3.780%     |
| Outright New Swap  | pay                         | BNZ  | 28/07/2022   | 17/04/2028    | 17/04/2034       | 5,000,000       | 3.780%     |
| Outright New Swap  | pay                         | BNZ  | 28/07/2022   | 17/04/2024    | 17/04/2030       | 3,000,000       | 3.690%     |
| Outright New Swap  | pay                         | BNZ  | 20/12/2023   | 16/12/2024    | 15/12/2030       | 10,000,000      | 4.080%     |
| Outright New Swap  | pay                         | BNZ  | 20/12/2023   | 16/06/2025    | 15/06/2030       | 10,000,000      | 4.015%     |

## 7.5 Risk and Assurance Policies Review – Treasury Policy

### 7.5 Risk and Assurance Policies Review – Treasury Policy

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To: **Risk and Assurance Committee**

Date: **Friday, 17 Ma 2024**

Author: **Gary Connolly / CFO & GM Business Partnering**

Authoriser: **Steph O’Sullivan / Chief Executive**

Reference: **A2665731**

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#### 1. Reason for the report - *Te Take mō tēnei rīpoata*

The purpose of this report is present the committee the updated Treasury Policy as part policy review programme for 2023/24 and as required by legislation as part of Long Term Plan 2034 adoption.

#### 2. Recommendation - *Tohutohu akiaki*

1. **THAT** the draft Treasury Policy reflecting the Liability Management Policy and Investment Policies as required to be adopted by the Council as part of the Long Term Plan per Section 102 of the Local Government Act 2002 (the “Act”) be received; and,
2. **THAT** the Risk and Assurance Committee endorses the presentation of the Treasury Policy to the Environment, Energy and Resilience Committee, who has the delegated responsibility to develop Council's Long Term Plan and recommendation presentation to Council for adoption prior to adoption of the Long Term Plan 2034; and
3. **THAT** the Risk and Assurance Committee **note** that the draft policy will be made available to Audit New Zealand.

#### 3. Subject - *Kaupapa*

The Local Government Act 2002 S14(9) requires local authorities to ensure prudent stewardship and efficient use of their resources.

The purpose of the Treasury Policy is to provide appropriate parameters in which the Council will manage its borrowing activities and external liabilities to ensure compliance with the provisions of the Local Government Act 2002.

Section 102 of the Local Government Act 2002 (the “Act”) requires the Council to adopt a Liability Management Policy and an Investment Policy.

#### 4. Background - *He tirohanga whakamuri*

Where Section 102 of the Local Government Act 2002 (the “Act”) requires the Council to adopt a Liability Management Policy and an Investment Policy prior to the adoption of its Long Term Plan the treasury policy reflects a common practice consolidation of these two legislative policies.

## **7.5 Risk and Assurance Policies Review – Treasury Policy(Cont.)**

The requirements for each Policy are detailed in Sections 104 and 105 of the Local Government Act 2002:

- The Liability Management Policy must state the Council's policies on how it will manage its borrowings and other liabilities, including interest rate exposure, liquidity, credit exposure, borrowing limits, giving of security and debt repayment.
- The Investment Policy must set out the Council's policies on investments including the mix of investments, acquiring new investments, management and reporting procedures, and risk assessment management.

Together these policies make up the framework for the Council's treasury management activities and define the parameters within which all investment and borrowing activities are carried out. All borrowing, investments, and incidental financial arrangements (e.g. use of interest rate hedging instruments) will meet the requirements of the Local Government Act 2002. This policy should be read in the context of Council's Financial Strategy.

The Policy is to be consistent with the Long Term Plan (LTP) and Annual Plan. The formalisation of such policies and procedures will enable treasury risks within the Council to be prudently managed.

### **5. Options analysis - *Ngā Kōwhiringa***

The purpose of this report is to provide updated on specific policies for approval by the committee, so while the Committee generally has options associated with their adoption or revision, there is no options analysis needed as a result of this update.

### **6. Significance and Engagement Assessment - *Aromatawai Pāhekoheko***

#### **6.1. Assessment of Significance**

The recommendations of this report are assessed to be of low significance in accordance with the Council's Significance and Engagement Policy.

#### **6.2. Engagement and community views**

Due to the low significance of the matters of this report, public participation is not required to inform decision-making, as set out in Section 6.1(a) of the Council's Significance and Engagement Policy.

### **7. Considerations - *Whai Whakaaro***

#### **7.1. Financial/budget considerations**

There are no budget considerations associated with the recommendations of this report.

#### **7.2. Strategic alignment**

No inconsistencies with any of the Council's policies or plans have been identified in relation to this report.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)**

**7.3. Climate change assessment**

Based on this climate change assessment, the decisions and matters of this report are assessed to have low/moderate/high climate change implications and considerations, in accordance with the Council's Climate Change Principles

**7.4. Risks**

There are no known risks associated with the matters of this report.

**Attached to this report:**

- **Appendix 1:** - Treasury Policy (Draft – Marked Up)

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)**

7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)

POLICIES

# Treasury ~~Liability~~ Management Policy 2024

Adopted: ~~3-September-2020~~  
Commences: ~~3-September-2020~~  
Review: ~~1-September-2023~~

[www.whakatane.govt.nz](http://www.whakatane.govt.nz)



**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)****1.0 INTRODUCTION**

To provide appropriate parameters in which the Council will manage its borrowing activities and external liabilities to ensure compliance with the provisions of the Local Government Act 2002.

Section 102 of the Local Government Act 2002 (the “Act”) requires the Council to adopt a Liability Management Policy and an Investment Policy.

The requirements for each Policy are detailed in Sections 104 and 105 of the Local Government Act 2002:

- The Liability Management Policy must state the Council's policies on how it will manage its borrowings and other liabilities, including interest rate exposure, liquidity, credit exposure, borrowing limits, giving of security and debt repayment.
- The Investment Policy must set out the Council's policies on investments including the mix of investments, acquiring new investments, management and reporting procedures, and risk assessment management.

Together these policies make up the framework for the Council's treasury management activities and define the parameters within which all investment and borrowing activities are carried out. All borrowing, investments and incidental financial arrangements (e.g. use of interest rate hedging instruments) will meet the requirements of the Local Government Act 2002. This policy should be read in the context of Council's Financial Strategy.

The Policy is to be consistent with the Long Term Plan (LTP) and Annual Plan. The formalisation of such policies and procedures will enable treasury risks within the Council to be prudently managed.

The Harbour Property Fund is managed in line with a separate Statement of Investment Policy and Objectives (SIPO) document. External fund managers will be appointed in the knowledge of and operate the portfolio according to, the investment guidelines outlined in the SIPO.

As circumstances change, the policies and procedures outlined in this Policy will be modified to ensure that treasury risks within the Council continue to be well managed. In addition, regular reviews will be conducted to test the existing Policy against the following criteria:

- Industry “best practices” for a Council the size and type of Whakatane District Council.
- The risk bearing ability and tolerance levels of the underlying revenue and cost drivers.
- The effectiveness and efficiency of the Policy and treasury management function to recognise, measure, control, manage and report on the Council's financial exposure to market interest rate risks, funding risk, liquidity, investment risks, counterparty credit risks and other associated risks.
- The operations of a pro-active treasury function in an environment of control and compliance.
- The robustness of the Policy's risk control limits and risk spreading mechanisms against normal and abnormal interest rate market movements and conditions.
- Assistance to Council in achieving strategic objectives relating to ratepayers.

It is intended that the Policy be distributed to all personnel involved in any aspect of the Council's financial management. In this respect, all staff must be completely familiar with their responsibilities under the Policy at all times.



**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)****2.0 LIABILITY MANAGEMENT POLICY****2.1~~0~~ Treasury Management Objectives****Statutory objectives**

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

The Council is governed by the following relevant legislation:

- Local Government Act 2002, in particular Part 6 including sections 101,102, 104, 105 and 113.
- Local Government (Financial Reporting and Prudence) Regulations 2014, in particular Schedule 4.
- Trusts~~ee~~ Act 2019 (effective 30 January 2021). When acting as a trustee or investing money on behalf of others, the Trusts~~ee~~ Act highlights that trustees have a duty to invest prudently and that they shall exercise care, ~~diligence~~diligence, and skill that a prudent person of business would exercise in managing the affairs of others. Details of relevant sections can be found in the Trusts~~ee~~ Act 2019 Part 4 Investments.
- All projected external borrowings are to be approved by the Council as part of the Annual Plan or the Long Term Planning (LTP) process, or resolution of Council before the borrowing is affected.
- All legal documentation in respect to external borrowing and financial instruments will be approved by the Council's legal counsel prior to the transaction being executed.
- The Council will not enter into any borrowings denominated in a foreign currency.
- The Council will not transact with any Council Controlled Trading Organisation (CCTO) on terms more favourable than those achievable by the Council itself.

A resolution of the Council is not required for hire purchase, credit or deferred purchase of goods if:

- The period of indebtedness is less than 91 days (including rollovers); or
- The goods or services are obtained in the ordinary course of operations on normal terms for amounts not exceeding in aggregate, an amount determined by resolution of the Council.

**General objectives**

- Manage the Council's costs and risks in the management of its external borrowings.
- Minimise the Council's exposure to interest rate movements.
- Monitor, evaluate and report on treasury performance.
- Borrow funds and transact risk management instruments within an environment of control and compliance under the Council approved Policy so as to protect the Council's financial assets and manage costs.
- Arrange and structure external long term funding for the Council at acceptable margins and cost from debt lenders. Optimise flexibility and spread of debt maturity terms within the funding risk limits established by this Policy statement.
- Monitor and report on financing/borrowing covenants and ratios under the obligations of the Council's lending/security arrangements.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

- Comply with financial ratios and limits stated within this Policy.
- Monitor the Council's return on investments.
- Maintain appropriate liquidity levels and manage cash flows within the Council to meet known and reasonable unforeseen funding requirements.
- Minimise exposure to credit risk by dealing with and investing in credit worthy counterparties.
- Ensure that all statutory requirements of a financial nature are adhered to.
- Ensure that financial planning will not impose an unequitable spread of costs/benefits over current and future ratepayers.
- To ensure adequate internal controls exist to protect the Council's financial assets and to prevent unauthorised transactions.
- Develop and maintain relationships with financial institutions, LGFA, [and Trustees, investors and investment counterparties.](#)

**2.2 General borrowing**

The Council's infrastructural and community assets generally have long economic lives and provide long-term benefits for the community. The use of external debt is seen as an appropriate and efficient mechanism for promoting intergenerational equity between current and future ratepayers in relation to the Council's assets and investments.

Whakatane District Council will use term external borrowing to fund capital works providing assets where:

- The benefits of such expenditure are received over terms greater than one financial year.
- The term of external borrowing is related to the expected economic life of the assets purchased or created (where assets are deemed to have a life in excess of 25 years, the maximum term of borrowing will be 25 years).

The Council raises external debt for the following primary purposes:

- Specific debt to fund the Council's capital works which are primarily infrastructure assets;
- Short term debt to manage timing differences between cash inflows and outflows and to maintain the Council's liquidity;
- Borrowing through hire purchase, credit, deferred payment or lease arrangements in the ordinary course of the Council's business.

**2.3 Specific borrowing limits**

In managing external core borrowing, the Council adheres to the following limits:

- Net interest expense of all external borrowings not to exceed 15% of total revenue.
- Net interest expense of all external borrowings not to exceed 12% of total rates income.
- Net external debt as percentage of -total revenue not to exceed 150%.
- External term debt, [available-unutilised](#) portion of committed [loan-debt](#) facilities and liquid funds are maintained at an amount of 110% over existing external debt.
- Revenue is defined as cash earnings from rates, government capital grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets).
- Net external debt is defined as total external debt less liquid funds.
- Net interest on external debt is defined as the amount equal to all interest and financing costs (on external debt) less interest income for the relevant period.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

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

Liquid funds are defined as:

- Overnight Bank cash deposits at 100% of value
- Wholesale / retail bank term deposits no greater than 30 days at 100% of value
- Bank Registered Certificates of Deposit (RCD's) less than 91 days at 100% market value

The following table summarises the specific borrowing limits that Council adheres to, in conjunction with the LGFA's lending covenants:

| Ratio   | WDC Policy limits | LGFA lending covenants |
|---|-------------------|------------------------|
| Net external debt as a percentage of total revenue  | <150%             | <175%                  |
| Net Interest on external debt as a percentage of total revenue  | <15%              | <20%                   |
| Net Interest on external term debt as a percentage of annual rates income   | <12%              | <25%                   |
| Liquidity ratio (Total external term debt plus <del>unutilised available</del> portion of committed <del>bank debt</del> facilities plus liquid funds over external debt) | >110%             | >110%                  |

**2.4 Borrowing mechanisms**

The Council is able to externally borrow through a variety of market mechanisms including, issuing fixed or floating wholesale and retail ~~loan stock~~/bonds, commercial paper (CP), LGFA, or direct bank borrowing (refer Appendix I). The Council is also able to internally borrow.

Any borrowing through the retail investor market must have the prior approval of the Council.

Alternative funding mechanisms such as leasing are evaluated with financial analysis in conjunction with traditional on-balance sheet funding. The evaluation should take into consideration, ownership, redemption value and effective cost of funds.

The internal debt portfolio is used as an input into determining the Council's external debt requirements. The Council's internal funding mechanisms are discussed in **Section (e)**. In assessing strategies for new external borrowing in relation to source, pricing, size and term, delegated staff take into account the following:

- The impact of new debt on borrowing limits;
- Relevant margins and total cost under each borrowing source;
- The Council's overall debt maturity profile, to avoid concentration of debt at reissue/rollover time;
- Prevailing interest rates and margins relative to term for loan stock issuance, debt capital markets, LGFA, and bank borrowing and the Council's view of future interest rate movements;
- Available terms from bank, LGFA, and the debt capital markets;
- Legal documentation, financial covenants, security requirements.

The Council is able to use a mixture of short term as well as longer term external funding to achieve an effective borrowing mix, balancing the requirements of liquidity, flexibility and cost.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

The Council's ability to readily attract cost effective borrowing is largely driven by its ability to maintain a strong balance sheet as well as its ability to rate, manage its image in the market and its relationship with its investors, LGFA, and financial institutions/brokers.

A borrowing strategy is determined on a six monthly basis which is approved by the ~~General Manager Finance and Corporate Services~~ Chief Financial Officer & General Manager Business Partnering .

**2.5 Liquidity, funding, and credit risk management**

Cash flow deficits in various future periods based on long term financial forecasts are reliant on the maturity structure of cash, short-term financial investments, loans and bank facilities.

Liquidity risk management focuses on the ability to access committed funding at that future time to fund the gaps. Funding risk management centres on the ability to re-finance or raise new debt at a future time at acceptable pricing (fees and borrowing margins) and maturity terms of existing loans and facilities.

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

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

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

The Council minimises its liquidity risk by:

- Matching expenditure closely to its revenue streams and managing cash flow timing differences to its favour;
- Maintaining its financial investments in liquid funds;
- Ensuring where debt redemption reserves are maintained to repay borrowing, that these investments are held for maturities not exceeding the borrowing repayment date (see Section (h) of this Policy);
- Avoiding concentration of debt maturity dates (refer below).

To ensure funds are available when needed, the Council maintains sufficient available operating cash flow and committed ~~debt~~bank facilities and/or liquid funds to meet cash flow requirements between rates instalments as determined by the Finance Department. Investments have a maturity of no more than three months unless they are linked to pre-funding activity undertaken by Council. The Council has the ability to pre-fund up to 18 months of forecast debt requirements including re-financings. Debt re-financings that have been pre-funded will remain included within the funding maturity profile until their maturity date. The liquidity ratio excludes cash held and associated debt raised under the pre-funding strategy.

To minimise the risk of large concentrations of external debt maturing or being reissued in periods where credit margins are high for reasons within or beyond the Council's control, delegated staff ensure external debt maturities are generally spread widely over a band of maturities.

Specifically, total committed funding in respect to all external debt/loans and committed facilities is controlled by the following system:

### 7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)

| PERIOD       | MINIMUM | MAXIMUM |
|--------------|---------|---------|
| 0 to 3 years | 15%     | 60%     |
| 3 to 7 years | 25%     | 85%     |
| 7 years plus | 0%      | 60%     |

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

Once debt has been refinanced with a contracted term deposit (pre-funded), the term deposit amount will net off the maturing debt amount from the funding maturity profile percentage calculation.

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

The Chief Executive has the discretionary authority to re-finance, rollover and re-negotiate existing debt on more favourable terms. Such action is reported to the Council at the earliest opportunity.

#### 2.6 Internal borrowing

The Council uses its reserves to internally fund new capital projects. The Finance department is responsible for administering the Council's internal loan portfolio. Loans are set up within the portfolio based on planned loan funded capital projects as approved by Council resolution as part of the Annual Plan and the LTP.

The primary objective in funding internally is to use reserves and external borrowing effectively, by establishing a portfolio that provides funding to internal activity centres. This creates operational efficiencies through not paying fees/margins and other costs associated with raising funds from financial institutions.

In addition to external borrowing the following specific reserves may be used for internal borrowing purposes:

- Special Fund Reserves
- Harbour Property Fund
- Debt Redemption Reserves
- Rate Account surpluses

Interest is charged annually in arrears on all internal loans at the weighted average cost of external borrowing (including credit margin and other related costs). The Council has the ability to reset interest rates monthly if required.

#### 2.7 Interest rate risk management

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

Generally, given the long-term nature of the Council's assets, intergenerational factors and the desire to avoid an adverse impact on rates, the approach is to have at least a minimum percentage of external core debt at a fixed interest rate.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

The primary objective of interest rate risk management is to reduce uncertainty due to interest rate movements through fixing of funding costs. Both objectives are to be achieved through the active management of underlying interest rate exposures.

The ~~General Manager Finance and Corporate Services~~ Chief Financial Officer & General Manager Business Partnering can consider alternative debt forecast scenarios that make assumptions around such matters as, the delivery and timing of the capital expenditure programme when designing the interest rate strategy.

The Council's gross forecast external debt should be within the following fixed/floating interest rate risk control limits:

| <b>Interest Rate Policy Parameters (calculated on rolling monthly basis)</b> |                             |                             |
|--|-----------------------------|-----------------------------|
| <b>Debt Period Ending</b>  | <b>Minimum Fixed Rate %</b> | <b>Maximum Fixed Rate %</b> |
| Current  | 40%                         | 90%                         |
| Year 1   | 40%                         | 90%                         |
| Year 2   | 35%                         | 85%                         |
| Year 3   | 30%                         | 80%                         |
| Year 4   | 25%                         | 75%                         |
| Year 5   | 20%                         | 70%                         |
| Year 6   | 0%                          | 65%                         |
| Year 7   | 0%                          | 60%                         |
| Year 8   | 0%                          | 50%                         |
| Year 9   | 0%                          | 50%                         |
| Year 10  | 0%                          | 50%                         |
| Year 11+   | 0%                          | 25%                         |

"Fixed Rate" is defined as all known interest rate obligations on gross forecast external debt, including where hedging instruments have fixed movements in the applicable reset rate.

"Floating Rate" is defined as any interest rate obligation subject to movements in the applicable reset rate.

Gross forecast external debt is the amount of total external debt for a given period, excluding pre-funded debt amounts. This allows for pre-hedging in advance of projected physical drawdown of new and re-financed debt. When approved forecasts are changed (signed off by the ~~General Manager Finance and Corporate Services~~ Chief Financial Officer & General Manager Business Partnering), the amount of interest rate fixing in place may have to be adjusted to ensure compliance with the policy minimum and maximum limits.

Interest rate swap maturity is limited by the maximum offered LGFA bond maturity, beyond this approval is required by Council.

Fixed interest rate percentages are calculated based on the average amount of fixed interest rate obligations relative to the average gross forecast external debt amounts for the given period (as defined in the table above).

A fixed rate maturity profile that is outside the above limits, but self corrects in less than 90-days is not in breach of this Policy. However, maintaining a maturity profile beyond 90-days requires specific approval by the Council.

The use of incidental hedge arrangements and counter-party exposure limits are outlined in Appendix II in respect of interest rate risk management instruments.

**2.8 Security**

The Council generally does not offer assets other than a charge over rates or rates revenue as security for general borrowing programmes and interest rate risk management instruments. Security is offered through the Debenture Trust Deed over the Council's rates

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**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

and rates revenue. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Rating Powers Act. The security offered by Council ranks equally or pari passu with other lenders.

From time to time, with prior Council approval, security may be offered by providing a charge over one or more of the Council's specific assets.

Physical assets will be charged only where:

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

**2.9 Debt repayment**

The Council repays borrowing from general funds, specific debt redemption reserves and renewal loans allocated to that borrowing, unless the Council specifically directs that the funds will be put to another use. The Council ensures that sufficient funds are available for repayment of debt and other obligations at the time of maturity. Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as and when appropriate. Disaster recovery requirements are to be met through the liquidity ratio amount.

Where a loan is raised for a specific purpose and the funds are no longer required, the funds may be held in a special fund until the funds can be applied against a future borrowing.

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

**2.10 Contingent liabilities**

The Council, from time to time, provides financial guarantees to local organisations, groups or bodies for recreational and community purposes.

The Council cannot guarantee loans to Council Controlled Trading Organisations under Section 62 of the Local Government Act.

In determining whether a guarantee is to be approved, the Council considers the social benefits provided to the community and the following:

- The potential for loss of capital;
- where the Council assumes the asset in the case of default, the ongoing operating costs or completion costs of the asset;
- The nature of the organisation including its management, financial stability, cash flow forecasts and membership.

The total value of guarantees at any one time will not exceed 3% of the total annual rates, levied during that year. Total loan guarantees held at any time shall be taken into account when calculating the Council's maximum borrowing limit.

The Finance Department monitors the total value of guarantees provided, reporting quarterly to Council, when guarantees are provided.

As a condition of the guarantee, the guarantor's annual financial statements are to be promptly given to Council. Should the guarantee be called upon, the Council will take immediate steps to recover the money.

**2.11 On-lending to Council Controlled Organisations**

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO/CCTOs.

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**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.

Any on-lending arrangement (whether from Council or directly from the LGFA) to a CCO or CCTO must be approved by Council. Council must have approved the LGFA membership of the CCO/CCTO.

In recommending an arrangement for approval the [Chief Financial Officer & General Manager Business Partnering GMFCS](#) considers the following:

- Credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date.
- Impact on Council's credit standing, debt cap amount (where applied), lending covenants with the LGFA and other lenders and Council's future borrowing capacity.
- The form and quality of security arrangements provided.
- The lending rate given factors such as; CCO or CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc.
- Lending arrangements to the CCO or CCTO must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties.
- Accounting and taxation impact of on-lending arrangement.

All on-lending arrangements must be executed under legal documentation that is reviewed and approved by Council's independent legal counsel.

**2.12 Foreign exchange**

The Council's policy is to identify, define, recognise and record these risks by their respective types or category and then to manage each risk under predetermined and separately defined policies/risk control limits for each risk category.

It is prudent practice to pre-hedge potential adverse foreign exchange rate movements on capital imports from the time the Capex budget is approved by Council. There is a risk that the net NZD cost could increase substantially from Capex budget time to the actual placement of the purchase order. It would be expected that the exact payment currency/amount, and payments schedule are known at the time of the purchase order and sale/purchases contract signed with the equipment supplier.

Capital and Operational Expenditure: Imported Items/services. The Council is exposed to foreign exchange risk on imported capital expenditure and operational expensed items/services:

**Contingent risk** - this applies from the time the annual capital expenditure (Capex) and operational expenditure (Opex) budget is approved to the time specific Capex and Opex items are approved during the course of the year. This also includes the time from specific approvals to the time contracts are finalised.

**Full risk** - at the time the expenditure is approved and legal commitments are made.



**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)****Foreign Exchange Risk Control Limits**

**Capital and Operational Expenditure: Imported items/services** – All individual items/ services greater than NZD100,000 must be hedged at all times in accordance with the following risk control limits:-

| <b>CAPITAL AND OPERATIONAL EXPENDITURE – FOREIGN EXCHANGE RISK CONTROL LIMITS</b> |   |   |
|---|---|---|
| <b>TIME-POINT</b>   | <b>EXPOSURE COVERED BY FORWARD EXCHANGE CONTRACTS/COLLARS</b> | <b>EXPOSURE COVERED BY PURCHASED FOREIGN EXCHANGE OPTIONS</b> |
| <b>1. Budget approved by Council</b><br>(Medium Probability)                      |   | Up to a maximum 50%   |
| <b>2. Specific item approved</b><br>(High probability)                            |   | Up to a maximum 100%  |
| <b>3. Contract confirmed</b><br>(Legal commitment)                                | Minimum 100%  |   |

The use of foreign exchange risk management instruments are approved by Council.

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

**2.13 New Zealand Local Government Funding Agency Limited**

Despite anything earlier in this Liability Management Policy, the Council may borrow from the New Zealand Local Government Funding Agency Limited (LGFA) and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- Contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA in the form of Borrower Notes;
- Provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself;
- Commit to contributing additional equity (or subordinated debt) to the LGFA if required;
- Subscribe for shares and uncalled capital in the LGFA; and
- Secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

**3.0 INVESTMENT POLICY**

Council recognises its fiduciary responsibility as a public authority and any investments that it holds should be at an appropriate level of risk, giving preference to conservative investment policies and avoiding speculative investments. The Council is a risk averse entity and does not wish to incur additional risk from its treasury activities.

The Council recognises its custodial responsibility and reviews the performance and purpose of all investments on an annual basis. The ~~General Manager Finance and Corporate Services~~ [Chief Financial Officer & General Manager Business Partnering](#) reports on all investments quarterly at the Risk and Assurance Committee meeting.

In its investment activities the Council is guided by the Trustsee Act of 2019 (effective 30 January 2021). When acting as a trustee or investing money on behalf of others, the Trustee

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

Act highlights that trustees have a duty to invest prudently and that they shall exercise care, diligence and skill that a prudent person of business would exercise in managing the affairs of others.

**3.1 Investment Mix**

An investment asset is an asset owned by the Council for the delivery of Council services and includes and is not limited to land, buildings and infrastructure. A non-operational asset is owned by the Council that is not an investment asset. From time to time, the Council holds the following investment assets:

- Equities
- Property
- Forestry
- Internal loans
- Treasury financial instruments

Council will keep under review its approach to all major investments and the credit rating of approved financial institutions.

The Council will review its policies on holding investments at least once every three years.

**3.2 Use of Sale Proceeds on Disposition of Operational Assets**

Net proceeds from the sale of an Operational Asset are returned to the relevant operational account and utilised as follows:

- If there was debt attributable to the asset, payment of that debt is the first call upon any proceeds of sale (that is the cash value less any costs relating to the sale).

The proceeds of sale (that is the cash value less any costs relating to the sale) following the retirement of any debt will be used for the purposes of:

- The retirement of debt in relation to assets; or
- The funding of the purchase of new assets (as scheduled within a relevant Asset Management Plan); or
- The purchase of strategic assets; or
- Transferred to an appropriate reserve; or
- The funding of one off operational expenses.

The proceeds will not be used to fund general operational expenditure.

**3.3 Equity investments**

Equity Investments are held for various strategic, economic development and financial objectives as outlined in the LTP.

Council holds equity investments in Civic Financial Services Ltd (formerly the NZ Local Government Insurance Corporation), Bay of Plenty Local Authority Shared Services Ltd (BOPLASS) and NZ Local Government Funding Agency (LGFA) as part of the Council's membership. Council may also invest in other equity investments, including investments held in CCO/CCTO and other shareholdings.

Council also has a 50:50 joint equity venture with the Crown (Ministry of Transport – Air Transport division) in the ownership of the Whakatane Airport. This investment is held for the strategic purpose of providing public access to emergency and scheduled air services to the Eastern Bay of Plenty. The Council controls the operation of the airport and the results of operations are consolidated by equity method into the Council's financial accounts. The Whakatane Airport Annual report is reviewed and adopted by the Council prior to 30 September.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

Income from the Council's equity investments, including dividends, is included within general income. Dividends received from investments not controlled by Council are used firstly to repay debt in relation to that investment, then unless otherwise directed by Council, used to reduce other Council debt. Refer to section 1.2 on use of sale proceeds on disposition of operational assets.

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

The sale or purchase of all equity investments requires the prior approval of the Council.

**3.4 Property investments**

The Council owns harbour endowment land that is currently leased to commercial tenants. Historically there were strategic and commercial reasons for holding this land, but the Council is now considering the option of selling a number of sites to leaseholders. Where appropriate the Council will consult with Iwi on property disposal and acquisitions.

The Council owns a number of other properties. Each year, the Council reviews the performance of all its property investments to ensure that the benefits of continued ownership are consistent with stated objectives.

All rental income received from the harbour endowment land is recorded in the Harbour Activity Account. Other property income is recorded as general funds or credited to the appropriate reserve account.

Council approval is required for the sale and purchases of all property investments and are managed to ensure compliance with statutory requirements.

Property purchases are supported by registered valuations and where appropriate a full business case analysis. Council will not purchase properties on a speculative basis.

**3.5 Forestry investments**

The Council owns forestry assets. These assets are held as a long-term commercial investment to assist in maximising the return on the land. Income is included in general revenue. Any sale or purchase of forestry assets requires the prior approval of the Council. Refer to section ~~4~~3.2 on use of sale proceeds on disposition of operational assets.

**3.6 Treasury financial investments**

In investing in treasury financial instruments Council's primary objective is the protection of its investment capital.

For the foreseeable future the Council will be in a net borrowing position although the Council holds funds from time to time as its cash flows dictate as well as those derived from its reserves and other funds. Investments are therefore made for the following primary reasons:

- to invest surplus cash and working capital funds.
- to invest monies allocated to general and specific reserves, and debt redemption reserves.
- to invest Harbour Property Fund sale proceeds (refer Section 1.4 of this policy).

General, specific, and debt redemption reserves, and the Harbour Property Fund are invested in liquid, short term investments or internally lent to fund activity centre infrastructure projects. The Council allocates funds between those investments that emphasise capital protection, are liquid and have regular interest payments. Accordingly, Council may only invest in approved creditworthy counterparties. Creditworthy counterparties are covered in Section ~~3~~4.13. Credit ratings are monitored and reported annually to Council.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

Council may invest in approved financial instruments as set out below. These investments are aligned with Council's objective of investing in high credit quality and liquid assets.

Treasury financial investments are held to maturity date. In the unusual circumstance where investments are liquidated prior to maturity, approval is obtained from the Chief Financial Officer & General Manager Business Partnering. Proceeds from the redemption of treasury financial investments are used in accordance with the terms of the original purpose of the reserve or fund, or in accordance with a resolution of the Council.

Interest income from treasury financial investments is credited to general funds, except for income from investments for specific reserves, debt redemption reserves, and the Harbour Property Fund, where interest is credited to the particular reserve or fund.

Council recognises that as a responsible public authority any investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

**(a) Financial investment objectives**

The Council's primary objective is to preserve the capital value of investments. Accordingly, investment is restricted to creditworthy institutions (counter parties) that must have a minimum short-term credit rating of A-1 and a long-term credit rating of A from Standard & Poors (or equivalent recognised agency) (see the Counterparty Exposure Limits Section).

Within its credit constraints contained above the Council seeks to:

- Ensure investments are liquid
- Diversify the mix of financial investments
- Optimise investment return within Policy parameters.
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity

The following principles capture the objectives outlined above and form the key assumptions of the operating parameters contained in Counterparty Exposure Limits:

- Credit risk is minimised by placing maximum limits for each broad class of non-government issuer and by limiting investments to the LGFA and registered banks within prescribed limits.
- Liquidity risk is minimised by managing maturity terms to future expenditure requirements and ensuring that all investments are capable of being liquidated.
- Treasury financial investments are restricted to a term of no more than three months (unless linked to pre-funding debt management activity).
- The Council's treasury financial investments are structured to provide sufficient funds to meet Council's cash flow and capital expenditure obligations as they fall due.

**(b) Approved treasury financial investment instruments**

Within the constraints of the Counterparty Exposure Limits, the Council invests in the following instruments:

- Government securities.
- LGFA securities and borrower notes.
- Registered bank securities and deposits.

A full list of approved instruments and their definitions are contained within Appendix III.

**(c) Interest rate risk management**

The Council's treasury financial investments give rise to a direct exposure to a change in interest rates, impacting upon the financial return and potentially the capital value of its investments.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

A key part in the management of treasury financial investments is the formulation of an interest rate strategy. An interest rate strategy is approved by the Chief Financial Officer & General Manager Business Partnering .

Once approved the interest rate risk management strategy is implemented by:

- Using risk management instruments to protect investment returns and to change the interest rate profile.

The use of interest rate risk management instruments requires the approval of the Council. Approved risk management instruments are outlined in Appendix II.

**3.7 Harbour property fund (HPF)**

The Council holds the net proceeds from the sale of harbour property land in a separate fund for the long-term benefit, management and development of the District's Ports and associated lands. The fund is considered separately from other financial investments discussed in Section 34.6 of the Policy.

The Harbour Property Fund (HPF) is managed in line with a separate Statement of Investment Policy and Objectives (SIPO) document. External fund managers may be appointed in the knowledge of and operate the portfolio according to, the investment guidelines outlined in the SIPO.

The Council will be responsible for the following:

- Setting the Fund's Investment Strategy, including the level of risk and investment performance objectives, and investment policies.
- Determining the appropriate number of investment managers, and selecting and changing those managers as appropriate after having taken advice from the Investment Consultant.
- Reviewing the SIPO on a triennial basis, including the Investment Strategy, policies and manager configuration, and instructions to the Investment Consultant.
- Ensuring that the level of redemptions from the Fund is consistent with the Fund's objective to maintain equity, in terms of amounts available for distribution, between present and future generations.
- Providing cash flow information to the Investment Consultant with respect to future deposits and redemptions.
- Appointing the Investment Consultant.

Financial instruments and credit restrictions for funds under management in the HPF are separate to that within the Investment Policy as per the Council approved SIPO.

The Fund's investment objectives are to:

- Preserve the capital value of the fund.
- Maintain the real capital value of the fund with regard to inflation.
- Invest in instruments that provide a constant income stream.

Specific investment policies relating to this Fund are:

- That the inflation adjusted capital value of the fund will not be withdrawn.
- That the funds may be invested to offset the Council's internal borrowing.

**3.8 New Zealand Local Government Funding Agency Limited**

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

The Council's objective in making any such investment will be to:

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

- Obtain a return on the investment; and
- Ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

Because of these dual objectives, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

If required in connection with the investment, the Council may also subscribe for uncalled capital in the LGFA.

**3.9 Acquisition of new investments**

With the exception of treasury financial investments, new investments are acquired if an opportunity arises and approval is given by the appropriate Council committee, based on advice and recommendations from Council officers. Before approving any new investments, the Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives, and the financial risks of owning the investment. The authority to acquire financial investments is delegated to the Chief Financial Officer & General Manager Business Partnering .

**3.10 Investment management and reporting procedures**

Council's investments are managed on a regular basis, with sufficient minimum immediate cash reserves and a cash buffer maintained. The daily cash position is monitored and managed through the Daily Cash Position Report, and long-term cashflow through the annual Rolling Cashflow Forecast. To maintain liquidity, Council's investment maturities are matched with Council's known cash flow requirements.

The performance of Council investments is regularly reviewed to ensure Council's strategic objectives are being met. Both performance and policy compliance are reviewed through regular reporting.

**3.11 Debt redemption reserves**

The Council no longer sets up sinking funds for new loans but may establish specific Debt Redemption Reserves for each new borrowing. As Council is a net borrower for the expected life of the reserve, the funds are utilised for internal loan purposes and managed within the internal borrowing policy.

**3.12 Foreign exchange**

The Council does not invest or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency.

**3.13 Counter party exposure limits**

The Council ensures that all investment and interest rate risk management activity is undertaken with institutions that have a strong credit rating. –This is to ensure that the amounts owing to the Council are paid fully and on due date. –Default or credit risk is minimised through a combination of portfolio diversification.

More specifically, the Council minimises its credit exposure by:

- Transacting with entities that have a short-term and long-term credit rating from Standard & Poors (or equivalent recognised agency) of at least A-1 and A respectively
- Limiting total exposure to prescribed amounts
- Ensuring investments are liquid
- Monthly monitoring of compliance against set limits

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

The following table summarises credit requirements and limits:

| COUNTERPARTY                    | MINIMUM S&P SHORT/LONG TERM CREDIT RATING | TOTAL EXPOSURE LIMIT <u>(INVESTMENTS AND DERIVATIVES)</u> FOR EACH COUNTER PARTY |
|---------------------------------|---|--|
| NZ Government                   | N/A                                       | Unlimited  |
| Local Government Funding Agency | A-1 / AA-                                 | Unlimited  |
| NZ Registered Bank              | A-1 / A                                   | \$40 million   |

Approval is required from the Council for any alterations to these limits.

If any counter party's credit rating falls below the minimum specified in the above table, all practical steps are taken to reduce the credit exposure to that counter party to zero as soon as possible. Counterparties exceeding limits are reported to the Council.

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

**(a) On balance sheet**

Total amounts invested with that counterparty, i.e. transaction principal \* weighting 100%.

**(b) Interest rate and foreign exchange rate risk management instruments:-**

- Credit exposure on interest rate contracts is computed by multiplying the face value of outstanding transactions by an interest rate movement factor of 3% per annum i.e. notional amount x maturity (years) x 3%.
- Credit exposure on foreign exchange is computed by multiplying the face value amount by the (square root of the maturity (years) x 15%)

**4.0 DELEGATED AUTHORITIES AND LIMITS**

Treasury transactions entered into without the proper authority are difficult to cancel given the legal doctrine of "apparent authority". Also, insufficient authorities for a given bank account or facility may prevent the execution of certain transactions (or at least cause unnecessary delays).

To prevent these types of situations, the following procedures must be complied with:

- All delegated authorities and signatories must be reviewed at least annually to ensure that they are still appropriate and current.
- A comprehensive letter must be sent to all bank counterparties at least annually to confirm details of all relevant current delegated authorities empowered to bind the Council.

Whenever a person with delegated authority on any account or facility leaves the Council, all relevant banks and other counterparties must be advised in writing in a timely manner to ensure that no unauthorised instructions are to be accepted from such persons.

Delegated responsibilities and authority limits are captured within Council's delegation register.

**5.0 CASH MANAGEMENT**

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

From time to time, the Council has daily cash flow surpluses and borrowing requirements, due to the mismatch of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the Finance Department.

The Council maintains a daily cash position report, and an annual rolling cashflow projection is prepared during the Annual Planning process and reviewed monthly. These reports determine the Council's borrowing requirements and surpluses for investment for the year.

Detail captured within the Treasury Procedures Manual should include:

- Positional responsibilities, including related entity requirements.
- Daily, weekly, annual rolling cash and cash flow forecasting reports.
- Overnight liquidity buffer requirements.
- Mechanisms for an efficient and effective cash management function

**6.0 OPERATIONAL RISK**

Operational risk is the risk of loss as a result of human error (or fraud), system failures and inadequate procedures and controls.

Operational risk is minimised through the adoption of all requirements of this Policy and detailed within the Council's Treasury Procedures Manual.

Segregation of duties will be maintained in line with the identified treasury roles and responsibilities as provided for in Appendix IV, and in accordance with the organisations Delegations Policies.

**7.0 LEGAL RISK**

Legal risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, the Council may be exposed to such risks.

The Council will seek to minimise this risk by adopting policy regarding:

- The use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties.
- The matching of third party confirmations and the immediate follow-up of anomalies.
- The use of expert advice.

**Agreements**

Financial instruments can only be entered into with banks that have in place an executed ISDA Master Agreement with Council. The Council's internal/appointed legal counsel must sign off on all documentation.

**Financial covenants and other obligations**

The Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements. The Council must comply with all obligations and reporting requirements under existing funding arrangements and legislative requirements.

**8.0 TREASURY PERFORMANCE**

In order to determine the success of Council's treasury management function, the following benchmarks and performance measures have been prescribed.

- Operational performance; compliance to Policy and treasury deadlines.



## Risk and Assurance Committee - AGENDA

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

- Management of debt and interest rate risk (borrowing costs); actual borrowing costs to budget rates ~~and market benchmarks~~.

Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) are to be reported to Council or an appropriate sub-committee of Council on a six weekly basis.

**9.0 REPORTING**

Treasury reporting is conducted on a monthly, quarterly, and as required basis reporting on the Council's borrowing and investment position to Council, and where relevant external parties. Such reports detail month end position to risk control limits (borrowing limits, funding, interest rate, and liquidity), debt management position, and compliance.

**Accounting treatment of financial instruments**

The Council uses financial arrangements ("derivatives") for the primary purpose of reducing its financial risk to fluctuations in interest rates. The purpose of this section is to articulate Council's accounting treatment of derivatives in a broad sense. Further detail of accounting treatment is contained within the appropriate operations and procedures manual.

Under New Zealand Public Benefit Entity (PBE) International Public Sector Accounting Standards (IPSAS) changes in the fair value of derivatives go through the Income Statement unless derivatives are designated in an effective hedge relationship.

Council's principal objective is to actively manage the Council's interest rate risks within approved limits and chooses not to hedge account. Council accepts that the marked-to-market gains and losses on the revaluation of derivatives can create potential volatility in Council's annual accounts.

The ~~General Manager Finance and Corporate Services~~ Chief Financial Officer & General Manager Business Partnering is responsible for advising the Chief Executive of any changes to relevant New Zealand Public Sector PBE Standards which may result in a change to the accounting treatment of any financial derivative product.

All treasury financial instruments must be revalued (marked-to-market) at least every six months for risk management purposes.

The following reports will also be produced and any exceptions are reported to Council:

**Daily**

- Cashflow monitoring

**Monthly Executive reported via CFO and or Executive Leadership team reviews (reported quarterly via Finance and Performance Committee)**

- Gross and Net Debt Position including forecasts
- Current Fixed Debt Levels
- Interest Revenue & Expenditure
- Borrowing Limit Compliance
- Performance against benchmarks

**Quarterly Treasury Strategy Update – reported via Risk and Assurance Committee**

- Debt maturity profile
- Performance against benchmarks and budgets
- Fixed & Floating Debt profile
- Liquidity Risk

LGFA - Total debt and TCC debt

**10.0 POLICY REVIEW**

The Policy is to be formally reviewed on a triennial basis, and annually for internal purposes.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

The ~~General Manager Finance and Corporate Services~~ [Chief Financial Officer & General Manager Business Partnering](#) has the responsibility to prepare the annual review report that is presented to the Council. The report will include:

- Recommendation as to changes, deletions and additions to the Policy.
- Overview of the treasury function in achieving the stated treasury objectives and performance benchmarks.
- Summary of breaches of Policy and one-off approvals outside Policy.

The Council receives the report, approves Policy changes and/or rejects recommendations for Policy changes.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)****APPENDIX I - APPROVED BORROWING MECHANISMS****1.0 BANK BORROWING****1.1 Overdraft**

Overdraft facilities are calculated on a simple interest basis with interest calculated daily and paid in arrears. Overdraft facilities are usually for a term of up to one year and are priced off the bank's indicator rate. Most organisations use these facilities to borrow on an overnight basis.

The lending bank sets the indicator rate (which includes a liquidity and credit margin) at the time of negotiating the facility along with a line fee (expressed in basis points or percentage points per annum). This rate is usually set for the term of the facility.

**1.2 -Committed and Uncommitted Bank Facilities**

Committed bank facilities are calculated on a simple interest basis with interest paid in arrears (at the end of the borrowing period). Committed bank facilities are usually for a term of up to three years but may be for as long as five years. Most facilities allow for the borrower to draw up to the facility limit in various short term tranches, 90 day tranches is typically the drawdown period. Council is able to borrow, repay and redraw over the term of the facility.

The lending bank sets the bank bill bid market settlement (BKBM Bid) rate at the time of lending along with the line fee (expressed in basis points or percentage per annum) and credit margin. The BKBM Bid rate generally re-prices on a 90 day basis. The line fee and margin are generally fixed for the term of the facility.

**2.0 Local Authority Stock/Bonds**

Local authority stock is registered and issued via tender or private placement to a range of investors. It can be issued into the wholesale or retail investor market. Stock is usually issued for maturities ranging from 90 days (CP)- ~~and~~ one to ten years (stock). Normally a fixed coupon payment, determined at the outset, is made ~~semi-annually~~ semi-annually to the holder of the security. A 90 day floating interest rate may also be determined. The stock is registered with the Council appointed registrar. The paper can be unrated or credit rated by a rating agency like Standard & Poor's.

Private placement generally provides better rates for the Council as the relationship bank approaches their investor base for interest and both the Council and the investor are assured of anonymity. The relationship bank completes the documentation required. With a tender situation the issuing Council must provide an invitation to tender, an information memorandum, bid forms and a covering letter to all participants. The tender is widely advertised and market bids are obtained.

**3.0 NZ Local Government Funding Agency**

The NZ Local Government Funding Agency (LGFA) has been developed as a centralised Local Authority debt vehicle to generate significant benefits in respect of lower credit margins for the sector. The LGFA raises funds that are then lent on to Local Authorities at lower interest margins than those achievable through other sources. The LGFA achieves this through; economies of scale, credit rating arbitrage, and regulatory arbitrage. The LGFA also diversifies the sector's funding sources and improves the sectors access to liquidity and funding terms.

For LGFA placements, the Council can borrow at scheduled tender dates or via bespoke borrowing whereby Council provides two ~~days notice~~ day's notice of requirements. Ahead of these dates, Council informs the LGFA of its required funding amount and term. The LGFA tenders, and raises funds on behalf of Council.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

When the Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of "Borrower Notes". A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

## 7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)

### APPENDIX II –APPROVED INTEREST AND FOREIGN EXCHANGE RATE RISK MANAGEMENT INSTRUMENTS

#### ~~1.0(A)~~ INTEREST RATE RISK MANAGEMENT INSTRUMENTS

The use of interest rate risk management instruments is approved by Council as part of this policy.

Interest rate risk management instruments approved for use, consistent with the policy contained in Section ~~2.7(F)~~ are:

- Fixing through physical borrowing instruments – e.g. loan stock, debentures, bank term loan
- Floating rate bank debt may be spread over any maturity out to 12 months. Bank advances may be for a maximum term of 12 months.
- Forward Rate Agreements (FRA) on bank bills and government bonds. ~~(e)~~
  - Interest rate swaps including:
    - Forward start swaps/collars (start date less than 36 months unless linked to existing maturing fixed rate instruments);
    - Amortising and accreting swaps;
    - Swap restructurings
    - Purchase of interest rate options products on:
      - Swaptions.
        - Bank bills (purchased caps and one for one collars)
        - Government bonds.

- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation.
- Interest rate collar type option strategies. However, 1:1 collar option structures are allowable whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out in isolation (i.e. repurchased) otherwise both sides must be closed out simultaneously. The sold option leg of the collar structure must not have a strike rate “in-the-money”.
- The forward start date of the collar strategy is to be no more than 36 months, and the underlying cap, swap commences within this period, unless the forward start swap/collar starts on the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.
- Purchased borrower swaptions only that mature within 18 months.
- Additions to and deletions from this list are recommended by the General Manager Finance and approved by the Council.
- A glossary of terms for interest rate risk management mechanisms are set out in Appendix ~~IV(H)~~.

Any other financial instrument must be specifically approved by the Council on a case-by-case basis and only be applied to the one singular transaction being approved. Credit exposure on these financial instruments is restricted by specified counter party credit limits (refer Investment Policy).

The following interest rate risk management instruments are NOT permitted for use:

- Interest rate options must not be sold outright.
- Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

- Structured interest rate option strategies where there is any possibility of the Council's total interest expense increasing in a declining interest rate market or where the Council's total interest cost is increasing faster than the general market rate.
- Interest rate futures contracts, mainly for administrative ease.
- Interest rate risk management instruments in foreign currency (see s113 of the Act).

**2.0(P) FOREIGN EXCHANGE RATE RISK MANAGEMENT INSTRUMENTS**

The use of foreign exchange rate risk management instruments is approved by the Council as part of this Policy.

Foreign exchange rate risk management instruments approved for use, consistent with the Policy contained in Section (~~2.12~~) are:

- Foreign currency deposits
- Purchased currency options
- Forward foreign exchange contracts
- One for one collars
  - Foreign exchange options cannot be sold outright.
  - The purchase price paid for an option (premium) is to be amortised (spread) over the period of cover and added to the actual average exchange rate achieved by the Council.

Financial instruments other than those stipulated in Appendix II above require one-off Council approval prior to transacting.

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)****APPENDIX III - APPROVED FINANCIAL INSTRUMENTS****1.0 NEW ZEALAND GOVERNMENT****1.1 Treasury Bills**

Treasury bills are registered securities issued by the Debt Management Office (DMO) on behalf of the government. They are usually available for terms of up to a year, with 90 or 180 day terms generally preferred by investors. They are discounted instruments held primarily for bank balance sheet liquidity management purposes.

**1.2 Government bonds**

Government bonds are registered securities issued by the DMO on behalf of the government. They are available for terms ranging from one to twelve year maturities. Government bonds have fixed coupon (interest) payments every six months. It is quoted on a semi annual yield basis and is priced on a discounted cashflow basis. It is readily negotiable in a secondary market.

**2.0 NZ LOCAL GOVERNMENT FUNDING AGENCY****2.1 Commercial Paper (also known as Promissory Notes)**

Commercial paper (CP) is issued by borrowers who usually have a credit rating and standing in the market that is sufficient to enable the CP to be issued without endorsement or acceptance by a bank. In this instance the LGFA being highly credit rated. Commercial paper is issued with maturities ranging from 7 days to over one year. The common maturities are for 30 and 90 days. Council is restricted to investing in CP with maturities of no more than 90 days. CP is generally preferred over term deposits because investors can sell them prior to maturity without suffering the penalty interest costs common to term deposits.

**2.2 Borrower Notes**

On occasion when Council borrows from the LGFA it will be required to contribute part of that borrowing back as equity in the form of "Borrower Notes". A Borrower Note is a written, unconditional declaration by a borrower (in this instance the LGFA) to pay a sum of money to a specific party (in this instance the Council) at a future date (in this instance upon the maturity of the loan). A return is paid on the Borrower Notes and can take the form of a dividend if the Borrower Notes are converted to redeemable preference shares.

**2.3 Bonds**

With a medium term note (MTN) a fixed coupon payment is made semi-annually to the holder of the security. They are priced on a semi-annual yield basis and are issued at a par/premium or discount to face value. Floating rate notes (FRN) are bonds where interest is paid quarterly at a margin over the bank bill bid rate. LGFA bonds are negotiable and can be bought and sold in the secondary market.

**3.0 NEW ZEALAND REGISTERED BANKS****3.1 Call and Term deposits**

Call and term deposits are funds accepted by the bank on an overnight basis (call) or for a fixed term. Interest is usually calculated on a simple interest basis. Term deposits are for a fixed term that is held to maturity. Term deposits are not negotiable instruments and termination prior to maturity date is only achievable with 31 days notice.

**3.2 Registered Certificates of Deposit (RCD)**

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**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

RCDs are securities issued by banks for their funding needs or to meet investor demand. They are registered at the RBNZ or held 'on behalf of' by the dealing bank. Details of registration include the name of the investor, face value and maturity date. Ownership can only be transferred by electronic transfer. RCDs are priced on a yield basis and issued at a discount to face value or on a grossed up basis. They are generally preferred over term deposits because investors can sell them prior to maturity.

|



**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)****APPENDIX IV – ROLES AND RESPONSIBILITIES**

- Full Council (of elected members)
- Risk and Assurance Committee (RAC)
- Executive (Chief Executive (“CE”) and / or CFO and General Manager of Business Partnering (“CFO”))
- Chief Financial Officer and General Manager of Business Partnering (“CFO”)
- Manager Financial Accounting
- Financial Accountant
- Financial Planning and Reporting Manager or Senior Management Accountant

The respective responsibilities of those personnel involved in the treasury function are detailed below.

**Council – or approved committee of council**

- Approves the treasury policy in line with Long Term Plan adoption.
- Approves any amendments to the policy as recommended by the executive.
- Approves total borrowing through the borrowing resolution within Long Term Plan adoption
- Approves any risk management strategies proposed from time to time outside the delegated authorities outlined in this policy
- Approves any new borrowing or financing arrangements outside normal general borrowing as approved under the borrowing resolution including allowable financial instruments.
- Approves amendments to existing LGFA agreements

**Risk and Assurance Committee (RAC)**

- The council committee in charge of risk monitoring considers on a quarterly basis the implementation of the Council’s treasury management strategies.
- Monitors and reviews the management of the treasury function to ensure that it is effective and Council’s strategic objectives are being met.
- Recommending the Treasury Policy (or changes to existing policy) to the Council.
- Receiving recommendations from the CFO and GM of Business Partnering/Manager Financial Accounting and making submissions to the Council on all treasury matters requiring Council approval.
- Recommending performance measurement criteria for all treasury activities.
- Monitoring quarterly performance against benchmarks.
- Recommend to Council new financial instruments.

**Executive (CE or CFO)**

- Approves any amendments to the Treasury Policy recommended by the Manager Financial Accounting
- Approves funding from bank facilities and the capital markets including the Local Government Funding Agency (“LGFA”).
- Recommends the borrowing resolution to council based on relevant approved annual plan and Long Term Plan

**Manager Financial Accounting**

- Organises all new or amended borrowing facilities which shall then be submitted to the CE for approval or GM as appropriate per delegation
- Undertake borrowing and investment consistent with Treasury Policy
- Undertake interest rate risk management in accordance with the Treasury Policy
- Reports quarterly to the Risk and Assurance Committee on treasury risk management activities.
- Manages the funding and liquidity activities of the Council.
- Maintains lender relationships with the banks and the capital markets including the LGFA.
- Monitors and reviews the ongoing treasury risk management performance of the Council to ensure compliance with the policy parameters.
- Responsible for preparation of all treasury reports

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**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

- Determines in consultation with the Financial Planning and Reporting Manager (or Senior Management Accountant) the level of future core debt to be used for interest rate risk management purposes.

**Financial Accountant (or Manager Financial Accounting subject to segregation of duties)**

- Undertakes all treasury transactions which will include but not be limited to the following:
  - Funding from bank facilities and the capital markets including the LGFA.
  - Interest rate derivative transactions relating to the hedging of the Council's debt.
  - Placing of deposits in the short term money market or fixed interest market.
  - Investing in bonds in the fixed interest market.
  - Interest rate derivative transactions relating to the hedging of the Council's debt.
  - Undertakes short term borrowing transactions with the bank or from the LGFA.
  - Invests surplus cash for terms generally not exceeding 90 days.
  - Checks external counterparty advices on treasury transactions to records generated internally by other staff.

**Financial Planning and Reporting Manager (or Senior Management Accountant)**

- Provides support and review to Treasury function
- Ensures borrowing resolution and Treasury activities consistent with annual plan and or Long Term Plan and current business issues and operations
- Monitors and reviews the ongoing treasury risk management performance to ensure compliance with the policy parameters.

## Risk and Assurance Committee - AGENDA

## 7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)

## APPENDIX V - DELEGATIONS

| <u>Activity</u>  | <u>Delegated to:</u>  | <u>Limit</u>   |
|--|---|--|
| <u>Approve policy document</u>   | <u>Council (or appropriate Committee)</u>   | <u>Unlimited</u>   |
| <u>Alter policy document</u>   | <u>Council (or appropriate Committee)</u>   | <u>Unlimited</u>   |
| <u>Acquisition and disposition of investments other than financial investments</u>   | <u>Council (or appropriate Committee)</u>   | <u>Unlimited</u>   |
| <u>Approving new and reviewing re-financed bank facilities.</u>  | <u>Chief Financial Officer or CE</u>  | <u>Subject to Policy</u>   |
| <u>Approval of borrowing programme for the year</u>  | <u>Council (or appropriate Committee)</u>   | <u>Unlimited (subject to legislative and other regulatory limitations)</u> |
| <u>Approval for charging assets as security over borrowing</u>   | <u>Council (or appropriate Committee)</u>   | <u>Unlimited</u>   |
| <u>Approve interest rate, foreign currency and electricity price risk management instruments</u>   | <u>Council (or appropriate Committee) (outside policy as otherwise delegated to Manager Financial Accounting through this policy)</u> | <u>Subject to Policy</u>   |
| <u>Open/close bank accounts</u>  | <u>Chief Financial Officer in conjunction with other authorised signatories of which two including CFO are required</u>               | <u>Unlimited</u>   |
| <u>Loan and legal derivative documentation</u>   | <u>Chief Financial Officer</u>  | <u>N/A</u>   |
| <u>Approve authorised cheque/electronic signatories</u>  | <u>Manager Financial Accounting or other authorised signatories two required</u>  | <u>Unlimited</u>   |
| <u>Maximum daily transaction amount (borrowing, investing, interest rate, foreign currency, electricity price risk management and cash management) excludes roll-overs on existing debt and interest rate swaps.</u> | <u>Council (or appropriate committee)<br/>Chief Executive Officer or as subdelegated to Chief Financial Officer</u>                   | <u>Unlimited<br/>Per delegations policy</u>                                |
| <u>Approve Treasury Strategy</u>   | <u>Council (or appropriate committee)</u>   | <u>N/A</u>   |
| <u>Amend counterparty limit exposures</u>  | <u>Council (or appropriate committee)</u>   | <u>Unlimited</u>   |
| <u>Implement Policy</u>  | <u>Chief Executive and sub delegated to Chief Financial Officer</u>   | <u>Per policy risk control limits</u>                                      |
| <u>Ensuring compliance with Policy</u>   | <u>Chief Financial Officer</u>  | <u>N/A</u>   |
| <u>Approving transactions outside Policy</u>   | <u>Council (or appropriate committee)</u>   | <u>Unlimited</u>   |
| <u>Triennial review of Policy</u>  | <u>Chief Financial Officer</u>  | <u>N/A</u>   |

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)****APPENDIX VIII - GLOSSARY OF TERMS FOR TREASURY MANAGEMENT**

| <u>Term</u>      | <u>Definition</u>  |
|------------------|--|
| Amortising Swap  | An interest rate swap contract that has a reducing principal or notional amount over the term of the contract period. The appropriate market swap rate from which to price an amortising swap is the weighted average maturity, not the final maturity date.                                   |
| Accreting Swap   | An interest rate swap contract that has an increasing principal or notional amount over the term of the contract period. The appropriate market swap rate from which to price an accreting swap is the weighted average maturity, not the final maturity date.                                 |
| Bank Bill        | A “bill of exchange” security document issued by a corporate borrower, but guaranteed by a bank, who then in turn sells the security into the bank/investor market to re-liquefy itself with cash. Normally for terms of 30, 60, 90 or 180 days.   |
| Base rate        | Normally a lending bank’s cost of funds/interest rate for a particular funding period. The base or “prime” rate will be changed by the bank from time to time, but not every day like market rates.  |
| Basis Point(s)   | In financial markets it is normal market practice to quote interest rates to two decimal places e.g. 4.25% - one basis point is the change from 4.25% to 4.26%, one hundred basis points is the change from 4.25% to 5.25%.  |
| Basis Risk       | The risk that the interest rate difference between the current physical debt instrument (say, a bank bill) market interest rate and the interest rate quoted for that debt instrument’s future price (say, a bank bill futures price) changes over the period to the date of the future price. |
| Benchmark        | An agreed market related yardstick that investor returns, funding costs or average exchange rate achieved are compared against for performance measurement purposes.   |
| Bid–Offer Spread | The exchange points (FX) or basis points (interest rates) difference between the bid and offer rate when quoted by a bank is known as the “bid-offer spread”. Banks make their profits from dealing at their own bid and offer prices, thus earning the spread.                                |
| Bid Rate         | Exchange rates and interest rate securities/instruments that are traded between banks are always quoted as a two-way price. One rate is where the quoting bank will buy – the bid rate, the second rate or price where the bank will sell at – the offer rate.                                 |
| Bond             | The security instrument that is issued by a borrower whereby they promise to repay the principal and interest on the due dates. A bond’s interest rate is always fixed.  |
| Bond FRA         | A tailored contract to buy or sell a bond (Government or Corporate) at a fixed interest rate at some specified future date. The Bond FRA contract rate will differ from the current physical market bond yield, depending on the slope of the interest rate yield curve.                       |
| Bond Option      | The right, but not the obligation by the owner/holder of the option to buy or sell bonds (Government or Corporate) at a predetermined interest rate at a   |

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**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

|                             |  |
|-----------------------------|--|
|                             | specified future date. The buyer pays a “premium” in cash up-front to reduce risk and have insurance-type protection, the seller or grantor of the bond option receiving the premium for assuming the risk.  |
| Call Option                 | The owner or buyer of a call option has the right, but not the obligation, to buy the underlying debt security/currency/commodity at the price stated in the option “contract.   |
| Cap                         | A series or string of bought interest rate put options whereby a borrower can have protection against rising short term interest rates, but participate in the lower rates if market rates remain below the “capped rate.” A cap is normally for more than one 90-day funding period.  |
| Caplet                      | A series of call options (caplets) which exist for each period the cap agreement is in existence.  |
| Certificate of Deposit “CD” | A debt instrument (normally short term) issued by a bank to borrow funds from other banks/investors.   |
| Closing-Out                 | The cancellation/termination of a financial instrument or contract before its maturity date, resulting in a realised gain/loss as the current market rate differs from the contract rate.  |
| Collar                      | Two option contracts linked together into the one transaction or contract. A borrower’s collar is normally a bought “cap” above current market rates and a sold “floor” below current rates. Over the term of the collar contract, if rates go above the cap the borrower is protected and pays an interest cost no more than the cap rate. Likewise, if market rates fall below the floor, the borrower pays the floor rate and does not participate in the lower market rates. Also called a “cylinder”. |
| Collateral                  | A legal term means “security”.   |
| Commercial Paper            | The debt security instrument issued by a prime (and normally credit-rated) borrower to raise short-term funds (30, 60, 90 or 180 days). Also called “one-name paper” and “promissory notes” issued by competitive public tender to investors or by private treaty to one investor.   |
| Commoditised                | When a financial market or instrument becomes so popular and “plain vanilla” that there is no longer any difference in the prices quoted by participants in the market.  |
| Convexity                   | A measure of the degree of curve or slope in an interest rate yield curve.   |
| Convertible Bonds           | A debt instrument issued to investors by a borrower that has a fixed interest rate for a period and then converts (under a strict pricing formula) to shares in the issuing company.   |
| Coupon                      | The interest rate and amount that will be paid on the interest due dates of a bond. The coupon will normally differ from the purchase or issue yield/interest rate on a bond instrument.   |
| Counter party               | The contracting party to a financial transaction or financial instrument.  |
| Covenants                   | Special conditions and financial ratios required to be met or maintained by a borrower for a lender under the legal security documents.  |

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

|                                      |   |
|--------------------------------------|---|
| Cover                                | A term used to describe any action of entering financial instruments that reduces risk or puts protection in place against adverse future price movements.  |
| Credit Default Swap                  | A credit default swap (CDS) is a credit derivative between two counterparties, whereby one makes periodic payments to the other and receives the promise of a payoff if a third party defaults. The former party receives credit protection and is said to be the "buyer" while the other party provides credit protection and is said to be the "seller". The third party is known as the "reference entity". CDS resemble an insurance policy, as they can be used by debt owners to hedge, or insure against credit events such as a default on a debt obligation. However, because there is no requirement to actually hold any asset or suffer a loss, credit default swaps can also be used for speculative purposes. |
| Counterparty Credit Risk or Exposure | The risk that the other party to a financial transaction (bank deposit, interest rate swap contract) will default on or before the maturity date and not be able to fulfil their contractual obligations.   |
| Credit Spread                        | The interest rate difference (expressed as basis points) between two types of debt securities. The credit spread being a reflection of the difference in credit quality, size, and liquidity between the two securities e.g. five year corporate bonds may be at a credit spread of 200 basis points above Government bonds.  |
| Current Ratio                        | A liquidity measure to determine how quickly the Council can generate cash. Current assets are divided by current liabilities.  |
| Debenture                            | A debt instrument similar to a bond whereby a borrower (normally a finance company) borrows for a longer term at a fixed rate. Also a legal instrument provided as security to a lender.  |
| Delta                                | "Greek" letter that measures how the price of an option (premium) changes given a movement in the price of the underlying asset/instrument.   |
| Derivative(s)                        | A "paper" contract whose value depends on the value of some "underlying" referenced asset e.g. share market stocks, bank bills, bonds or foreign currency. Also called a "synthetic." The value of the assets will change as its market price changes; the derivative instrument will correspondingly change its value.   |
| Digital Option                       | An option contract that provides a predetermined payout based on an agreed and contracted market price path.  |
| Discount                             | A bond or bank bill is discounted when the interest rate is applied to the face value of the security and the net proceeds after deducting the interest is paid out to the borrower. Investors pay for the discounted (NPV) value at the commencement of the investment and receive the interest coupon payments along the way and the full face value at the maturity date.  |
| Duration                             | Not the simple average maturity term of a debt or investment portfolio, but a measure of the interest rate risk in a portfolio at a particular point in time. The duration of a portfolio is the term (measured in years and months) if the total portfolio of bonds/fixed interest investments was revalued at market rates and expressed as one single bond. The profit/loss on revaluation of a one basis point movement being the same in both cases.   |

## Risk and Assurance Committee - AGENDA

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

|                        |  |
|------------------------|--|
| Embedded Option        | An option arrangement that may be exercised by a borrower at a future date, but the determining conditions are buried or “embedded” in a separate debt or financial instrument.  |
| Eurodollar             | The borrowing and depositing of a currency outside its domestic financial markets.   |
| Event Risk             | The risk of a major/unforeseen catastrophe e.g. earthquake, year 2000, political elections, adversely affecting a Council’s financial position or performance.   |
| Exchange - Traded      | A currency, debt or financial instrument that is quoted and traded on a formal exchange with standardised terms, amounts and dates.  |
| Exercise Date/Price    | The day and fixed price that an option contract is enforced/acted on or “exercised” because it is in the interests of one of the parties to the contract to do so.   |
| Fair Value             | The current market value of an off-balance sheet financial instrument should it be sold or closed-out on the market rates ruling at the balance date.  |
| Federal Reserve        | The US Government’s central bank and/or monetary authority.  |
| Fixed Rate             | The interest rate on a debt or financial instrument is fixed and does not change from the commencement date to the maturity date.  |
| Floating Rate          | The interest rate on a loan or debt instrument is re-set at the reference market interest rates on the maturity date of the stipulated funding period (usually 90-days).   |
| Floor                  | The opposite of a “cap.” An investor will buy a floor, or a series/string of call options (the right to buy) to protect against falling interest rates, but be able to invest at higher interest rates if rates move upwards. A borrower may sell a floor as part of a collar structure to generate premium to pay for the “linked” bought cap.            |
| Floorlet               | A series or string of floor options which exist for each period the floor agreement is in existence.   |
| Forward Rate Agreement | A contract (“FRA”) whereby a borrower or investor in Bank Bills or Government Bonds agrees to borrow or invest for an agreed term (normally 90-days) at a fixed rate at some specified future date. A FRA is an “over-the-counter” contract as the amount and maturity date is tailored by the bank to the specific requirements of the borrower/investor. |
| Forward Start Swap     | An interest rate swap contract that commences at a future specified date. The rate for the forward starting swap will differ from the current market rate for swaps by the shape and slope of the yield curve.   |
| Funding Risk           | The risk that a borrower cannot re-finance its debt at equal or better terms at some date in the future, in terms of lending margin, bank fees and funding time commitment. Funding risk may increase due to the Council’s own credit worthiness, industry trends or banking market conditions.  |
| Futures                | Exchange-traded financial and commodity markets which provide forward prices for the underlying asset, instrument or commodity. Futures contracts are standardised in amount, term and specifications. Futures markets are   |

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## Risk and Assurance Committee - AGENDA

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

|                         |  |
|-------------------------|--|
|                         | cash-based, transacting parties do not take any counter party credit risk on each other. Deposits and margin-calls are critical requirements of all futures markets.   |
| Gamma                   | “Greek” letter used in option pricing that measures how rapidly the delta of an option changes given a change in the price of the underlying asset/instrument.   |
| Hedging                 | The action of entering forward and derivative contracts that neutralise the price risk on underlying financial exposures or risks. The gain or loss due to future price movements on the underlying exposure is offset by the equal and opposite loss and gain on the hedge instrument.  |
| High-Yield Bonds        | Corporate bonds issued by borrowing companies that are non-prime i.e. have a low or no credit rating. The margin or credit spread above Government bond yields is high (>300 basis points) to compensate the investor into the bond for the higher credit and liquidity risk.  |
| Implied Volatility      | Used in option pricing. To estimate the future volatility of the underlying asset or instrument, the option pricing models use historical volatility (expressed as percentage) as a key variable to calculate the option premium amount.<br>The movement in option prices is therefore a good indicator of future market volatility, as volatility is “implied” in the option price.   |
| Index Linked Bonds      | Debt instruments that pay an interest coupon or return that is wholly or partially governed by the performance of another separate index e.g. a share market index, or the gold price.   |
| ISDA                    | International Swaps and Derivatives Association: a governing body that determines legal documentation/standards for over-the-counter swaps/options/FRAs and other derivative instruments for interest rates, currencies, commodities etc. Corporate users of such instruments sign an ISDA Master Agreement with banking counter parties that covers all transactions.   |
| Incidental Arrangements | The term used in the Local Government Act for interest rate risk management instruments or derivatives.  |
| Interest Rate Swaps     | A binding, paper contract where one party exchanges, or swaps, its interest payment obligations from fixed to floating basis, or floating to fixed basis. The interest payments and receipts under the swap contract being offsetting, equal and opposite to the underlying physical debt.   |
| “In-the-Money” Option   | An option contract that has a strike price/rate that is more favourable or valuable than the current market spot or forward rate for the underlying currency/instrument.   |
| Inverse Yield Curve     | The slope of the interest rate yield curve (90-days to years) is “inverse” when the short-term rates are higher than the long-term rates. The opposite, when short-term rates are lower than long-term interest rates is a normal curve or “upward sloping.” In theory, a normal curve reflects the fact that there is more time, therefore more time for risk to occur in long term rates; hence they are higher to build in this extra risk premium. |
| Liability Management    | The policy, strategy and process of pro-actively managing the treasury exposures arising from a portfolio of debt.   |

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## Risk and Assurance Committee - AGENDA

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

|                    |   |
|--------------------|---|
| LIBOR              | London Inter-bank Offered Rate, the average of five to six banks quote for Eurodollar deposits in London at 11:00am each day. The accepted interest rate-fixing benchmark for most offshore loans.  |
| Limit(s)           | The maximum or minimum amount or percentage a price or exposure may move to before some action or limitation is instigated. Also called "risk control limits".  |
| Liquidity Risk     | The risk that the Council cannot obtain cash/funds from liquid resources or bank facilities to meet foreseen and unforeseen cash requirements. The management of liquidity risk involves working capital management and external bank/credit facilities.  |
| Loan Stock         | See definition Appendix I   |
| "Long" Position    | Holding an asset or purchased financial instrument in anticipation that the price will increase to sell later at a profit.  |
| Look-back Option   | An option structure where the strike price is selected and the premium paid at the end of the option period.  |
| Marked-to-Market   | Financial instruments and forward contracts are revalued at current market rates, producing an unrealised gain or loss compared to the book or carrying value.  |
| Margin             | The lending bank or institution's interest margin added to the market base rate, normally expressed as a number of basis points.  |
| Medium Term Notes  | A continuous program whereby a prime corporate borrower has issuance documentation permanently in place and can issue fixed rate bonds at short notice under standard terms.  |
| Moody's            | A rating agency similar to Standard & Poor's.   |
| Netting            | Method of subtracting currency receivables from currency payables (and vice versa) over the same time period to arrive at a net exposure position.  |
| Open Position      | Where a Council has purchased or sold an asset, currency, financial security or instrument unrelated to any physical exposure, and adverse/favourable future price movements will cause direct financial loss/gain.   |
| Option Premium     | The value of an option, normally paid in cash at the commencement of the option contract, similar to an insurance premium.  |
| Order              | The placement of an instruction to a bank to buy or sell a currency or financial instrument at a preset and pre-determined level and to transact the deal if and when the market rates reach this level. Orders are normally placed for a specific time period, or "good till cancelled." The bank must deal at the first price available to them once the market level is reached. Some banks will only take orders above a minimum dollar amount. |
| "Out-of-the-Money" | An option contract which has a strike price/rate that is unfavourable or has less value than the underlying current spot market rate for the instrument.  |
| Over-the-Counter   | Financial and derivative instruments that are tailored and packaged by the bank to meet the very specific needs of the corporate client in terms of amount, term, price and structure. Such financial products are non-standard and not traded on official exchanges.   |

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**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

|                             |  |
|-----------------------------|--|
| Perpetual Issue             | A loan or bond that has no final maturity date.  |
| Pre-hedging                 | Entering forward or option contracts in advance of an exposure being officially recognised or booked in the records of the Council.  |
| Primary Market              | The market for new issues of bonds or MTNs.  |
| Proxy Hedge                 | Where there is no forward or derivative market to hedge the price risk of a particular currency, instrument or commodity. A proxy instrument or currency is selected and used as the hedging method as a surrogate. There needs to be a high correlation of price movements between the two underlying prices to justify using a proxy hedge.  |
| Put Option                  | The right, but not the obligation to sell a debt security/currency/commodity at the contract price in the option agreement.  |
| Revaluation                 | The re-stating of financial instruments and option/forward contracts at current market values, different from historical book or carrying values. If the contracts were sold/ bought back (closed-out) with the counter party at current market rates, a realised gain or loss is made. A revaluation merely brings the contract/instrument to current market value.   |
| Repurchase Agreement (Repo) | A sale and repurchase agreement has a borrower sell securities for cash to a lender and agrees to repurchase those securities at a later date for more cash. The repo rate is the difference between borrowed and paid back cash expressed as a percentage. For example, the RBNZ in open market operations buys securities from financial institutions who agree to buy them back at a cost of OCR plus margin. |
| Reverse Repo                | The same repurchase agreement from the buyers' perspective, i.e. the seller executing the transaction would describe it as a 'repo', while the buyer in the same transaction would describe it as a 'reverse repo'   |
| Roll-over                   | The maturity date for a funding period, where a new interest rate is reset and the debt re-advanced for another funding period.  |
| Secondary Market            | The market for securities or financial instruments that develops after the period of the new issue.  |
| "Short" Position            | Selling of an asset or financial instrument in anticipation that the price will decrease or fall in value to buy later at a profit.  |
| Spot Rate                   | The current market rate for currencies, interest rates for immediate delivery/settlement, and normally two business days after the transaction is agreed.  |
| Standard & Poor's           | A credit rating agency that measures the ability of an organisation to repay its financial obligations.  |
| Stop Loss                   | Bank traders use a "stop-loss order" placed in the market to automatically closeout an open position at a pre-determined maximum loss.   |
| Strike Price                | The rate or price that is selected and agreed as the rate at which an option is exercised.   |
| Strip                       | A series of short-term interest rate FRAs for a one or two year period, normally expressed as one average rate.  |

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## Risk and Assurance Committee - AGENDA

**7.5.1 Appendix 1 - Treasury Policy (Draft – Marked Up)(Cont.)**

|                    |   |
|--------------------|---|
| Structured Options | An option instrument where the relationship/profile to the underlying referenced asset or liability is not linear i.e.1:1   |
| Swap Spread        | The interest rate margin (in basis points) that interest rate swap rates trade above Government bond yields.  |
| Swaption           | An option on an interest rate swap that if exercised the swap contract is written between the parties. The option is priced and premium paid similar to bank bill and bond interest rate options.   |
| Swaption Collar    | The simultaneous position of entering into 2 option contracts on 2 interest rate swaps linked together into one transaction. A swaption collar performs similarly to a 'collar' where from a borrower's perspective a top-side position above current market rates and a bottom-side position below current market rates are entered into. On maturity of the options and depending on current interest rates relative to the strike levels on the swaps will determine if either swap is transacted. |
| Station            | An option on an interest rate swap that if exercised the swap contract is written between the parties. The option is priced and premium paid similar to bank bill and bond interest rate options.   |
| Time Value         | Option contracts taken for longer-term periods may still have some time value left even though the market rate is a long way from the strike rate of the option and the option is unlikely to be exercised.   |
| Tranches           | A loan may be borrowed in a series of partial drawdowns from the facility, each part borrowing is called a tranche.   |
| Treasury           | Generic term to describe the activities of the financial function within the Council that is responsible for managing the cash resources, financial investments, debt, and interest rate risk.  |
| Treasury Bill      | A short term (<12 months) financing instrument/security issued by a Government as part of its debt funding program.   |
| Vega               | Another "Greek" letter that is the name given to the measure of the sensitivity of the change in option prices to small changes in the implied volatility of the underlying asset or instrument price.  |
| Volatility         | The degree of movement or fluctuation (expressed as a percentage) of an asset, currency, commodity or financial instrument price over time. The percentage is calculated using mean and standard deviation mathematical techniques.   |
| Yield              | Read-interest rate, always expressed as a percentage.   |
| Yield Curve        | The plotting of market interest rate levels from short term (90-days) to long term on a graph i.e. the difference in market interest rates from one term (maturity) to another.   |
| Zero Coupon Bond   | A bond that is issued with the coupon interest rate being zero i.e. no cash payments of interest made during the term of the bond, all interest paid on the final maturity date. In effect the borrower accrues interest on interest during the term, increasing the total interest cost compared to a normal bond of paying interest quarterly, half-yearly or annually.   |

## 7.6 Significant Forecasting Assumptions for the 2024-34 Long Term Plan – Interest Rate Credit Rating Assumption Update May 2024

### 7.6 Significant Forecasting Assumptions for the 2024-34 Long Term Plan – Interest Rate Credit Rating Assumption Update May 2024



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|             |   |
|-------------|---|
| To:         | <b>Risk and Assurance Committee</b>                   |
| Date:       | <b>13 November 2023</b>                               |
| Author:     | <b>Gary Connolly / CFO and GM Business Partnering</b> |
| Authoriser: | <b>Steph O'Sullivan / Chief Executive</b>             |
| Reference:  | <b>A2665741</b>                                       |

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#### 1. Reason for the report - *Te Take mō tēnei rīpoata*

The purpose of this report is to identify the potential to reassess interest rate cost assumptions for inclusion in the final draft of the Council's Long Term Plan 2024-34 to reflect a credit rating scenario prior to submission of the final draft to the Environment, Energy and Resilience Committee in late May.

#### 2. Recommendations - *Tohutohu akiaki*

1. That the Risk and Assurance Committee **receive** the Significant Forecasting Assumptions - Significant Forecasting Assumptions for the 2024-34 Long Term Plan - Interest Rate Credit Rating Assumption Update May 2024; and,
2. That the Risk and Assurance Committee **endorses** the use of the PWC Cost of Funds Analysis - May 2024 interest rates assumptions AA- rated scenario (Table 4.1 Recommended / Appendix 1); and,
3. That the Risk and Assurance Committee **note** that the assumptions will be made available to Audit New Zealand.

#### 3. Background - He tirohanga whakamuri

##### 3.1. Assumptions

A forecasting assumption is a circumstance that Council accepts is true and/or will happen as it develops the Long Term Plan. Assumptions provide a basis for decision making in the present about unknown events in the future, they also demonstrate that the Long Term Plan is grounded in what we know in the present.

##### 3.2. Committee's Role in Providing Advice

Council's Long Term Plan must clearly identify all of the significant assumptions that Council has used to develop financial forecasts and budgets, and the risks underlying the financial estimates. Further, Section (14) of the Local Government Act requires a local authority to ensure prudent stewardship and efficient use of its resources, which includes using the best information available and applying it appropriately when planning.

**7.6 Significant Forecasting Assumptions for the 2024-34 Long Term Plan – Interest Rate Credit Rating Assumption Update May 2024(Cont.)**

The Risk and Assurance Committee has delegated responsibility to advise the Council on risk and risk appetite, and therefore is asked to provide guidance to the Environment, Energy and Resilience Committee, who has the delegated responsibility to develop Council's Long Term Plan.

Legislation dictates that the Council must articulate its assumptions concerning the life cycle of significant assets and the funding sources for future replacement of significant assets. For the remaining assumptions Council identifies it must outline the certainty and make an estimate of the potential effects on the financial estimates in the Long Term Plan.

Council must be able to justify these assumptions to Audit New Zealand during the audit of the Consultation Document and must disclose these in the final Long Term Plan document.

**3.3. Development of Assumptions**

The Strategy and Policy team has previously presented assumptions to this Committee in August 2023, and November 2023 including the basis for the development of the assumptions. This update is limited solely to the specific assumptions provided for related to the cost of external interest and does not include any proposed changes to any other assumptions previously presented or as provided in release of the Consultation Document.

**4. Discussion - *Kaupapa***

Of the five key assumptions identified in the report to this Committee in August 2023, and subsequently presented for ERL (Business and Economic Research) adjustors and Local Government Cost Index for inflation update of October 2023 to this Committee in November 2023, the only assumption addresses in this assumption is that related the cost of external interest.

Council in its meeting of 14 March 2024 approved the Proposal to Seek Credit Rating, in order to enable the CFO and GM Business Partnering to then instigate the appropriate action in applying for a credit rating. Achieving a credit rating to facilitate required levels of debt facility is in itself a key assumption of the Long Term Plan 2034.

Achievement of a monitored rating would have a direct impact on Whakatāne District Councils cost of funds through LGFA. Management requested PWC to undertake independent modelling based on Councils Consultation Document prospective borrowings levels, comparing interest rates based unrated and rated scenarios.

Fitch assigned Far North District Council with a first time "AA" rating in January 2024. We would hope to achieve a similar rating, however taking a conservative approach we requested PWC model the interest cost scenarios based on WDC achieving a "AA- "rating.

**7.6 Significant Forecasting Assumptions for the 2024-34 Long Term Plan – Interest Rate Credit Rating Assumption Update May 2024(Cont.)**

Based on this we know present the following table of comparative of alternate interest assumption scenarios:

**Table 4.1**

|         | Unrated Sept. 2024<br>[Current] | Unrated May 2024 | Rate "AA-"May 2024<br>[Recommended] |
|---------|---------------------------------|------------------|-------------------------------------|
| FY-2025 | 5.22%                           | 5.05%            | 5.03%                               |
| FY-2026 | 4.95%                           | 4.86%            | 4.80%                               |
| FY-2027 | 4.79%                           | 4.89%            | 4.79%                               |
| FY-2028 | 4.92%                           | 5.09%            | 4.96%                               |
| FY-2029 | 5.33%                           | 5.36%            | 5.21%                               |
| FY-2030 | 5.45%                           | 5.49%            | 5.33%                               |
| FY-2031 | 5.58%                           | 5.59%            | 5.43%                               |
| FY-2032 | 5.73%                           | 5.79%            | 5.63%                               |
| FY-2033 | 5.84%                           | 5.86%            | 5.70%                               |
| FY-2034 | 5.94%                           | 5.94%            | 5.78%                               |

\* Current LTP2034 assumptions are based on Sep. 2023 Treasury Report | Page 26 | Waters Out

If Whakatāne District Council received an "AA" rating it would receive an additional 5 bps reduction in interest rate costs under LGFAs differentiate margins for rated versus unrated Councils.

**5. Significance and Engagement Assessment - *Aromatawai Pāhekoheko***

**5.1. Assessment of Significance**

The decisions and matters of this report are assessed to be of high significance in accordance with Council's Significance and Engagement Policy.

Assumptions are impacting several criteria used to determine overall significance

- Rating impact: the expected costs to the community or sectors within the community, in terms of rates.
- Financial impact: the expected financial impact on Council including on budgets, reserves, debt levels, overall rates, and limits within the Council's Financial Strategy.
- Impact on current and future wellbeing

## **7.6 Significant Forecasting Assumptions for the 2024-34 Long Term Plan – Interest Rate Credit Rating Assumption Update May 2024(Cont.)**

There is elevated uncertainty around several assumptions, which could materialise as a significant rating or financial impact for the Council, or significantly impact the future wellbeing of the community moving forward.

These assumptions will be updated three yearly alongside each Long Term Plan and rating and debt implications will be reassessed through each Annual Plan.

### **5.2. Engagement and community views**

The current assumption indicated above were used in the consultation document. Any change to the alternate scenarios is not considered material, therefore public participation is not required to inform decision-making, as set out in Section 6.1(a) of the Council's Significance and Engagement Policy.

## **6. Considerations - *Whai Whakaaro***

### **6.1. Financial/budget considerations**

The assumptions proposed through this report will influence the financial forecasts developed through the Long Term Plan 2024-34, and consequently future rates, debt levels etc.

Financial assumptions will be reviewed to reflect latest information available.

It is possible that some of these assumptions may need further evidence to adequately demonstrate Council's confidence in these assumptions to Audit New Zealand.

It is expected that any such resource requirement will be met from existing budgets.

### **6.2. Policy and planning implications**

These assumptions may have a significant impact on the overall budget and direction for Council as articulated in the Long Term Plan, in particular assumptions around revenue and expenditure. The closer our assumptions are to reality, the greater the predictive value of the Long Term Plan will be.

### **6.3. Strategic alignment**

No inconsistencies with any of the Council's policies or plans have been identified in relation to this report.

### **6.4. Climate change assessment**

Based on this climate change assessment, the decisions and matters of this report are assessed to have high climate change implications and considerations, in accordance with the Council's Climate Change Principles.

### **6.5. Risks**

There is a risk that any material issue with our forecasting assumptions, remodelling their impacts financially and non-financial and to have these audited prior to the release of the consultation document or the Long Term Plan could impact the timeframes of the project. Furthermore, if there is a material issue that is not identified through the audit or if assumptions evolve significantly post

**7.6.1 Appendix 1: Whakatane District Council cost of funds analysis - PWC May 2024**

adoption, then the quality of the Long Term Plan, particularly in terms of its predictive value, is at risk. Should this eventuality present, changes may be needed to the Long Term Plan through the Annual Plan process, or through an amendment to the Long Term Plan.

7. Next steps - *Ahu whakamua*

The Environment, Energy and Resilience Committee will oversee the final text that goes in the the Long Term Plan, articulating these assumptions. The narrative(s) will articulate fairly and clearly these assumptions in a way that adds value to the reader of the Long Term Plan.

8. Conclusion - *Kupu whakamutunga*

**Attached to this report:**

- **Appendix 1:** Whakatane District Council cost of funds analysis - PWC May 2024

**7.6.1 Appendix 1: Whakatane District Council cost of funds analysis - PWC May 2024**



**7.6.1 Appendix 1: Whakatane District Council cost of funds analysis - PWC May 2024(Cont.)**



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## Whakatane District Council

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**To:** Gary Connolly and Julie Caverhill

**From:** Brett Johanson and Raj Verma

**Date:** 9 May 2024

**Subject:** Cost of funds analysis

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### Introduction

We understand that the purpose of this analysis is to model the projected cost of funds if Council was credit rated vs unrated. In undertaking this analysis we have relied on the financial information that has been provided to us. The assumptions are noted below.

### Assumptions

In undertaking this exercise, the following assumptions were made:

- The debt funding information is taken from Council's most recent treasury information dated 24 April 2024.
- The proposed LTP 24/34 debt forecast provided by Council has been used for the scenario period. The debt forecast scenarios are included in the Appendix.
- A 10% liquidity buffer on the debt forecast is assumed post expiry of committed standby bank facility and remains in place over the remaining period (i.e. consistently ensuring compliance with the Policy requirements and LGFA lending covenants).
- New and refinanced term debt funding is priced at a margin of 1.00% under the unrated scenario and 0.85% under the AA- credit rating scenario.
- Wholesale interest rate projections are based on the current implied market 90-day bank bill rate (BKBM) over the 10-year period to FY34. As you are aware, these are point in time levels and are subject to change as interest rate markets move.
- In respect of interest rate fixing (i.e. fixed rate bonds and interest rate swaps), it is assumed that these are held to maturity over the period. No new interest rate fixing is undertaken over the period and, therefore, the overall fixed hedging percentage decreases over the period.
- As interest rate hedges mature, these hedges are not replaced. Nevertheless, BKBM rates in future periods are as priced into the current forward implied BKBM curve out to FY34. Any hedging that was assumed within the analysis would be priced at a similar rate.
- No assumption is made for interest received on deposits whether they relate to pre-funded debt or not. No assumptions around the pre-funding of debt are assumed over the 10 year period.

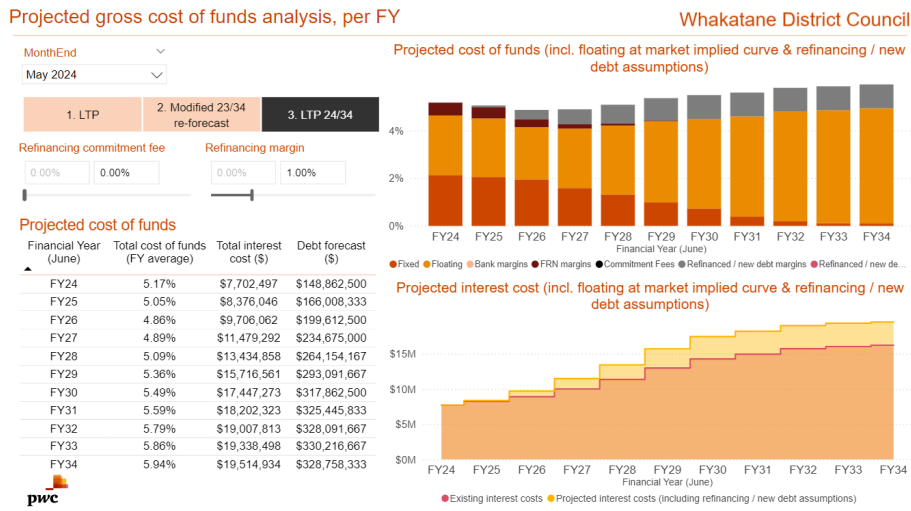
7.6.1 Appendix 1: Whakatane District Council cost of funds analysis - PWC May 2024(Cont.)



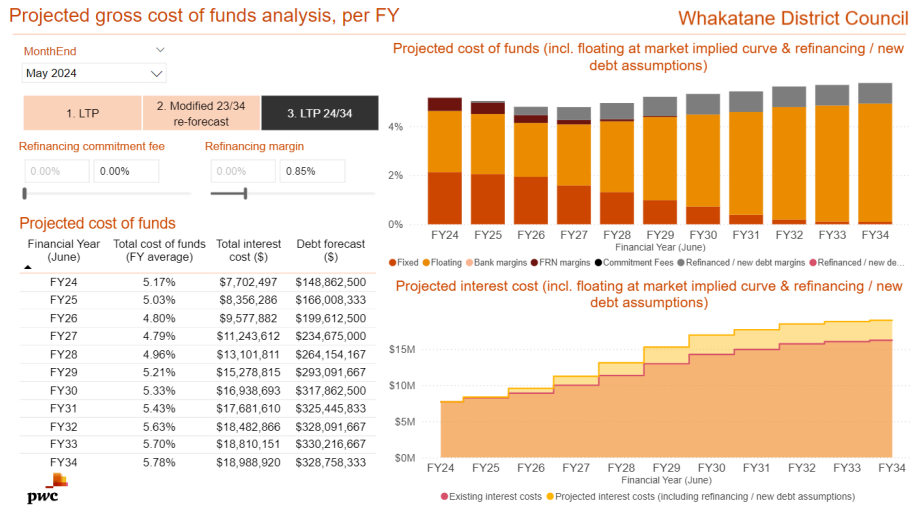
Projected gross cost of funds

The projected gross cost of funds based on the stated assumptions are outlined below:

Unrated



AA- rated



**7.6.1 Appendix 1: Whakatane District Council cost of funds analysis - PWC May 2024(Cont.)**



**Key observations**

The cost of funds output will be sensitive to the proportion of floating rate to fixed rate debt as the analysis assumes all new and refinanced debt is priced at implied BKBM plus 1.00% under the unrated scenario and at the implied BKBM plus 0.85% under the AA- rated scenario.

We note that a number of other factors can impact Council’s cost of funds throughout this period (e.g. LGFA credit margins, increasing BKBM rates, debt forecast changes etc.). As such, a buffer amount and/or estimated cost of funds range, rather than a single figure for Council’s cost of funds over the period, could be used.

Based on the above, the potential interest cost savings by having a AA- credit rating has been illustrated in the table below:

| Financial Year | Total cost of funds AA- (FY average) | Total cost of funds Unrated (FY average) | Difference in interest costs | Debt forecast (FY Average) |
|----------------|--------------------------------------|--|------------------------------|----------------------------|
| <b>FY24</b>    | 5.17%                                | 5.17%                                    | \$0                          | \$148,862,500              |
| <b>FY25</b>    | 5.03%                                | 5.05%                                    | (\$19,760)                   | \$166,008,333              |
| <b>FY26</b>    | 4.80%                                | 4.86%                                    | (\$128,180)                  | \$199,612,500              |
| <b>FY27</b>    | 4.79%                                | 4.89%                                    | (\$235,680)                  | \$234,675,000              |
| <b>FY28</b>    | 4.96%                                | 5.09%                                    | (\$333,047)                  | \$264,154,167              |
| <b>FY29</b>    | 5.21%                                | 5.36%                                    | (\$437,747)                  | \$293,091,667              |
| <b>FY30</b>    | 5.33%                                | 5.49%                                    | (\$508,580)                  | \$317,862,500              |
| <b>FY31</b>    | 5.43%                                | 5.59%                                    | (\$520,713)                  | \$325,445,833              |
| <b>FY32</b>    | 5.63%                                | 5.79%                                    | (\$524,947)                  | \$328,091,667              |
| <b>FY33</b>    | 5.70%                                | 5.86%                                    | (\$528,347)                  | \$330,216,667              |
| <b>FY34</b>    | 5.78%                                | 5.94%                                    | (\$526,013)                  | \$328,758,333              |

7.6.1 Appendix 1: Whakatane District Council cost of funds analysis - PWC May 2024(Cont.)



Appendix

Debt forecast scenarios

Whakatane District Council

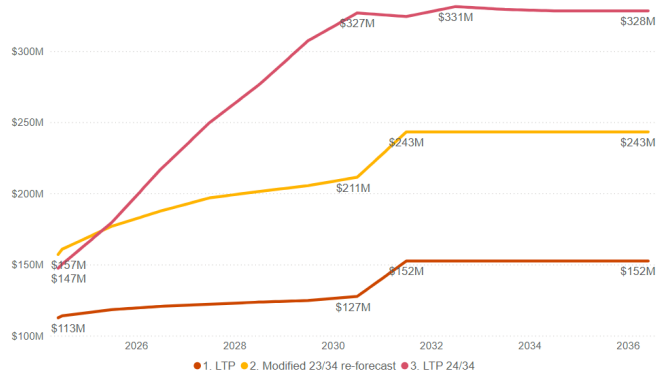
MonthEnd  
 May 2024  
 Currency  
 NZD

1. LTP  
 \$112,583,333

2. Modified 23/34 re-forecast  
 \$157,050,000

3. LTP 24/34  
 \$147,425,000

Debt forecast by scenario name



**7.6.1 Appendix 1: Whakatane District Council cost of funds analysis - PWC May 2024(Cont.)**



**Disclaimer**

*This memo is subject to the engagement letter dated 5 May 2014 and the following restrictions. It is a memo addressed to you Whakatane District Council. This memo should not be reproduced or supplied to any other party without first obtaining our (PwC New Zealand) written consent. We accept no responsibility for any reliance that may be placed on our memo should it be used for any purpose other than that set out below and in any event we will accept no liability to any party other than you in respect of its contents. In the course of our work we have not verified any of the information provided to us by you, nor have we carried out anything in the nature of an audit. Accordingly, we express no opinion on the reliability, accuracy or completeness of the information provided to us and upon which we have relied. The statements and opinions contained in this memo are based on data obtained from the financial markets and are so contained in good faith and in the belief that such statements, opinions and data are not false or misleading. In preparing this memo, we have relied upon information which we believe to be reliable and accurate. We reserve the right (but will be under no obligation) to review our assessment and if we consider it necessary, to revise our opinion in the light of any information existing at the date of this memo which becomes known to us after that date. This memo must be read in its entirety. Individual sections of this memo could be misleading if considered in isolation from each other.*

## 7.7 Treasury – Update on Credit Rating

### 7.7 Treasury – Update on Credit Rating

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To: **Risk and Assurance Committee**

Date: **Friday, 17 May 2024**

Author: **J Caverhill / Manager Financial Reporting**

Authoriser: **G Connolly / Chief Financial Officer & GM Business Partnering**

Reference: **A2665706**

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#### 1. Reason for the report - *Te Take mō tēnei rīpoata*

The purpose of this report is to update the Risk and Assurance Committee on the current status Credit Rating process.

#### 2. Recommendation - *Tohutohu akiaki*

**THAT** the Committee receive the update on the current status of the process to seek a Credit Rating.

#### 3. Background - *He tirohanga whakamuri*

In March 2024, the Risk and Assurance Committee recommended Council approve the Proposal to Seek Credit Rating, in order to enable the CFO and GM Business Partnering to then instigate the appropriate action in applying for a credit rating. This was approved by Council in its meeting of 14<sup>th</sup> March 2024.

We have undertaken a RFP with identified agencies who provide the majority of credit rating reviews across New Zealand Councils.

#### 4. Issue/subject - *Kaupapa*

The RFP was sent out to the credit agencies on 28 March 2024. The agencies selected were Standard & Poor's, and Fitch Ratings. Both these agencies have significant experience providing ratings for New Zealand Councils.

Initial meetings were held with each agency on 11 April 2024. The meetings consisted of Rating Analysts from each agency, along with our Treasury advisors PWC, and Whakatane District Council staff.

Each agency presented initial information that included the experience of their team, how the rating process works, and the criteria used to assign a rating to the council.

## **7.7 Treasury – Update on Credit Rating(Cont.)**

### **4.1. Rating Proposals**

The formal proposals from each agency were received on 17 April 2024. A summary of each proposal is detailed below. The fees of each proposal have been withheld on the basis of commercial sensitivity but where in line with expectations of the indication provided by PWC in their report of 1 March 2024.

With respect to the other aspect of the rating agency RFPs we note as follows:

#### **Standard and Poor's**

- Completion in 4-5 weeks
- Would meet with Mayor, Deputy Mayor along with key finance personnel (face to face)
- Rated 25 NZ Councils, 3 CCO's, Kainga Ora, LGFA, Crown

#### **Fitch Ratings**

- Completion in 4-6 weeks
- Would meet with key finance personnel (face to face)
- Rated 10 NZ Councils, LGFA, Crown

### **4.2. Proposal Evaluations**

Evaluation of agency responses were undertaken by a panel made up of internal staff member, PWC as treasury consultant, and an independent consultant with significant credit rating activities within local government.

The evaluation identified very similar outcome scores, based on these evaluations the CFO and General Manager of Business Partnering has elected to appoint Fitch Rating to undertake to work. Both parties were notified of the outcome in early May.

### **4.3. Next Steps**

We have subsequently completed a statement of works agreement with Fitch and initial engagement has commenced.

Upon completion of their assessment the option for Council to adopt the rating to a monitored rating will be requested of Council in its meeting following completion of the assessment.

## **5. Significance and Engagement Assessment - *Aromatawai Pāhekoheko***

### **5.1. Assessment of Significance**

The decisions and matters of this report are assessed to be of low significance, in accordance with the Council's Significance and Engagement Policy.

## **7.8 Risk and Assurance 2024 Work Plan**

### **6. Considerations - *Whai Whakaaro***

#### **6.1. Financial/budget considerations**

As previously indicated, although there is a material initial and annual costs to secure and maintain a rating, it is anticipated the benefit in better interest rates as a result given the indicative level of borrowings required would more than offset any cost, and may result in further benefit to offset rates in coming years.

#### **6.2. Climate change assessment**

Based on this climate change assessment, the decisions and matters of this report are assessed to have low/moderate/high climate change implications and considerations, in accordance with the Council's Climate Change Principles

#### **6.3. Risks**

There are no known risks associated with the matters of this report.

## **7.8 Risk and Assurance 2024 Work Plan**



7.8 Risk and Assurance 2024 Work Plan(Cont.)

Risk & Assurance Committee 2024 Work Programme

17 May 2024



|   | March   | May   | August  | November  |
|---|---|---|---|---|
| <b>Meeting Administration</b>                                     |   |   |   |   |
| Location  | Whakatāne DC  | Whakatāne DC  | Whakatāne DC  | Whakatāne DC  |
| Pre-Agenda Meeting  | TBC - 19 February 2024  | TBC – 6 May 2024  | TBC – 12 August 2024  | TBC – 11 November 2024  |
| Meeting Date  | Friday, 1 March 2024  | Friday, 17 May 2024   | Monday, 26 August 2024  | Friday, 22 November 2024  |
| <b>Public Forum – Items to Review, Approve or Note</b>            |   |   |   |   |
| External Assurance  | <ul style="list-style-type: none"> <li>2022-23 Final Report to Governors</li> </ul>             | <ul style="list-style-type: none"> <li>2023-24 Audit Plan</li> </ul>  | <ul style="list-style-type: none"> <li>2023-24 Audit preparation update</li> </ul>  | <ul style="list-style-type: none"> <li>2023-24 Final Report to Governors</li> </ul>   |
| Internal Assurance  | <ul style="list-style-type: none"> <li>IA 2024 Work Programme Update (Verbal)</li> </ul>        |   |   | <ul style="list-style-type: none"> <li>IA Focus Area 1 Report</li> </ul>  |
| External & Internal Assurance 2023 Key Learnings                  | <ul style="list-style-type: none"> <li>Yes – provided for in the Report to Governors</li> </ul> | <ul style="list-style-type: none"> <li>Management Action Plan Update</li> </ul>   | <ul style="list-style-type: none"> <li>IA 2024 Update Report including Action Status</li> <li>Food Premises QSM audit [Mar.24]</li> </ul> | <ul style="list-style-type: none"> <li>Management Action Update</li> <li>IA 2024 Update Report including Action Status</li> </ul> |
|   |   |   |   | <ul style="list-style-type: none"> <li>IA 2025-26 Work Plan Approval</li> </ul>   |
| Enterprise Risk Report  | <ul style="list-style-type: none"> <li>Yes</li> </ul>   | <ul style="list-style-type: none"> <li>Yes</li> </ul>   | <ul style="list-style-type: none"> <li>Yes</li> </ul>   | <ul style="list-style-type: none"> <li>Yes</li> </ul>   |
| Treasury Report   | <ul style="list-style-type: none"> <li>Yes</li> <li>Proposal to seek Credit Rating</li> </ul>   | <ul style="list-style-type: none"> <li>Yes</li> <li>Update on Proposal to Seek Credit Rating</li> </ul>                     | <ul style="list-style-type: none"> <li>Yes</li> <li>Update on Proposal to Seek Credit Rating</li> </ul>                                   | <ul style="list-style-type: none"> <li>Yes</li> </ul>   |
| Policy Review   | <ul style="list-style-type: none"> <li>Risk Management Policy</li> </ul>                        | <ul style="list-style-type: none"> <li>Treasury Policy</li> </ul>   |   |   |
| Other   |   | <ul style="list-style-type: none"> <li>Long Term Plan Assumptions Updated – External Interest from Credit Rating</li> </ul> |   |   |
| <b>• Public Excluded Forum – Items to Review, Approve or Note</b> |   |   |   |   |
| Legal Proceeding  | <ul style="list-style-type: none"> <li>Yes including costs update</li> </ul>                    | <ul style="list-style-type: none"> <li>Yes</li> </ul>   | <ul style="list-style-type: none"> <li>Yes</li> </ul>   | <ul style="list-style-type: none"> <li>Yes</li> </ul>   |
| Insurance   | <ul style="list-style-type: none"> <li>Renewals update</li> </ul>                               |   |   |   |
| Significant Projects and Work Programmes                          | <ul style="list-style-type: none"> <li>Boat Harbour</li> </ul>                                  | <ul style="list-style-type: none"> <li>Yes</li> </ul>   |   |   |
| External Assurance PAX  | <ul style="list-style-type: none"> <li>Committee/External Auditor only time</li> </ul>          |   | <ul style="list-style-type: none"> <li>Meeting between the committee and external auditors</li> </ul>                                     |   |
|   | <ul style="list-style-type: none"> <li></li> </ul>  | <ul style="list-style-type: none"> <li>Road Legalisation</li> </ul>   |   |   |



**7.8 Risk and Assurance 2024 Work Plan(Cont.)**

**Risk & Assurance Committee 2024 Work Programme**

17 May 2024



| Calendar of other key activities: |                |  |                     |                        |
|-----------------------------------|----------------|--|---------------------|------------------------|
| Key Dates                         | External Audit | Local Waters (Three Waters) Reform                           | 2024-25 Annual Plan | 2024-34 Long Term Plan |
| Jan.                              |                |  |                     |                        |
| Feb.                              |                | Water Services Acts Repeal Act 2024                          |                     |                        |
| Mar.                              |                |  |                     | Consult                |
| Apr.                              |                |  |                     |                        |
| May                               |                |  |                     | Audit                  |
| Jun.                              | Interim        |  | Part of LTP         | Adopt 27-Jun           |
| Jul.                              |                | Local Waters Done Well - legislation expected                |                     |                        |
| Aug.                              | Final          |  |                     |                        |
| Sep.                              | Final          |  |                     |                        |
| Oct.                              | Complete       |  |                     |                        |
| Nov.                              |                |  |                     |                        |
| Dec.                              |                | Local Waters Done Well – long term replacement bill expected |                     |                        |



## 8 Resolution to Exclude the Public - *Whakataunga kia awere te marea*

### 8 Resolution to Exclude the Public - *Whakataunga kia awere te marea*

#### 8.1 Resolution to Exclude the Public

**THAT** the public be excluded from the following parts of the proceedings of this meeting, namely:

1. Confirmation of Risk and Assurance Committee Public Excluded Minutes 1 March 2024
2. Update of the Boat Harbour project
3. Legal Proceedings Report – April 2024
4. Road Legalisation Report

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

|    | <b>General subject of each matter to be considered</b>                            | <b>Reason for passing this resolution in relation to each matter</b> | <b>Ground(s) under section 48(1) for the passing of this resolution</b>  |
|----|---|--|--|
| 1. | Confirmation of Risk and Assurance Committee Public Excluded Minutes 1 March 2024 | Good reason to withhold exists under Section 7.                      | That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a) |
| 2. | Update of the Boat Harbour project  | Good reason to withhold exists under Section 7.                      | That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a) |
| 3. | Legal Proceedings Report – April 2024   | Good reason to withhold exists under Section 7.                      | That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a) |
| 4. | Road Legalisation report  | Good reason to withhold exists under Section 7.                      | That the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists. Section 48(1)(a) |

**8.1 Resolution to Exclude the Public(Cont.)**

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

| Item No | Interest   |
|---------|--|
| 1, 3, 4 | Maintain legal professional privilege (Schedule 7(2)(g))   |
| 1, 3, 4 | Protect the privacy of natural persons, including that of deceased natural persons (Schedule 7(2)(a))  |
| 2       | To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) (Schedule 7(2)(a)) |

**8.1 Resolution to Exclude the Public(Cont.)**

**1 Confirmation of Minutes - *Te whakaaetanga o ngā meneti o te hui***

**1 Confirmation of Minutes - *Te whakaaetanga o ngā meneti o te hui***

1.1 Public Excluded Minutes - Risk and Assurance Committee Meeting - 1 March 2024

**2 Reports - *Ngā Pūrongo***

2.1 Public Excluded – Boat Harbour Update

2.2 Public Excluded – Legal Proceedings April 2024

**2.2.1 Appendix 1 - Legal Spend Analysis**

**2.2.2 Appendix 2 - Legal Issues Register**

2.3 Public Excluded – Road Legalisation Update

**2.3.1 Appendix A**

**2.3.2 Appendix B**

**2.3.3 Appendix C**

**2.3.4 Appendix D**